

**CITY OF HANCOCK
HOUGHTON COUNTY, MICHIGAN**

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

June 30, 2013



CITY OF HANCOCK

JUNE 30, 2013

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hancock as of and for the year then ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component units, and each major fund, and the aggregate remaining fund information of the City of Hancock as of June 30, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 15 and 51 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial Statements.

The combining, individual major, and nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2013 on our consideration of the City of Hancock's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hancock's internal control over financial reporting and compliance.

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

December 12 , 2013

**City of Hancock
Management's Discussion and Analysis
June 30, 2013**

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, 2013. The analysis focuses on the City's financial performance as a whole. It is intended to be read as part of the City's financial statements, which immediately follow this section.

Financial Highlights

- The assets of the City of Hancock exceeded its liabilities at year end by \$10,465,838 (net position). Of this amount, \$758,471 (unrestricted net position) may be used to meet the government's ongoing obligations.
- The City of Hancock's total net position increased by \$673,945. This was mostly due to \$983,923 in grant revenue received by the water and sewer fund.
- The City of Hancock had charges for services of \$1,705,181 in governmental activities and \$1,833,844 for business-type activities and \$5,142,055 and \$2,215,003 in expenses for governmental and business-type activities respectively during the year ended June 30, 2013.
- At the close of the fiscal year, the City of Hancock's governmental activities funds reported a combined ending net position balance of \$2,219,504. This is a decrease of \$336,598.
- At the end of the current fiscal year, the fund balance for the general fund was \$63,874 or about 3 percent of total general fund expenditures, general fund operating transfers to other funds were \$114,175 in 2013 compared to \$42,000 in the prior year, a decrease of \$72,175.
- The City of Hancock expended \$1,340,903 in federal awards requiring the City to undergo a Single Audit. The schedule of federal expenditure awards is located on page 75. A majority of the federal expenditures were related to 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 Position and a Statement of Activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.

Statement of Net Position and the Statement of Activities

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

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

Overview of the Financial Statements - (Continued)

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

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

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

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

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

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

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

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

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

Overview of the Financial Statements - (Continued)

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

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

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

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

Summary of Net Position

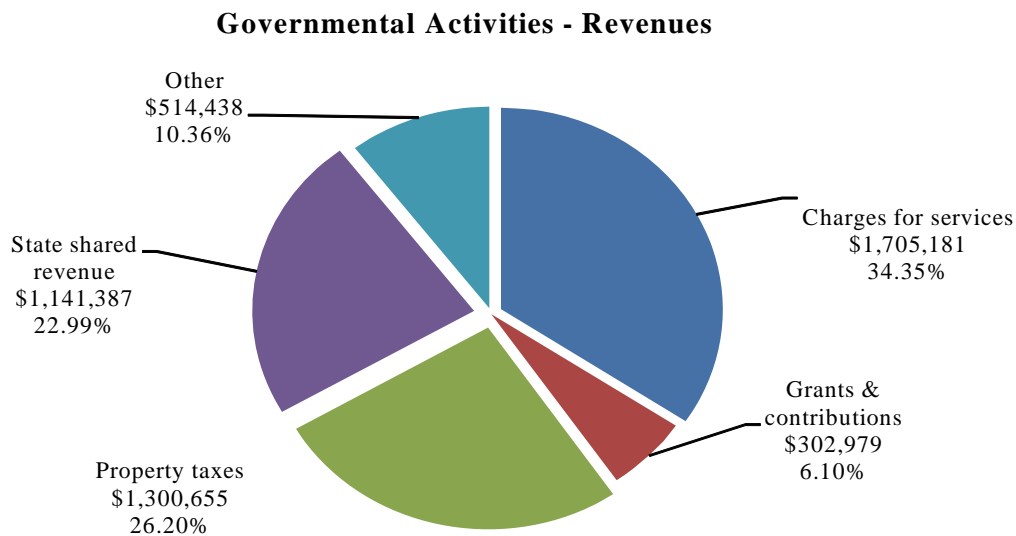
	Governmental Activities		Business-type Activities	
	2013	2012	2013	2012
Assets				
Current and other assets	\$ 1,247,370	\$ 1,641,393	\$ 941,469	\$ 1,305,332
Capital assets- Net of accumulated depreciation	3,997,641	4,378,573	17,611,748	16,969,044
Total Assets	\$ 5,245,011	\$ 6,019,966	\$ 18,553,217	\$ 18,274,376
Liabilities				
Current liabilities	\$ 75,598	\$ 137,801	\$ 141,883	\$ 639,298
Noncurrent liabilities	2,949,909	3,147,257	10,165,000	10,362,000
Total Liabilities	3,025,507	3,285,058	10,306,883	11,001,298
Deferred inflow of resources				
Advances of revenues from imposed nonexchange transactions	-	178,806	-	37,287
Net Position				
Net investment in capital assets	1,435,058	1,617,818	7,446,748	6,607,044
Restricted:				
Streets and highways	17,435	(15,678)	-	-
CDBG	3,896	3,896	-	-
TIFA	142,575	213,224	-	-
Cemetery	178,148	178,088	-	-
Program services	44,401	44,203	-	-
Capital projects	20,176	20,088	-	-
Debt service	1,312	1,304	417,618	336,532
Unrestricted	376,503	493,159	381,968	292,215
Total Net Position	2,219,504	2,556,102	8,246,334	7,235,791
Total Liabilities and Net Position	\$ 5,245,011	\$ 6,019,966	\$ 18,553,217	\$ 18,274,376

**City of Hancock
Management's Discussion and Analysis
June 30, 2013**

Results of Operations

	Governmental Activities		Business-type Activities	
	2013	2012	2013	2012
<u>Revenues</u>				
Program Revenue:				
Charges for services	\$ 1,705,181	\$ 1,615,888	\$ 1,833,844	\$ 1,846,328
Grants and contributions	-	21,288	144,712	127,069
Capital grants and contributions	302,979	137,767	983,923	4,399,123
General Revenue:				
Property taxes	1,300,655	1,270,755	-	-
State shared revenue	1,141,387	1,018,399	-	-
Other	514,438	235,490	103,884	77,388
Transfers	-	-	159,183	62,436
Total Revenue	<u>4,964,640</u>	<u>4,299,587</u>	<u>3,225,546</u>	<u>6,512,344</u>
<u>Functions/Program Expenses</u>				
General government	1,476,624	1,338,166	-	-
Public safety	737,203	750,100	-	-
Public works	2,254,309	1,725,783	2,215,003	2,017,444
Sanitation	304,127	305,156	-	-
Recreation and culture	162,585	168,812	-	-
Interest on long-term debt	79,608	79,053	-	-
Other	127,599	113,202	-	-
Transfers	159,183	62,436	-	-
Total Expenses	<u>5,301,238</u>	<u>4,542,708</u>	<u>2,215,003</u>	<u>2,017,444</u>
Change in Net Position	(336,598)	(243,121)	1,010,543	4,494,900
Net Position - Beginning	2,556,102	2,799,223	7,235,791	2,740,891
Net Position - Ending	<u>\$ 2,219,504</u>	<u>\$ 2,556,102</u>	<u>\$ 8,246,334</u>	<u>\$ 7,235,791</u>

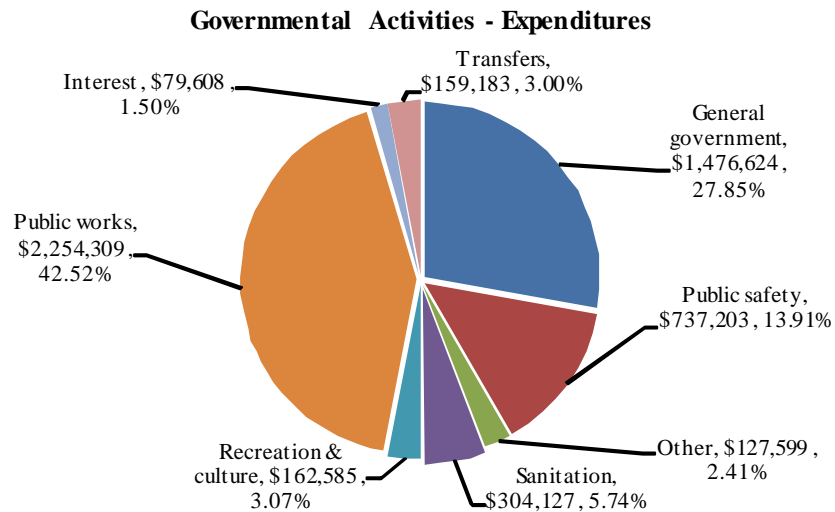
The following two charts highlight the City's governmental activities by revenues and expenses.



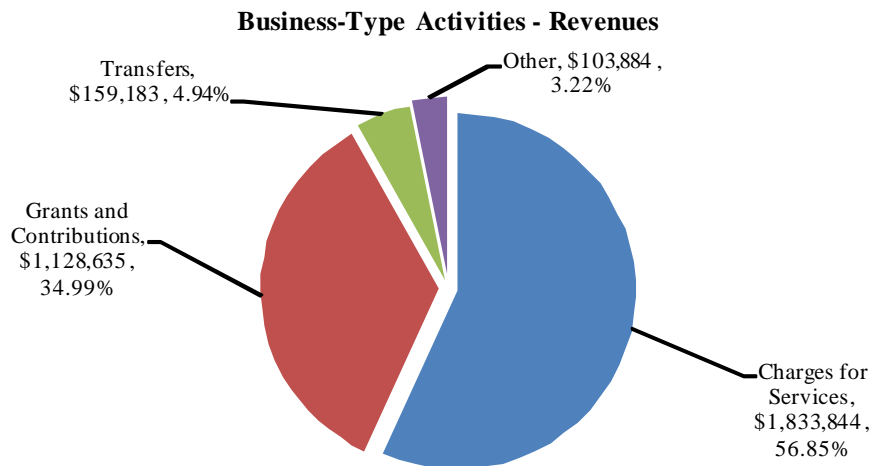
**City of Hancock
Management's Discussion and Analysis
June 30, 2013**

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.

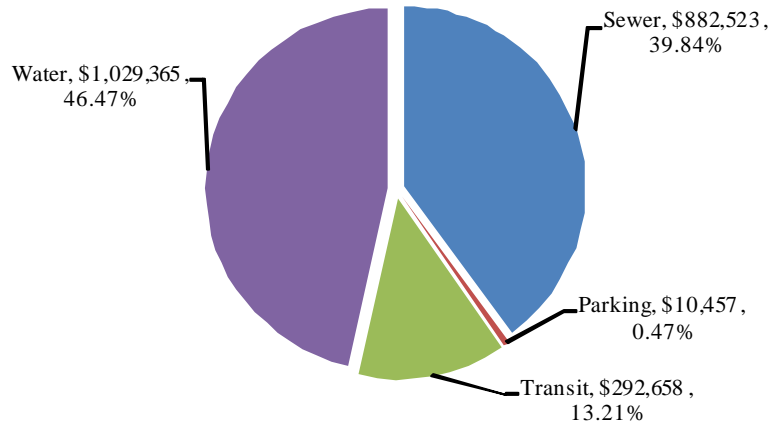
The general area expenses represent City hall activities. The major, local and motor vehicle expenses are included in the public works area. Police and fire expenses are included in public safety.



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	\$ 2,064,901	\$ 2,030,877	\$ 34,024
Expenditures/Transfers	\$ 2,101,233	\$ 1,989,862	\$ 111,371
Fund Balance	\$ 63,874	\$ 100,206	\$ (36,332)

The General Fund saw an increase in revenues and expenditures of \$34,024 and \$111,371, respectfully. The increase in revenue is mainly due to the net of increases in taxes and state shared revenue and decrease in federal grant revenue received during the year. The increase in expenditures is due to the combination of increases in public works, public safety, transfers out, and other expenses and decreases in general government.

SPECIAL REVENUE FUNDS	Current Year	Prior Year	Change
Major Street Fund:			
Revenues/Transfers	\$ 552,170	\$ 547,750	\$ 4,420
Expenditures/Transfers	\$ 542,355	\$ 571,274	\$ (28,919)
Fund Balance (Deficit)	\$ 17,435	\$ 7,620	\$ 9,815
Local Street Fund:			
Revenues/Transfers	\$ 300,192	\$ 232,029	\$ 68,163
Expenditures/Transfers	\$ 276,894	\$ 255,327	\$ 21,567
Fund Balance (Deficit)	\$ -	\$ (23,298)	\$ 23,298
CDBG Fund:			
Revenues/Transfers	\$ 590,844	\$ 6,662	\$ 584,182
Expenditures/Transfers	\$ 590,844	\$ 108,952	\$ 481,892
Fund Balance	\$ 3,896	\$ 3,896	\$ -
Elevation Street TIF Fund:			
Revenues/Transfers	\$ 34,736	\$ 34,732	\$ 4
Expenditures/Transfers	\$ 105,385	\$ 20,436	\$ 84,949
Fund Balance	\$ 142,575	\$ 213,224	\$ (70,649)

**City of Hancock
Management's Discussion and Analysis
June 30, 2013**

Significant Transactions and Changes in Individual Funds - (Continued)

Major Street Fund - The decrease in expenditures of \$28,919 are due to the completion of the improvements to Campus Drive that had begun in the prior fiscal year.

Local Street Fund - The increase in revenues of \$68,163 is due to a transfer in from the General Fund in the amount of \$60,377. The increase in expenditures of \$21,567 is due to higher equipment usage due to a longer winter.

CDBG Fund - The CDBG fund had an increase in revenues and expenses due to grant proceeds and related expenses in the current year.

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

ENTERPRISE FUNDS	Current Year	Prior Year	Change
Parking Meter Fund			
Revenues/Transfers	\$ 19,686	\$ 13,080	\$ 13,140
Expenditures/Transfers	\$ 10,457	\$ 18,494	\$ (8,037)
Retained Earnings	\$ (2,166)	\$ (11,395)	\$ 9,229
Transit Fund			
Revenues/Transfers	\$ 236,812	\$ 233,928	\$ 2,884
Expenditures/Transfers	\$ 292,658	\$ 295,418	\$ (2,760)
Retained Earnings	\$ 736,573	\$ 792,419	\$ (55,846)
Sewer Fund			
Revenues/Transfers	\$ 1,112,845	\$ 2,461,723	\$ (1,348,878)
Expenditures/Transfers	\$ 882,523	\$ 747,056	\$ 135,467
Retained Earnings	\$ 2,967,421	\$ 2,737,099	\$ 230,322
Water Fund			
Revenues/Transfers	\$ 1,856,203	\$ 3,803,613	\$ (1,947,410)
Expenditures/Transfers	\$ 1,029,365	\$ 956,476	\$ 72,889
Retained Earnings	\$ 4,544,506	\$ 3,717,668	\$ 826,838

Parking Meter Fund - The Parking Meter Fund showed an increase in revenues and transfers due to the combination of a decrease in charges for services and an increase in transfers in. Expenses decreased due to fewer general administration costs.

Sewer Fund - The Sewer Fund's revenues/transfers decreased due to a combination of an increase in charges for services and a decrease grant revenue. Expenditures increased due to increases in general administration, purchased services, and depreciation.

Water Fund - The Water Fund's revenues/transfers decreased due to a combination of decreases in charges for services and grant revenue. Expenditures increased due to the combination of increases in purchased services and depreciation and a decrease in operations and maintenance.

DEBT SERVICE (BUILDING AUTHORITY)	Current Year	Prior Year	Change
Revenues/Transfers	\$ 136,487	\$ 136,060	\$ 427
Expenditures/Transfers	\$ 136,479	\$ 136,049	\$ 430
Fund Balance	\$ 1,312	\$ 1,304	\$ 8

**City of Hancock
Management's Discussion and Analysis
June 30, 2013**

Significant Transactions and Changes in Individual Funds - (Continued)

RESIDENTIAL CAPITAL PROJECTS			
	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 88	\$ 179	\$ (91)
Expenditures/Transfers	\$	\$	\$ -
Fund Balance (deficit)	\$ 20,176	\$ 20,088	\$ 53

INTERNAL SERVICE FUNDS

Employee Benefits Fund - Revenue decreased due to a reduction in charges to other city funds. Expenses increased mainly due to payroll and payroll taxes.

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 865,597	\$ 877,046	\$ (11,449)
Expenditures/Transfers	\$ 918,496	\$ 876,359	\$ 42,137
Fund Balance	\$ 123,601	\$ 176,500	\$ (52,899)

Motor Vehicle Fund - Revenue increased due to more charges to other city funds.

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 479,942	\$ 431,900	\$ 48,042
Expenditures/Transfers	\$ 586,864	\$ 586,377	\$ 487
Fund Balance	\$ 375,257	\$ 482,179	\$ (106,922)

General Fund Budgetary Highlights

During the year ended June 30, 2013, 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 \$62,649 less than the final amended revenue budget. Expenditures as a whole were also less than what the City had expected. Actual expenditures were \$72,276 more 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 \$376,503.

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 \$63,874. 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 3% of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$36,332 during the fiscal year.

Proprietary Funds: The City's proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail. Fund equity at the end of the year amounted to \$8,246,334.

Capital Assets and Debt Administration

The City's net investment in capital assets for the governmental and business-type activities as of June 30, 2013, amounts to \$21,609,389. Capital asset additions totaling \$1,304,174 includes water and sewer improvements, vehicles, design work, and furniture and equipment.

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

Long-term debt: At the end of the current fiscal year, the City had total debt of \$12,727,583. This total amount is backed by the full faith and credit of the City.

Additional information on the City's long-term debt can be found starting on page 37 of this report.

Request for Information

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

CITY OF HANCOCK
STATEMENT OF NET POSITION

June 30, 2013

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
CURRENT ASSETS:				
Cash	\$ 855,577	\$ 231,765	\$ 1,087,342	\$ 104,276
Restricted cash	227,478	416,272	643,750	-
Receivables	28,753	155,679	184,432	800
Inventories	40,592	117,368	157,960	-
Prepaid expenses	53,929	2,353	56,282	-
Due from component unit	61	-	61	-
Due from fiduciary funds	1,287	-	1,287	-
Internal balances	(17,986)	17,986	-	-
Due from other governmental units	57,679	46	57,725	-
TOTAL CURRENT ASSETS	1,247,370	941,469	2,188,839	105,076
NONCURRENT ASSETS:				
Non-depreciable capital assets	435,670	-	435,670	114,288
Depreciable capital assets-Net	3,561,971	17,611,748	21,173,719	-
TOTAL NONCURRENT ASSETS	3,997,641	17,611,748	21,609,389	114,288
TOTAL ASSETS	\$ 5,245,011	\$ 18,553,217	\$ 23,798,228	\$ 219,364
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued expenses	\$ 75,598	\$ 35,553	\$ 111,151	\$ 504
Due to primary government	-	-	-	61
Due to other governmental units	-	106,330	106,330	-
Noncurrent liabilities:				
Bonds payable, due within one year	118,729	201,000	319,729	-
Note payable, due within one year	84,149	-	84,149	-
Bonds payable, due in more than one year	1,996,846	9,964,000	11,960,846	-
Note payable, due in more than one year	362,859	-	362,859	-
Compensated absences	387,326	-	387,326	-
TOTAL LIABILITIES	3,025,507	10,306,883	13,332,390	565
NET POSITION:				
Net investment in capital assets	1,435,058	7,446,748	8,881,806	-
Restricted:				
Streets and highways	17,435	-	17,435	-
CDBG	3,896	-	3,896	-
TIFA	142,575	-	142,575	-
Cemetery	178,148	-	178,148	-
Program expenses	44,401	-	44,401	-
Capital projects	20,176	-	20,176	-
Debt service	1,312	417,618	418,930	-
Unrestricted	376,503	381,968	758,471	218,799
	2,219,504	8,246,334	10,465,838	218,799
TOTAL LIABILITIES AND NET POSITION	\$ 5,245,011	\$ 18,553,217	\$ 23,798,228	\$ 219,364

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

CITY OF HANCOCK
STATEMENT OF ACTIVITIES
June 30, 2013

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenues and Changes in Net Position			Component Unit (DDA)
	Expenses	Charges for Services	Grants and Contributions Operating	Capital	Governmental	Primary Government Business-Type	Total	
Primary government:								
Government activities:								
General government	\$ 1,476,624	\$ 865,459	\$ -	\$ -	(611,165)	\$ -	(611,165)	\$ -
Public safety	737,203	2,706	-	4,200	(730,297)	-	(730,297)	-
Public works	2,254,309	478,822	-	298,779	(1,476,708)	-	(1,476,708)	-
Sanitation	304,127	164,678	-	-	(139,449)	-	(139,449)	-
Recreation and culture	162,585	80,410	-	-	(82,175)	-	(82,175)	-
Interest on long-term debt	79,608	-	-	-	(79,608)	-	(79,608)	-
Other	127,599	113,106	-	-	(14,493)	-	(14,493)	-
Total governmental activities	5,142,055	1,705,181	-	302,979	(3,133,895)	-	3,133,895	-
Business-type activities:								
Water	1,029,365	987,221	-	758,323	-	716,179	716,179	-
Sewer	882,523	800,323	-	225,600	-	143,400	143,400	-
Parking Meter	10,457	5,881	-	-	-	(4,576)	(4,576)	-
Transit	292,658	40,419	144,712	-	-	(107,527)	(107,527)	-
Total business-type activities	2,215,003	1,833,844	144,712	983,923	-	(747,476)	(747,476)	-
Total primary government	\$ 7,357,058	\$ 3,539,025	\$ 144,712	\$ 1,286,902	(3,133,895)	747,476	(2,386,419)	-
Component Unit (DDA)	\$ 168,504	\$ -	\$ -	\$ -	-	-	-	(168,504)
General Revenues:								
Property taxes, levied for general operations					1,300,655	-	1,300,655	143,269
State shared revenue					1,141,387	-	1,141,387	-
Interest and investment earnings					2,514	1,122	3,636	445
Transfers					(159,183)	159,183	-	-
Other					511,924	102,762	614,686	1,795
Total general revenues, transfers, and special items					2,797,297	263,067	3,060,364	145,509
Change in Net Position					(336,598)	1,010,543	673,945	(22,995)
Net Position - Beginning					2,556,102	7,235,791	9,791,893	241,794
Net Position - Ending					\$ 2,219,504	\$ 8,246,334	\$ 10,465,838	\$ 218,799

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

CITY OF HANCOCK
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	Major Governmental Funds			Other	Total Governmental Funds
	General	Major Street	CDBG	Non-major	
	Fund	Fund	Fund	Governmental Funds	
ASSETS:					
Cash and cash equivalents	\$ 521,127	\$ 60,344	\$ -	\$ 209,398	\$ 790,869
Restricted cash	42,291	-	3,617	179,460	225,368
Taxes receivable	3,029	-	-	45	3,074
Accounts receivable	24,537	-	-	-	24,537
Due from other funds	-	-	-	240,686	240,686
Due from fiduciary funds	1,287	-	-	-	1,287
Due from governmental units	4,197	36,065	279	17,138	57,679
Inventory	16,890	-	-	-	16,890
Prepaid expenses	28,528	-	-	-	28,528
TOTAL ASSETS	\$ 641,886	\$ 96,409	\$ 3,896	\$ 646,727	\$ 1,388,918
LIABILITIES:					
Accounts payable	\$ 7,701	\$ 336	\$ -	\$ 126	\$ 8,163
Accrued expenses	31,961	1,563	-	3,849	37,373
Due to other funds	538,350	77,075	-	300,541	915,966
TOTAL LIABILITIES	578,012	78,974	-	304,516	961,502
FUND BALANCES:					
Nonspendable:					
Inventories	16,890	-	-	-	16,890
Prepays	28,528	-	-	-	28,528
Restricted:					
Streets and highways	-	17,435	-	-	17,435
CDBG	-	-	3,896	-	3,896
TIFA	-	-	-	142,575	142,575
Program projects	-	-	-	178,148	178,148
Capital projects	-	-	-	20,176	20,176
Debt service	-	-	-	1,312	1,312
Assigned:					
Main street	42,291	-	-	-	42,291
Unassigned	(23,835)	-	-	-	(23,835)
	<u>63,874</u>	<u>17,435</u>	<u>3,896</u>	<u>342,211</u>	<u>427,416</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 641,886	\$ 96,409	\$ 3,896	\$ 646,727	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,633,386
Internal service fund is used to charge costs of equipment and operations to individual funds. The assets and liabilities are included in the governmental activities of the statement of net position.	498,858
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,340,156)</u>
Net position of governmental activities	<u>\$ 2,219,504</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 2013

	Major Governmental Funds			Other	Total
	General	Major Street	CDBG Street	Non-major Governmental Funds	Governmental Funds
Revenues:					
Taxes	\$ 1,173,469	\$ -	\$ -	\$ 127,186	\$ 1,300,655
State revenue	442,975	551,719	-	146,693	1,141,387
Federal revenue	4,200	-	298,779	-	302,979
Charges for services	360,032	-	-	136,479	496,511
Interest	1,062	451	-	768	2,281
Other revenue	83,163	-	292,065	60	375,288
Total revenues	2,064,901	552,170	590,844	411,186	3,619,101
Expenditures:					
General government	384,692	19,399	5,000	6,469	415,560
Public safety	737,203	-	-	-	737,203
Public works	223,538	522,956	585,844	270,425	1,602,763
Sanitation	304,127	-	-	-	304,127
Recreation and culture	162,585	-	-	-	162,585
Debt service	79,608	-	-	-	79,608
Other	95,305	-	-	136,479	231,784
Total expenditures	1,987,058	542,355	590,844	413,373	3,533,630
Excess (deficiency) of revenue over expenditures	77,843	9,815	-	(2,187)	85,471
Other Financing Sources (Uses)					
Operating transfers in	-	-	-	60,377	60,377
Operating transfers out	(114,175)	-	-	(105,385)	(219,560)
Total other financing sources (uses)	(114,175)	-	-	(45,008)	(159,183)
Net change in fund balance	(36,332)	9,815	-	(47,195)	(73,712)
Fund Balances - Beginning of Year	100,206	7,620	3,896	389,406	
Fund Balances - End of Year	\$ 63,874	\$ 17,435	\$ 3,896	\$ 342,211	

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. (234,634)

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. 117,199

Accrued expenses recorded in the statement of activities are not recorded as expenditures in the governmental funds until they are incurred. 14,370

Internal service fund is used to charge costs of equipment and operations to individual funds. The net revenue (expense) is reported with governmental activities. (159,821)

Change in net assets of governmental activities \$ (336,598)

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

CITY OF HANCOCK
PROPRIETARY FUNDS
BALANCE SHEET

Year Ended June 30, 2013

	Business-Type Activities Enterprise Funds					Governmental Activities
	Major Funds			Non-major Fund		Internal Service Funds
	Sewer	Water	Transit	Parking Meter		
				Total		
ASSETS:						
Current assets:						
Cash and cash equivalents	\$ 114,322	\$ 98,680	\$ 16,009	\$ 2,754	\$ 231,765	\$ 64,708
Restricted cash	149,792	266,480	-	-	416,272	2,110
Accounts receivable	71,618	83,941	40	80	155,679	1,142
Inventory	61,632	55,736	-	-	117,368	23,702
Due from other funds	36,141	70,000	-	-	106,141	727,294
Due from other governmental units	-	46	-	-	46	-
Due from component unit	-	-	-	-	-	61
Prepaid expenses	-	650	1,703	-	2,353	25,401
Total current assets	<u>433,505</u>	<u>575,533</u>	<u>17,752</u>	<u>2,834</u>	<u>1,029,624</u>	<u>844,418</u>
General fixed assets						
Property, plant, and equipment	9,898,576	16,677,679	1,024,290	30,893	27,631,438	2,449,298
Accumulated depreciation	<u>(5,184,998)</u>	<u>(4,503,545)</u>	<u>(300,254)</u>	<u>(30,893)</u>	<u>(10,019,690)</u>	<u>(2,085,043)</u>
Total general fixed assets	<u>4,713,578</u>	<u>12,174,134</u>	<u>724,036</u>	<u>-</u>	<u>17,611,748</u>	<u>364,255</u>
TOTAL ASSETS	<u>\$ 5,147,083</u>	<u>\$ 12,749,667</u>	<u>\$ 741,788</u>	<u>\$ 2,834</u>	<u>\$ 18,641,372</u>	<u>\$ 1,208,673</u>
LIABILITIES:						
Current liabilities:						
Accounts payable	\$ -	\$ 4,472	\$ 150	\$ -	\$ 4,622	\$ 6,501
Accrued expenses	1,777	24,089	5,065	-	30,931	186,306
Due to other funds	40,555	42,600	-	5,000	88,155	70,000
Due to other governmental units	106,330	-	-	-	106,330	-
Current maturities on long-term debt	32,000	169,000	-	-	201,000	84,149
Total current liabilities	<u>180,662</u>	<u>240,161</u>	<u>5,215</u>	<u>5,000</u>	<u>431,038</u>	<u>346,956</u>
Long-term liabilities:						
Bonds/note payable	1,999,000	7,965,000	-	-	9,964,000	362,859
TOTAL LIABILITIES	<u>2,179,662</u>	<u>8,205,161</u>	<u>5,215</u>	<u>5,000</u>	<u>10,395,038</u>	<u>709,815</u>
NET ASSETS:						
Reserved	151,138	266,480	-	-	417,618	2,110
Unreserved	<u>2,816,283</u>	<u>4,278,026</u>	<u>736,573</u>	<u>(2,166)</u>	<u>7,828,716</u>	<u>496,748</u>
Total net assets	<u>2,967,421</u>	<u>4,544,506</u>	<u>736,573</u>	<u>(2,166)</u>	<u>8,246,334</u>	<u>498,858</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,147,083</u>	<u>\$ 12,749,667</u>	<u>\$ 741,788</u>	<u>\$ 2,834</u>	<u>\$ 18,641,372</u>	<u>\$ 1,208,673</u>

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, 2013

	Business-Type Activities Enterprise Funds					Governmental Activities
	Major Funds			Non-major Fund	Total	Internal Service Funds
	Sewer	Water	Transit	Parking Meter		
OPERATING REVENUES:						
Sales and charges for services	\$ 800,323	\$ 987,221	\$ 40,419	\$ 5,881	\$ 1,833,844	\$ 1,344,281
State revenue	-	-	93,798	-	93,798	-
Federal revenue	225,600	758,323	50,914	-	1,034,837	-
Other revenue	55,155	35,984	11,623	-	102,762	1,025
TOTAL OPERATING REVENUES	1,081,078	1,781,528	196,754	5,881	3,065,241	1,345,306
OPERATING EXPENSES:						
General administration	44,040	63,390	64,119	10,457	182,006	925,761
Meter reading	11,303	11,311	-	-	22,614	-
Purchased services	551,317	220,634	-	-	771,951	-
Operations and maintenance	81,275	213,658	160,216	-	455,149	401,911
Depreciation	148,542	316,535	68,323	-	533,400	156,798
TOTAL OPERATING EXPENSES	836,477	825,528	292,658	10,457	1,965,120	1,484,470
OPERATING INCOME (LOSS)	244,601	956,000	(95,904)	(4,576)	1,100,121	(139,164)
NON-OPERATING REVENUES (EXPENSES):						
Interest income	152	905	58	7	1,122	233
Interest expense	(46,046)	(203,837)	-	-	(249,883)	(20,890)
Operating transfers in	31,615	73,770	40,000	13,798	159,183	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(14,279)	(129,162)	40,058	13,805	(89,578)	(20,657)
NET INCOME (LOSS)	230,322	826,838	(55,846)	9,229	1,010,543	(159,821)
NET ASSETS BEGINNING OF YEAR	2,737,099	3,717,668	792,419	(11,395)	7,235,791	658,679
NET ASSETS END OF YEAR	<u>\$ 2,967,421</u>	<u>\$ 4,544,506</u>	<u>\$ 736,573</u>	<u>\$ (2,166)</u>	<u>\$ 8,246,334</u>	<u>\$ 498,858</u>

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

CITY OF HANCOCK
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended June 30, 2013

	Business Type Activities	Governmental Activities	
	Enterprise Funds	Internal Service Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,843,807	\$ 1,344,281	\$ 3,188,088
Payments to suppliers	(901,091)	(300,859)	(1,201,950)
Internal activity-receipts (payments) to other funds	(32,735)	-	(32,735)
Payments to employees	(421,484)	(994,794)	(1,416,278)
Other receipts (payments)	1,231,397	1,025	1,232,422
Net cash provided by operating activities	<u>1,719,894</u>	<u>49,653</u>	<u>1,769,547</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers to other funds	<u>(89,238)</u>	<u>(65,254)</u>	<u>(154,492)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(1,176,104)	(10,500)	(1,186,604)
Principal paid on capital debt	(197,000)	(80,973)	(277,973)
Interest paid on capital debt	<u>(249,883)</u>	<u>(20,890)</u>	<u>(270,773)</u>
Net cash (used) by capital and related financing activities	<u>(1,622,987)</u>	<u>(112,363)</u>	<u>(1,735,350)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>1,122</u>	<u>233</u>	<u>68,323</u>
Net cash provided by investing activities	<u>1,122</u>	<u>233</u>	<u>68,323</u>
Net increase (decrease) in cash and cash equivalents	187,267	2,777	120,366
Balances -- beginning of the year	<u>460,770</u>	<u>64,041</u>	<u>-</u>
Balances -- end of the year	<u>\$ 648,037</u>	<u>\$ 66,818</u>	<u>\$ (120,366)</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 1,100,121	\$ 139,164	\$ 960,957
Adjustments to reconcile operating income to to net cash provided (used) by operating activities:			
Depreciation expense	533,400	156,798	690,198
Changes in assets and liabilities:			
Receivables, net	9,963	-	9,963
Due from other governmental units	627,997	-	627,997
Inventory	16,889	(13,162)	3,727
Prepaid expenses	(4)	(28,463)	(28,463)
Accounts and other payables	(638,540)	(16,492)	(655,032)
Accrued expenses	(2,492)	6,886	4,394
Due to other governmental units	<u>106,330</u>	<u>-</u>	<u>106,330</u>
Net cash provided by operating activities	<u>\$ 1,719,894</u>	<u>\$ 49,653</u>	<u>\$ 1,769,547</u>

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

CITY OF HANCOCK
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2013

	Agency Funds		
	Agency	Payroll	Total
ASSETS:			
Cash and equivalents	\$ 1,287	\$ 3	\$ 1,290
LIABILITIES:			
Accounts payable	\$ -	\$ 3	\$ 3
Due to general fund	1,287	-	1,287
TOTAL LIABILITIES	\$ 1,287	\$ 3	\$ 1,290

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

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, 2012 is as follows:

Total assets	\$ 5,126,715
Total liabilities	\$ 4,682,492
Total net position	444,223
Total liabilities and surplus	<u>\$ 5,126,715</u>
Operating income	\$ 941,842
Operating expenses	<u>1,174,468</u>
Net operating income	(232,626)
Net Non-operating revenues (expenses)	<u>45,836</u>
Net income (loss)	<u>\$ (186,790)</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, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of the Authorities financial information for the year ended June 30, 2013 (most recent year audited) shows the following:

Total Assets	\$ 15,392,212
Total Liabilities	\$ 7,716,529
Total Net Position	\$ 7,310,547
Total Revenues	\$ 2,015,376
Total Expenditures	\$ 1,896,620
Long-Term Debt	\$ 7,413,905

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

COMPONENT UNITS

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

DISCRETELY PRESENTED COMPONENT UNITS

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

BLENDED COMPONENT UNITS

City of Hancock Building Authority

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

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The 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 position resulting from the current year's activities.

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

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

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

The City reports the following major governmental funds:

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUND TYPES

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

The City reports the following proprietary funds:

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

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

The City reports the following major proprietary funds:

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

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

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

FIDUCIARY FUND TYPES

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

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

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to 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)

GASB 63 - The City adopted the provisions of GASB Statement Number 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in the current year. With the implementation of GASB 63 the Statement of Net Assets will become the Statement of Net Position. GASB 63 provides that deferred outflows should be reported in a separate section following assets, and deferred inflows should be reported in a separate section following liabilities. The statement then arrives at net position which includes the net effects of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

GASB 65 - The City adopted the provisions of GASB Statement Number 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, in the current year. GASB 65 clarifies the reporting of deferred outflows of resources and deferred inflows of resources to provide consistency in financial reporting.

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

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

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

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

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

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

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

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 position.

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, 2013, 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	\$ 855,577	\$ 231,765	\$ 1,087,342	\$ 104,276	\$ -
Restricted Cash	227,478	416,272	643,750	-	1,290
Total	<u>\$ 1,083,055</u>	<u>\$ 648,037</u>	<u>\$ 1,731,092</u>	<u>\$ 104,276</u>	<u>\$ 1,290</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

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, 2013, \$710,570 of the City’s bank balance of \$1,360,234 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>	Transfer <u>Out</u>	<u>Fund</u>	Transfer <u>In</u>
General	\$ 114,175	Parking Meter	\$ 13,798
Elevation street	105,385	Transit	40,000
		Water	73,770
		Sewer	31,615
		Local	60,377
TOTALS	<u>\$ 219,560</u>	TOTALS	<u>\$ 219,560</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

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, 2013 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Local Street	<u>195,241</u>	General	<u>\$ 195,241</u>
Employee Benefits	330,000	General	325,000
Subtotal	<u>330,000</u>	Parking	<u>5,000</u>
Elevation Street	45,445	Subtotal	<u>330,000</u>
	<u>45,445</u>	Water	6,054
Motor Vehicle	397,294	Sewer	<u>39,391</u>
			<u>45,445</u>
Subtotal	<u>397,294</u>	General	18,109
Sewer	<u>36,141</u>	Major	77,075
Water	<u>70,000</u>	Elevation Street	1,958
TOTALS	<u>\$ 1,074,121</u>	Local	298,583
		Sewer	1,164
		Water	405
		Subtotal	<u>397,294</u>
		Water	<u>36,141</u>
		Employee Benefits	<u>70,000</u>
		TOTALS	<u>\$ 1,074,526</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, 2013

NOTE E - RECEIVABLES

The detail of receivables at June 30, 2013 are as follows:

Receivables	General	Special Revenue	Internal Service	Enterprise	Total Primary Government
Accounts	\$ 24,537	\$	\$ 1,142	\$ 155,679	\$ 181,358
Taxes	3,029	45	-	-	3,074
Total receivables	<u>\$ 27,566</u>	<u>\$ 45</u>	<u>\$ 1,142</u>	<u>\$ 155,679</u>	<u>\$ 184,432</u>

NOTE F - CAPITAL ASSETS

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

	Balance 6/30/12	Additions	Subtractions	Balance 6/30/13
Land	\$ 435,670	\$ -	\$ -	\$ 435,670
Depreciable Capital Assets				
Buildings	2,715,738	-	-	2,715,738
Equipment	1,111,640	26,228	-	1,137,868
Improvements	2,275,683	30,400	-	2,306,083
Vehicles	2,579,851	10,500	-	2,590,351
Subtotal	<u>8,682,912</u>	<u>\$ 67,128</u>	<u>\$ -</u>	<u>8,750,040</u>
Accumulated Depreciation				
Buildings	1,100,805	\$ 63,955	\$ -	1,164,760
Equipment	639,431	143,977	-	783,408
Improvements	960,288	126,579	-	1,086,867
Vehicles	2,039,485	113,549	-	2,153,034
Subtotal	<u>4,740,009</u>	<u>\$ 448,060</u>	<u>\$ -</u>	<u>5,188,069</u>
Net depreciable capital assets	<u>3,942,903</u>			<u>3,561,971</u>
Net capital assets	<u>\$ 4,378,573</u>			<u>\$ 3,997,641</u>

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

General Fund	\$ 198,425
DDA	3,745
Major Streets Fund	77,092
Local Streets Fund	12,000
Motor Vehicle Fund	156,798
	<u>\$ 448,060</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE F - CAPITAL ASSETS (Continued)

The components of property, plant, and equipment in City proprietary funds at June 30, 2013 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
Buildings	\$ 716,473	\$ -	\$ -	\$ 716,473
Equipment	43,120	-	-	43,120
Vehicles	264,697	-	-	264,697
Subtotal	1,024,290	\$ -	\$ -	1,024,290
Accumulated depreciation:				
Buildings	\$ 22,390	\$ 17,912	\$ -	\$ 40,302
Equipment	11,027	6,245	-	17,272
Vehicles	198,514	44,166	-	242,680
Subtotal	231,931	\$ 68,323	\$ -	300,254
Net capital assets	\$ 792,359			\$ 724,036
SEWER DISPOSAL FUND				
	Beginning	Additions	Deletions	Ending
Buildings	\$ 754,725	\$ -	\$ -	\$ 754,725
Construction in progress	3,789,127	-	3,789,127	-
Utility system	5,039,310	4,104,541	-	9,143,851
Subtotal	9,583,162	\$ 4,104,541	\$ 3,789,127	9,898,576
Accumulated depreciation:				
Buildings	\$ 669,817	\$ 18,868	\$ -	\$ 688,685
Utility system	4,366,639	129,674	-	4,496,313
Subtotal	5,036,456	\$ 148,542	\$ -	5,184,998
Net capital assets	\$ 4,546,706			\$ 4,713,578
WATER SUPPLY FUND				
	Beginning	Additions	Deletions	Ending
Buildings	\$ 1,645,692	\$ -	\$ -	\$ 1,645,692
Construction in progress	6,351,466	-	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	7,273,098	-	14,706,608
Subtotal	15,756,047	\$ 7,273,098	\$ 6,351,466	16,677,679
Accumulated depreciation:				
Buildings	1,645,692	\$ -	\$ -	1,645,692
Equipment	10,036	1,338	-	11,374
Loan fees/lease	165,795	5,190	-	170,985
Utility system	2,365,487	310,007	-	2,675,494
Subtotal	4,187,010	\$ 316,535	\$ -	4,503,545
Net capital assets	\$ 11,569,037			\$ 12,174,134

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:

General Fund	Other Funds	Enterprise Funds
Main Street Local Pool \$ 42,291	CDBG \$ 3,896	Sewer Fund \$ 149,792
	Debt Retirement \$ 1,312	Water Fund \$ 266,480
	Sylvan Estates \$ 20,176	
	Elevation TIF 142,575	
	Employee benefits \$ 2,110	
	Cemetery \$ 178,148	

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 \$42,291 represents the balance of the commercial loan program. As of June 30, 2013, 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 \$416,272 as of June 30, 2013. Use of these restricted assets are limited by applicable bond indentures and ordinances.

Internal Service Funds: The Employee Benefit Fund has restricted assets of \$2,110 as of June 30, 2013.

The Cemetery Perpetual Care Trust balance of \$178,148 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, 2013 was \$108,872 and \$278,454 respectively.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

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>
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>\$ 370,000</u>	<u>\$ 174,125</u>	<u>\$ 544,125</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 739,000</u>	<u>\$ 335,685</u>	<u>\$ 1,074,685</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

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>
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	<u>\$ 333,000</u>	<u>\$ 60,308</u>	<u>\$ 393,308</u>

2008A Building Authority Bonds: On June 18, 2008, the City of Hancock Building Authority authorized the issuance of general obligation bonds in the amount of \$500,000 to fund City Hall Renovations. As of June 30, 2013, \$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>
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	<u>\$ 455,000</u>	<u>\$ 284,915</u>	<u>\$ 739,915</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

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>
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	<u>\$ 94,000</u>	<u>\$ 64,710</u>	<u>\$ 158,710</u>

Superior National Bank: On June 1, 2012 the City of Hancock authorized the purchase of land with financing through Superior National Bank in the amount of \$135,000. The loan has an interest rate of 4.00% per annum with principal amounts and interest payable June 1 for the first Sixty (60) months. The rate 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>
2013-14	\$ 12,648	\$ 3,996	\$ 16,644
2014-15	13,154	3,490	16,138
2015-16	74,129	2,964	77,093
	<u>\$ 99,931</u>	<u>\$ 10,450</u>	<u>\$ 109,875</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>
2013-14	\$ 12,081	\$ 986	\$ 13,067
2014-15	12,563	503	13,066
	<u>\$ 24,644</u>	<u>\$ 1,489</u>	<u>\$ 26,133</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

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.

Year	Principal	Interest	Total
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>\$ 1,189,000</u>	<u>\$ 702,790</u>	<u>\$ 1,891,790</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, 2013 \$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, 2013

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>
2013-14	\$ 60,000	\$ 86,213	\$ 146,213
2014-15	61,000	84,788	145,788
2015-16	63,000	83,339	146,339
2016-17	64,000	81,843	145,843
2017-18	66,000	80,323	146,323
2018-19	67,000	78,755	145,755
2019-20	69,000	77,164	146,164
2020-21	71,000	75,525	146,525
2021-26	378,000	351,643	729,643
2026-31	425,000	304,594	729,594
2031-36	478,000	251,679	729,679
2036-41	539,000	192,066	731,066
2041-46	605,000	125,044	730,044
2046-51	684,000	49,634	733,634
TOTALS	\$ 3,630,000	\$ 1,922,610	\$ 5,552,610

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>
2013-14	\$ 32,000	\$ 52,894	\$ 84,894
2014-15	33,000	52,041	85,041
2015-16	33,000	51,175	84,175
2016-17	34,000	50,295	84,295
2017-18	35,000	49,389	84,389
2018-19	36,000	48,458	84,458
2019-20	37,000	47,500	84,500
2020-21	38,000	46,515	84,515
2021-26	205,000	216,890	421,890
2026-31	234,000	188,132	422,132
2031-36	267,000	155,282	422,282
2036-41	304,000	117,864	421,864
2041-46	346,000	75,287	421,287
2046-51	397,000	26,685	423,685
TOTALS	\$ 2,031,000	\$ 1,178,407	\$ 3,209,407

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

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>
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	\$ 3,315,000	\$ 1,235,250	\$ 4,550,250

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%	\$ 25,011	\$ 25,011
97 Ford and Vactor	12/1/08	\$ 124,950	12/1/14	3.55%	\$ 44,587	\$ 21,905
2009 Rear Loader	6/3/09	\$ 63,694	6/3/15	4.00%	\$ 22,910	\$ 11,233
2011 Snow Blower	3/2/10	\$ 91,000	2/1/19	4.00%	\$ 68,000	\$ 9,000
2011 Sander	4/20/11	\$ 187,000	10/1/26	4.125%	\$ 118,500	\$ 6,500
2011 Grader	4/20/11	\$ 130,000	4/1/26	4.00%	\$ 168,000	\$ 10,500

As of June 30, 2013, the aggregate maturities of loans payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	15,994	16,153	32,147
TOTALS	\$ 447,008	\$ 103,418	\$ 550,426

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE I - LONG-TERM DEBT (Continued)

Changes in long-term debt principal are summarized below:

	Balance 6/30/12	Additions	Retired	Balance 6/30/13	Current Maturities
GOVERNMENTAL ACTIVITIES					
1997 Building Authority Bonds	\$ 385,000	\$ -	\$ 15,000	\$ 370,000	\$ 15,000
1998 Building Authority Bonds	770,000	-	31,000	739,000	32,000
USDA Community Facilities Loan	368,000	-	35,000	333,000	35,000
Superior National Bank - Land	112,512	-	12,581	99,931	12,648
Superior National Bank - Vehicle	36,262	-	11,618	24,644	12,081
2008A Building Authority Bonds	465,000	-	10,000	455,000	10,000
2008B Building Authority Bonds	96,000	-	2,000	94,000	2,000
	<u>2,232,774</u>	<u>-</u>	<u>117,199</u>	<u>2,115,575</u>	<u>118,729</u>
ENTERPRISE FUNDS					
2011A Water Supply System Bonds	1,207,000	-	18,000	1,189,000	19,000
2011B Water Supply System Bonds	3,688,000	-	58,000	3,630,000	60,000
2010 Sanitary Sewage Disposal Bonds	2,062,000	-	31,000	2,031,000	32,000
2008 Water Supply System Bond	3,405,000	-	90,000	3,315,000	90,000
	<u>10,362,000</u>	<u>-</u>	<u>197,000</u>	<u>10,165,000</u>	<u>201,000</u>
INTERNAL SERVICE FUND					
Installment Loans	527,981	-	80,973	447,008	84,149
TOTALS	<u>\$ 13,122,755</u>	<u>\$ -</u>	<u>\$ 395,172</u>	<u>\$ 12,727,583</u>	<u>\$ 403,878</u>

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

GOVERNMENTAL ACTIVITIES

Year	Principal	Interest	Total
2013-14	\$ 118,729	\$ 96,223	\$ 214,952
2014-15	129,718	90,941	220,659
2015-16	182,128	85,297	267,425
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>\$ 2,115,575</u>	<u>\$ 931,681</u>	<u>\$ 3,047,256</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE I - LONG-TERM DEBT (Continued)

INTERNAL SERVICE FUNDS

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	15,994	16,153	32,147
TOTALS	\$ 447,008	\$ 103,418	\$ 550,426

ENTERPRISE FUNDS

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	\$ 10,165,000	\$ 5,039,057	\$ 15,204,057

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

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, 2013 is as follows:

	<u>Parking Meter</u>	<u>Transit</u>	<u>Sewer</u>	<u>Water</u>
Operating revenues	\$ 5,881	\$ 196,754	\$ 1,081,078	\$ 1,781,528
Depreciation	\$ -	\$ 68,323	\$ 148,542	\$ 316,535
Income (loss) from operations	\$ (4,576)	\$ (95,904)	\$ 244,601	\$ 956,000
Non-operating revenues	\$ 13,805	\$ 40,058	\$ 31,767	\$ 74,675
Non-operating expenses	\$ -	\$ -	\$ 46,046	\$ 203,837
Net Income (loss)	\$ 9,229	\$ (55,846)	\$ 230,322	\$ 826,838
Property, plant & equipment				
Additions	\$ -	-	\$ 315,414	\$ 860,690
Total assets	\$ 2,834	\$ 741,788	\$ 5,147,083	\$ 12,749,667
Net working capital surplus (deficit)	\$ (2,166)	\$ 12,537	\$ 252,843	\$ 335,372
Long-term liabilities:				
Payable from operating revenues	\$ -	-	\$ 1,999,000	\$ 7,965,000
Net investment in capital assets	\$ -	\$ 724,036	\$ 2,682,578	\$ 4,040,134
Reserved net position	\$ -	-	\$ 151,138	\$ 266,480
Unrestricted net position	\$ (2,166)	\$ 736,573	\$ 2,816,283	\$ 4,278,026
Total net position	\$ (2,166)	\$ 736,573	\$ 2,967,421	\$ 4,544,506
Net cash provided (used) by:				
Operating activities	\$ (4,912)	\$ (28,533)	\$ 485,044	\$ 1,268,295
Noncapital financing activities	\$ 5,553	\$ 22,107	\$ 20,252	\$ 41,326
Capital & related financing activities	\$ -	-	\$ 392,460	\$ (1,230,527)
Investing activities	\$ 7	\$ 58	\$ 152	\$ 905
Beginning cash	\$ 2,106	\$ 22,377	\$ 151,126	\$ 285,161
Ending cash	\$ 2,754	\$ 16,009	\$ 264,114	\$ 365,160

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, 2013

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 1212 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, 2013, 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	\$ 39,380	\$ 121,319
Repair and Replacement	20,024	86,536
Junior lien bond and interest redemption	48,356	50,123
	<u>\$ 107,760</u>	<u>\$ 257,978</u>
<u>Sewer Fund</u>		
Bond Reserve Account	\$ 19,224	\$ 32,181
Repair and Replacement Account	41,576	52,824
Bond and Interest Redemption Account 2008	21,119	64,787
	<u>\$ 81,919</u>	<u>\$ 149,792</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 65 through 69.

NOTE M - TAX INCREMENT FINANCING

The City had three tax increment financing districts at June 30, 2013, the Downtown Development District (DDD), the Elevation Street City(ESD), and the MTEPS (Smart Zone) City. The taxes on the DDD and the ESD Citys are levied based on the increase of the state equalized value of the properties from the base year to the current year and are levied on both real and personal property. The DDD expanded the base year in 1993 from the 1984 initial base year. The tax revenues generated from the DDD and the ESD are recorded in the Downtown Development Authority Fund and Elevation Street TIFA Fund respectively.

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

	Downtown Development	<u>TIF District</u> Local Street (Elevation)	MTEPS
Base year	1984	1993	1999
State Equalized Value (SEV) base year			
Real property	\$ 9,792,200	\$ 143,000	\$ 48,229,352
Personal property	\$ 1,661,780	\$ -	\$ 2,911,983
Current year SEV			
Real property	\$ 15,589,623	\$ 1,426,341	\$ 80,392,101
Personal property	\$ 1,773,118	\$ 295,898	\$ 4,959,744
Increase (Decrease) of taxable value			
Real	\$ 5,797,423	\$ 1,283,341	\$ 32,162,749
Personal property	\$ 111,338	\$ 295,898	\$ 1,858,295
Authorized tax mills levied-Homestead	20.4687	23.02	3.00
Non-homestead	-	-	12.0
Tax revenue collected	\$ 143,269	\$ 34,259	\$ 259,098

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 10.72%. Plan members are required to contribute 3.3% of their annual covered salary. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2013

NOTE N - PENSION PLAN (Continued)

Annual Pension Cost: For the year ended June 30, 2013, the City's required and actual pension cost was \$63,332. The annual required contribution percentage was determined as a part of the actuarial valuation on December 31, 2012, 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>2011</u>	<u>2012</u>	<u>2013</u>
Annual pension cost (APC)	\$ 80,007	\$ 66,877	\$ 63,332
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

	<u>Valuation as of December 31</u>		
	<u>2011</u>	<u>2012</u>	<u>2012</u>
Actuarial value of assets	\$1,636,274	\$ 1,821,701	\$ 1,992,065
Actuarial accrued liability (entry age)	\$2,181,334	\$ 2,384,979	\$ 2,550,428
Unfunded actuarial liability (UAAL)	\$ 545,060	\$ 563,278	\$ 558,363
Funded ratio	75%	76%	78%
Covered payroll	\$ 626,872	\$ 624,361	\$ 595,138
UAAL as a percentage of covered payroll	87%	90%	94%

The unfunded accrued liability of the plan as of December 31, 2012 was \$558,363.

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, 2013, after adjustment the City made weekly contributions of \$101 per week from July 1 through December 31 and \$108 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 had a fund deficit at June 30, 2013 of \$2,166.

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, 2013, The City owed Portage Lake Water and Sewage Authority \$106,330, 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 - 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 September 19, 2012 the City closed on a Department of Natural Resource grant in the amount of \$87,500 for the Navy Street Park Boardwalk project. The project did not begin until after June 30, 2013.

On March 25, 2013 the City closed on a grant with the Department of Transportation in the amount of \$72,696 for the purchase of a thirty foot diesel bus. The bus was not purchased until after June 30, 2013.

On July 2, 2013 the City closed on a Department of Transportation grant for road improvements to Campus Drive in the amount of \$124,985. The project did not begin until after June 30, 2013.

On August 21, 2013 the City closed on an Americana Foundation grant in the amount of \$10,490 for restoration of the WPA Stairway Park. The project did not begin until after June 30, 2013.

CITY OF HANCOCK
REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION
June 30, 2012

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variance Final to Actual
	Original	Final		
REVENUES:				
Local sources	\$ 1,658,589	\$ 1,700,200	\$ 1,617,726	\$ (82,474)
State and federal sources	428,026	427,350	447,175	19,825
TOTAL REVENUE	2,086,615	2,127,550	2,064,901	(62,649)
EXPENDITURES:				
General government				
Board/Legislative	9,712	16,857	18,061	(1,204)
Manager	79,037	83,925	83,726	199
Clerk	46,545	66,625	64,832	1,793
Treasurer	47,139	49,455	52,977	(3,522)
Legal, accounting, and audit	30,550	30,550	24,673	5,877
Assessor	29,434	31,732	28,995	2,737
Planning and professional services	2,600	1,300	-	1,300
Elections	5,675	14,410	14,360	50
Building and grounds	56,436	57,436	59,822	(2,386)
Cemetery	30,503	31,251	37,246	(5,995)
Public safety	702,776	726,979	737,203	(10,224)
Public works	147,001	169,669	223,538	(53,869)
Sanitation	304,639	305,340	304,127	1,213
Recreation and culture	108,872	158,965	162,585	(3,620)
Debt service	90,128	90,128	79,608	10,520
Other	104,528	80,160	95,305	(15,145)
TOTAL EXPENDITURES	1,795,575	1,914,782	1,987,058	(72,276)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	291,040	212,768	77,843	(134,925)
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(190,000)	(201,567)	(114,175)	87,392
	(190,000)	(201,567)	(114,175)	87,392
NET CHANGE IN FUND BALANCE	\$ 101,040	\$ 11,201	(36,332)	\$ 39,859
FUND BALANCE - BEGINNING OF YEAR			100,206	
FUND BALANCE - END OF YEAR			\$ 63,874	

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variance Final to Actual
	Original	Final		
REVENUES:				
State	\$ 423,500	\$ 523,500	\$ 551,719	\$ 28,219
Interest	1,100	1,100	451	(649)
TOTAL REVENUE	424,600	524,600	552,170	27,570
EXPENDITURES:				
General government administration	17,251	17,788	19,399	(1,611)
Highway and streets:				
Construction	30,614	38,614	13,138	25,476
State trunkline maintenance	190,306	299,925	302,416	(2,491)
Routine maintenance	39,811	40,811	40,181	630
Traffic services	2,380	2,400	1,619	781
Snow and ice control	139,666	160,159	164,138	(3,979)
Sweeping and flushing	1,300	1,400	1,464	(64)
TOTAL EXPENDITURES	421,328	561,097	542,355	18,742
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,272	(36,497)	9,815	46,312
OTHER FINANCING SOURCES (USES)				
Operating transfers in	10,000	10,000	-	10,000
NET CHANGE IN FUND BALANCE	\$ 13,272	\$ (26,497)	9,815	\$ 56,312
FUND BALANCE - BEGINNING OF YEAR			7,620	
FUND BALANCE - END OF YEAR			\$ 17,435	

CITY OF HANCOCK
BUDGETARY COMPARISON SCHEDULE
COMMUNITY DEVELOPMENT BLOCK GRANT FUND
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variance Final to Actual
	Original	Final		
REVENUES:				
Federal	\$ 300,000	\$ 300,000	\$ 298,779	\$ (1,221)
Other revenue	-	118,500	292,065	173,565
TOTAL REVENUE	300,000	418,500	590,844	172,344
EXPENDITURES:				
General government	55,000	55,000	5,000	50,000
Public works	245,000	547,000	585,844	
TOTAL EXPENDITURES	300,000	602,000	590,844	50,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(183,500)	-	183,500
NET CHANGE IN FUND BALANCE	\$ -	\$ (183,500)	-	\$ 183,500
FUND BALANCE - BEGINNING OF YEAR			3,896	
FUND BALANCE - END OF YEAR			\$ 3,896	

CITY OF HANCOCK
SUPPLEMENTAL FINANCIAL INFORMATION
June 30, 2013

CITY OF HANCOCK
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2013

	<u>Special Revenue Fund</u>		<u>Debt Service</u>	<u>Capital Project</u>	<u>Permanent Fund</u>	<u>Total</u>
		<u>Elevation</u>	<u>Building</u>	<u>Sylvan</u>	<u>Cemetery</u>	
	<u>Local Street</u>	<u>Street TIF</u>	<u>Authority</u>	<u>Estates</u>	<u>Perpetual Care</u>	
ASSETS:						
Cash	\$ 88,664	\$ 100,558	\$ -	\$ 20,176	\$ -	209,398
Restricted cash	-	-	1,312	-	178,148	179,460
Taxes receivable	-	45	-	-	-	45
Due from other funds	195,241	45,445	-	-	-	240,686
Due from other governmental units	17,138	-	-	-	-	17,138
Total assets	\$ 301,043	\$ 146,048	\$ 1,312	\$ 20,176	\$ 178,148	\$ 646,727
LIABILITIES:						
Accounts payable	\$ -	\$ 126	\$ -	\$ -	\$ -	126
Accrued expenses	2,460	1,389	-	-	-	3,849
Due to other funds	298,583	1,958	-	-	-	300,541
Total liabilities	301,043	3,473	-	-	-	304,516
FUND EQUITY:						
Restricted	-	142,575	1,312	20,176	178,148	342,211
TOTAL FUND EQUITY	-	142,575	1,312	20,176	178,148	342,211
TOTAL LIABILITIES AND FUND EQUITY	\$ 301,043	\$ 146,048	\$ 1,312	\$ 20,176	\$ 178,148	\$ 646,727

CITY OF HANCOCK
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2013

	Special Revenue Fund		Debt Service	Capital Project	Permanent Fund	Totals
	Local Street	Elevation Street TIF	Building Authority	Sylvan Estates	Cemetery Perpetual Care	
REVENUES:						
Current taxes	\$ 92,927	\$ 34,259	\$ -	\$ -	\$ -	127,186
State	146,693	-	-	-	-	146,693
Charges for services	-	-	136,479	-	-	136,479
Interest	195	477	8	88	-	768
Other revenue	-	-	-	-	60	60
Total revenues	239,815	34,736	136,487	88	60	411,186
EXPENDITURES:						
General government administration	6,469	-	-	-	-	6,469
Highway and streets:						
Construction	1,430	-	-	-	-	1,430
Routine maintenance	69,779	-	-	-	-	69,779
Traffic services	363	-	-	-	-	363
Snow and ice control	195,232	-	-	-	-	195,232
Sweeping and flushing	3,621	-	-	-	-	3,621
Other	-	-	136,479	-	-	136,479
Total expenditures	276,894	-	136,479	-	-	413,373
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(37,079)	34,736	8	88	60	(2,187)
OTHER FINANCING SOURCES (USES):						
Operating transfers in (out)	60,377	(105,385)	-	-	-	(45,008)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	23,298	(70,649)	8	88	60	(47,195)
FUND BALANCE, BEGINNING OF YEAR	(23,298)	213,224	1,304	20,088	178,088	389,406
FUND BALANCE, END OF YEAR	\$ -	\$ 142,575	\$ 1,312	\$ 20,176	\$ 178,148	\$ 342,211

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING BALANCE SHEET
June 30, 2013

	Sewer Disposal System	Water Supply System	Transit	Parking Meter	Total
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 114,322	\$ 98,680	\$ 16,009	\$ 2,754	\$ 231,765
Restricted cash	149,792	266,480	-	-	416,272
Accounts receivable	71,618	83,941	40	80	155,679
Due from other funds	36,141	70,000	-	-	106,141
Due from other government	-	46	-	-	46
Inventory	61,632	55,736	-	-	117,368
Prepaid expenses	-	650	1,703	-	2,353
Total current assets	433,505	575,533	17,752	2,834	1,029,624
Property, plant, and equipment	9,898,576	16,677,679	1,024,290	30,893	27,631,438
Accumulated depreciation & amortization	(5,184,998)	(4,503,545)	(300,254)	(30,893)	(10,019,690)
	<u>4,713,578</u>	<u>12,174,134</u>	<u>724,036</u>	<u>-</u>	<u>17,611,748</u>
TOTAL ASSETS	\$ 5,147,083	\$ 12,749,667	\$ 741,788	\$ 2,834	\$ 18,641,372

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING BALANCE SHEET (CONTINUED)
June 30, 2013

	Sewer Disposal System	Water Supply System	Transit	Parking Meter	Total
LIABILITIES:					
Current liabilities:					
Accounts payable	\$ -	\$ 4,472	\$ 150	\$ -	\$ 4,622
Accrued expenses	1,777	24,089	5,065	-	30,931
Due to other funds	40,555	42,600	-	5,000	88,155
Due to other governmental units	106,330	-	-	-	106,330
Current maturities on long term debt	32,000	169,000	-	-	201,000
Total current liabilities	180,662	240,161	5,215	5,000	431,038
Long-term liabilities:					
Bonds payable	1,999,000	7,965,000	-	-	9,964,000
TOTAL LIABILITIES	2,179,662	8,205,161	5,215	5,000	10,395,038
NET ASSETS:					
Reserved	151,138	266,480	-	-	417,618
Unreserved	2,816,283	4,278,026	736,573	(2,166)	7,828,716
Total net assets	2,967,421	4,544,506	736,573	(2,166)	8,246,334
TOTAL LIABILITIES AND NET ASSETS	\$ 5,147,083	\$ 12,749,667	\$ 741,788	\$ 2,834	\$ 18,641,372

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

June 30, 2013

	Sewer Fund	Water Fund	Transit	Parking Meter	Total
OPERATING REVENUES:					
Sales and charges for services	\$ 800,323	\$ 987,221	\$ 40,419	\$ 5,881	\$ 1,833,844
State Grant	-	-	93,798	-	93,798
Federal Grant	225,600	758,323	50,914	-	1,034,837
Other revenue	55,155	35,984	11,623	-	102,762
TOTAL OPERATING REVENUES	<u>1,081,078</u>	<u>1,781,528</u>	<u>196,754</u>	<u>5,881</u>	<u>3,065,241</u>
OPERATING EXPENSES:					
General administration	44,040	63,390	64,119	10,457	182,006
Meter reading	11,303	11,311	-	-	22,614
Purchased services	551,317	220,634	-	-	771,951
Operations and maintenance	81,275	213,658	160,216	-	455,149
Depreciation	148,542	316,535	68,323	-	533,400
TOTAL OPERATING EXPENSES	<u>836,477</u>	<u>825,528</u>	<u>292,658</u>	<u>10,457</u>	<u>1,965,120</u>
OPERATING INCOME (LOSS)	244,601	956,000	(95,904)	(4,576)	1,100,121
NON-OPERATING REVENUES (EXPENSES):					
Interest income	152	905	58	7	1,122
Interest expense	(46,046)	(203,837)	-	-	249,883
Operating transfers in	31,615	73,770	40,000	13,798	159,183
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(14,279)</u>	<u>(129,162)</u>	<u>40,058</u>	<u>13,805</u>	<u>(89,578)</u>
NET INCOME (LOSS)	230,322	826,838	(55,846)	9,229	1,010,543
NET ASSETS (DEFICIT), BEGINNING OF THE YEAR	<u>2,737,099</u>	<u>3,717,668</u>	<u>792,419</u>	<u>(11,395)</u>	<u>7,235,791</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ 2,967,421</u>	<u>\$ 4,544,506</u>	<u>\$ 736,573</u>	<u>\$ (2,166)</u>	<u>\$ 8,246,334</u>

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBING STATEMENT OF CASH FLOWS
Year Ended June 30, 2013

	Enterprise Funds				
	Major Funds			Non-major Fund	
	Sewer	Water	Transit	Parking Meter	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 800,486	\$ 997,021	\$ 40,419	\$ 5,881	\$ 1,843,807
Payments to suppliers	(512,206)	(327,673)	(61,037)	(175)	(901,091)
Internal activity-receipts (payments) to other funds	(5,333)	(27,044)	-	(358)	(32,735)
Payments to employees	(78,658)	(168,316)	(164,250)	(10,260)	(421,484)
Other receipts (payments)	280,755	794,307	156,335	-	1,231,397
Net cash provided by operating activities	485,044	1,268,295	(28,533)	(4,912)	1,719,894
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating subsidies and transfers to other funds	20,252	41,326	22,107	5,553	89,238
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(315,414)	(860,690)	-	-	(1,176,104)
Principal paid on capital debt	(31,000)	(166,000)	-	-	(197,000)
Interest paid on capital debt	(46,046)	(203,837)	-	-	(249,883)
Net cash (used) by capital and related financing activities	392,460	(1,230,527)	-	-	(1,622,987)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	152	905	58	7	1,122
Net cash provided by investing activities	152	905	58	7	1,122
Net (decrease) in cash and cash equivalents	112,988	79,999	(6,368)	648	187,267
Balances -- beginning of the year	151,126	285,161	22,377	2,106	460,770
Balances -- end of the year	\$ 264,114	\$ 365,160	\$ 16,009	\$ 2,754	\$ 648,037
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 244,601	\$ 956,000	\$ (95,904)	\$ (4,576)	\$ 1,100,121
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	148,542	316,535	68,323	-	533,400
Changes in assets and liabilities:					
Receivables, net	163	9,800	-	-	9,963
Due from other governmental units	169,220	458,777	-	-	627,997
Inventory	(18,045)	1,156	-	-	(16,889)
Prepaid expenses	-	-	4	-	4
Accounts and other payables	(162,915)	(473,342)	(2,283)	-	(638,540)
Accrued expenses	(2,852)	(631)	1,327	(336)	(2,492)
Due to other governmental units	106,330	-	-	-	106,330
Net cash provided by operating activities	\$ 485,044	\$ 1,268,295	\$ (28,533)	\$ (4,912)	\$ 1,719,894

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING BALANCE SHEET

June 30, 2013

	Employee Benefit	Motor Vehicle	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 42,404	\$ 22,304	\$ 64,708
Restricted cash	2,110	-	2,110
Accounts receivable	-	1,142	1,142
Due from other funds	330,000	397,294	727,294
Due from component unit	-	61	61
Inventory	-	23,702	23,702
Prepaid expenses	7,886	17,515	25,401
Total current assets	382,400	462,018	844,418
Fixed Assets:			
Equipment	-	2,449,298	2,449,298
Accumulated depreciation & amortization	-	(2,085,043)	(2,085,043)
Total Fixed Assets	-	364,255	364,255
TOTAL ASSETS	\$ 382,400	\$ 826,273	\$ 1,208,673
LIABILITIES:			
Current liabilities:			
Accounts payable	\$ 4,843	\$ 1,658	\$ 6,501
Due to other funds	70,000	-	70,000
Accrued sick and vacation	179,598	-	179,598
Accrued wages payable	4,358	2,350	6,708
Current maturities on long term debt	-	84,149	84,149
Total current liabilities	258,799	88,157	346,956
Long-term liabilities:			
Notes payable	-	362,859	362,859
TOTAL LIABILITIES	258,799	451,016	709,815
RETAINED EARNINGS:			
Reserved	2,110	-	2,110
Unreserved	121,491	375,257	496,748
Total retained earnings	123,601	375,257	498,858
TOTAL LIABILITIES AND RETAINED EARNINGS	\$ 382,400	\$ 826,273	\$ 1,208,673

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
Year ended June 30, 2013

	<u>Employee Benefit</u>	<u>Motor Vehicle</u>	<u>Totals</u>
OPERATING REVENUES:			
Charges for services	\$ 865,459	\$ 478,822	\$ 1,344,281
Other revenue	-	1,025	1,025
TOTAL OPERATING REVENUES	<u>865,459</u>	<u>479,847</u>	<u>1,345,306</u>
OPERATING EXPENSES:			
General government administration	(265)	7,265	7,000
Garage maintenance	-	129,316	129,316
Operations and maintenance	-	272,595	272,595
Depreciation	-	156,798	156,798
Benefit payments:			
Payroll taxes	141,768	-	141,768
Retirement plan expense	125,618	-	125,618
Holiday pay	38,163	-	38,163
Sick pay/personal leave	53,183	-	53,183
Vacation pay	77,528	-	77,528
Workers' compensation insurance	69,088	-	69,088
Hospitalization insurance	380,261	-	380,261
Employee life insurance	480	-	480
Longevity pay	21,077	-	21,077
Employee picnic	1,400	-	1,400
Other	10,195	-	10,195
TOTAL OPERATING EXPENSES	<u>918,496</u>	<u>565,974</u>	<u>1,484,470</u>
OPERATING INCOME (LOSS)	(53,037)	(86,127)	(139,164)
NON-OPERATING REVENUES (EXPENSES):			
Interest income	138	95	233
Interest expense	-	(20,890)	20,890
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>138</u>	<u>(20,795)</u>	<u>(20,657)</u>
NET INCOME (LOSS)	(52,899)	(106,922)	(159,821)
RETAINED EARNINGS, BEGINNING OF YEAR	<u>176,500</u>	<u>482,179</u>	<u>658,679</u>
RETAINED EARNINGS, END OF YEAR	<u>\$ 123,601</u>	<u>\$ 375,257</u>	<u>\$ 498,858</u>

CITY OF HANCOCK
INTERNAL SERVICES FUNDS
COMBINING STATEMENT OF CASH FLOW
Year Ended June 30, 2013

	Employee Benefit	Motor Vehicle	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 865,459	\$ 478,822	\$ 1,344,281
Payments to suppliers	19,086	(319,945)	(300,859)
Payments to employees	(912,618)	(82,176)	(994,794)
Other receipts (payments)	-	1,025	1,025
Net cash provided by operating activities	<u>(28,073)</u>	<u>77,726</u>	<u>49,653</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers to other funds	<u>41,125</u>	<u>24,129</u>	<u>(65,254)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	-	(10,500)	(10,500)
Principal paid on capital debt	-	(80,973)	(80,973)
Interest paid on capital debt	-	(20,890)	(20,890)
Net cash (used) by capital and related financing activities	<u>-</u>	<u>(112,363)</u>	<u>(112,363)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>138</u>	<u>95</u>	<u>233</u>
Net cash provided by investing activities	<u>138</u>	<u>95</u>	<u>233</u>
Net (decrease) in cash and cash equivalents	13,190	(10,413)	2,777
Balances -- beginning of the year	<u>31,324</u>	<u>32,717</u>	<u>64,041</u>
Balances -- end of the year	<u>\$ 44,514</u>	<u>\$ 22,304</u>	<u>\$ 66,818</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (53,037)	\$ (86,127)	\$ (139,164)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	-	156,798	156,798
Changes in assets and liabilities:			
Inventory	-	13,162	13,162
Prepaid expenses	30,650	(2,187)	28,463
Accounts and other payables	(11,829)	(4,663)	(16,492)
Accrued expenses	<u>6,143</u>	<u>743</u>	<u>(6,886)</u>
Net cash provided by operating activities	<u>\$ (28,073)</u>	<u>\$ 77,726</u>	<u>\$ (49,653)</u>

CITY OF HANCOCK
TRANSIT FUND SUPPLEMENTAL INFORMATION
June 30, 2013

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING REVENUE
For the Year Ended June 30, 2013

	07/01/12 through 09/30/12	10/01/12 through 06/30/13	Total
Farebox receipts- passenger fares	\$ 9,630	\$ 30,789	\$ 40,419
Contract Fares*	600	31,022	31,622
State Operating Assistance**	12,206	79,835	92,041
Federal Section 5311	10,288	40,626	50,914
Federal RTAP**	1,014	744	1,758
Local Operating Assistance****	-	20,000	20,000
Interest Income	28	30	58
Total Operating Revenue	<u>\$ 33,766</u>	<u>\$ 203,046</u>	<u>\$ 236,812</u>

	10/01/11 through 06/30/12	07/01/12 through 09/30/12	Total
Farebox receipts- passenger fares	\$ 29,897	\$ 9,630	\$ 39,527
Contract Fares	3,427	600	4,027
State Operating Assistance	66,157	12,206	78,363
Federal Section 5311	37,324	10,288	47,612
Federal RTAP	1,746	1,014	2,760
Local Operating Assistance	34,000	-	34,000
Interest Income	94	28	122
Total Operating Revenue	<u>\$ 172,645</u>	<u>\$ 33,766</u>	<u>\$ 206,411</u>

* Contract Fares revenue in the amount of \$31,622 above includes operating transfers of \$20,000. The difference of \$11,622 is reported on page 21 under other revenue plus \$1 in rounding.

**State revenue on page 21 of audit report exceeds the total of State operating assistance by \$1,757. The audit report is higher because it includes the RTAP revenue of \$1,758 less \$1 in rounding.

****Operating transfers on page 21 of audit report, in the amount of \$40,000, are considered local operating assistance revenue and is split between the amounts of \$20,000 and \$31,622 above.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
For the Year Ended June 30, 2013

	07/01/12 through 09/30/12				10/01/12 through 06/30/13				Total			
	Operations	Maint.	Gen. Admin.	Total	Operations	Maint.	Gen. Admin.	Total	Operations	Maint.	Gen. Admin.	Total
Labor:												
Wages -operations	\$ 16,173	\$ 0	\$ 0	\$ 16,173	\$ 58,031	\$ 0	\$ 0	\$ 58,031	\$ 74,204	\$ 0	\$ 0	\$ 74,204
Other salaries and wages	0	3,982	3,974	7,956	0	13,720	14,236	27,956	0	17,702	18,210	35,912
Dispatchers wages	1,844	0	0	1,844	5,550	0	0	5,550	7,394	0	0	7,394
Fringe benefits	4,490	3,572	4,218	12,280	12,922	11,409	11,455	35,786	17,412	14,981	15,673	48,066
Services:												
Advertising	0	0	0	0	204	0	168	372	204	0	168	372
Audit costs	0	0	0	0	0	0	0	0	0	0	0	0
Other	72	663	525	1,260	988	2,823	1,474	5,285	1,060	3,486	1,999	6,545
Materials and supplies:												
Fuel and lubricants	6,807	0	0	6,807	22,142	0	0	22,142	28,949	0	0	28,949
Tires and tubes	22	0	0	22	1,145	0	0	1,145	1,167	0	0	1,167
Major supplies	0	70	0	70	0	5,566	0	5,566	0	5,636	0	5,636
Other	0	0	0	0	0	0	0	0	0	0	0	0
Utilities	0	0	1,852	1,852	0	0	10,719	10,719	0	0	12,571	12,571
Insurance	1,707	0	0	1,707	243	0	0	243	1,950	0	0	1,950
Operating lease and rentals	0	0	0	0	0	0	0	0	0	0	0	0
Miscellaneous expenses:												
Travel	65	0	0	65	0	0	472	472	65	0	472	537
Dues & Subscriptions	0	0	0	0	0	0	815	815	0	0	815	815
Other	0	0	0	0	20	43	106	169	20	43	106	169
Depreciation	0	0	0	0	68,323	0	0	68,323	68,323	0	0	68,323
	<u>31,180</u>	<u>8,287</u>	<u>10,569</u>	<u>50,036</u>	<u>169,568</u>	<u>33,561</u>	<u>39,445</u>	<u>242,574</u>	<u>200,748</u>	<u>41,848</u>	<u>50,014</u>	<u>292,610</u>
Less:												
Ineligible expenses- RTAP	0	0	0	0	0	0	744	744	0	0	744	744
Deprecation	0	0	0	0	68,323	0	0	68,323	68,323	0	0	68,323
	<u>\$ 31,180</u>	<u>\$ 8,287</u>	<u>\$ 10,569</u>	<u>\$ 50,036</u>	<u>\$ 101,245</u>	<u>\$ 33,561</u>	<u>\$ 38,701</u>	<u>\$ 173,507</u>	<u>\$ 132,425</u>	<u>\$ 41,848</u>	<u>\$ 49,270</u>	<u>\$ 223,543</u>

Total expenses in the amount of \$292,610 are less than total operating expenses on page 21 by \$48. The difference is due to transit dues of \$700 in which approximately, 7.1%, (\$49), was not eligible for reimbursement and was not included on the quarterly reports and \$1 in rounding.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
Reporting period October 1, 2011 through September 30, 2012

	10/01/11 through 06/30/12				07/01/12 through 09/30/12				Total			
	Operations	Maint.	Gen. Admin.	Total	Operations	Maint.	Gen. Admin.	Total	Operations	Maint.	Gen. Admin.	Total
Labor:												
Wages -operations	\$ 56,093	\$ 0	\$ 0	\$ 56,093	\$ 16,173	\$ 0	\$ 0	\$ 16,173	\$ 72,266	\$ 0	\$ 0	\$ 72,266
Other salaries and wages	0	12,561	14,348	26,909	0	3,982	3,974	7,956	0	16,543	18,322	34,865
Dispatchers wages	5,520	0	0	5,520	1,844	0	0	1,844	7,364	0	0	7,364
Fringe benefits	13,095	10,876	11,460	35,431	4,490	3,572	4,218	12,280	17,585	14,448	15,678	47,711
Services:												
Advertising	0	0	403	403	0	0	0	0	0	0	403	403
Audit costs	0	0	0	0	0	0	0	0	0	0	0	0
Other	1,930	2,736	1,592	6,258	72	663	525	1,260	2,002	3,399	2,117	7,518
Materials and supplies:												
Fuel and lubricants	20,931	0	0	20,931	6,807	0	0	6,807	27,738	0	0	27,738
Tires and tubes	1,131	1,982	0	3,113	22	0	0	22	1,153	1,982	0	3,135
Major supplies	0	4,303	9	4,312	0	70	0	70	0	4,373	9	4,382
Other	0	0	0	0	0	0	0	0	0	0	0	0
Utilities	0	0	7,351	7,351	0	0	1,852	1,852	0	0	9,203	9,203
Insurance	244	0	0	244	1,707	0	0	1,707	1,951	0	0	1,951
Operating lease and rentals	0	13	0	13	0	0	0	0	0	13	0	13
Miscellaneous expenses:												
Travel	0	0	2,103	2,103	65	0	0	65	65	0	2,103	2,168
Dues & Subscriptions	0	0	0	0	0	0	0	0	0	0	0	0
Other	44	11	98	153	0	0	0	0	44	11	98	153
Depreciation	59,229	0	0	59,229	0	0	0	0	59,229	0	0	59,229
	<u>158,217</u>	<u>32,482</u>	<u>37,364</u>	<u>228,063</u>	<u>31,180</u>	<u>8,287</u>	<u>10,569</u>	<u>50,036</u>	<u>189,397</u>	<u>40,769</u>	<u>47,933</u>	<u>278,099</u>
Less:												
Ineligible expenses- RTAP	0	0	1,746	1,746	0	0	0	0	0	0	1,746	1,746
Depreciation	59,229	0	0	59,229	0	0	0	0	59,229	0	0	59,229
	<u>\$ 98,988</u>	<u>\$ 32,482</u>	<u>\$ 35,618</u>	<u>\$ 167,088</u>	<u>\$ 31,180</u>	<u>\$ 8,287</u>	<u>\$ 10,569</u>	<u>\$ 50,036</u>	<u>\$ 130,168</u>	<u>\$ 40,769</u>	<u>\$ 46,187</u>	<u>\$ 217,124</u>

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
COMPUTATION OF STATE AND FEDERAL OPERATING ASSISTANT
For the Year Ended June 30, 2013

NON URBAN AREAS	10/01/12 Through 09/30/13
STATE OF MICHIGAN	
Total Eligible Expenses	\$ 217,010
Reimbursement Rate %	38.4900%
Eligible operating assistance	\$ 83,527
FEDERAL SECTION 5311	
Total Eligible Expenses	\$ 215,571
Reimbursement Rate %	16.0000%
Eligible operating assistance	\$ 34,491

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
MILEAGE DATA REPORT (UNAUDITED)
For the Year Ended June 30, 2013

<u>Quarter Ending:</u>	<u>Miles</u>
September 30, 2012	14,865
December 31, 2012	14,870
March 31, 2013	14,747
June 30, 2013	<u>15,369</u>
Total Miles	<u><u>59,851</u></u>

**CITY OF HANCOCK
FEDERAL AWARDS PROGRAMS
JUNE 30, 2013**

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, P C

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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 remaining fund information of the City of Hancock as of and for the year then ended June 30, 2013, which collectively comprise the City of Hancock's basic financial statements and have issued our report thereon dated December 12, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting, that we consider to be material weaknesses as identified above. However, we identified a deficiency in internal control over financial reporting as item 2013-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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 Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-2 and 2013-3.

Purpose of this Report

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

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

December 12, 2013

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, P C

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Hancock's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Hancock's major federal programs for the year ended June 30, 2013. The City of Hancock's major federal programs are identified in the summary of auditors results section of the accompanying schedule of findings and questioned costs.

Management Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Hancock's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hancock's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Hancock's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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

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

December 12, 2013

CITY OF HANCOCK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2013

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
United States Department of Agriculture		
Rural Development		
AARA Water Supply System Junior Lien		
Revenue Refunding Grant 2011A	10.781	\$ 758,365
AARA 2010 Sewage Disposal System Revenue Grant	10.781	<u>228,644</u>
		<u>987,009</u>
Department of Justice		
Bulletproof Vest Partnership Grant Program	16.607	4,200
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	50,914
U.S. Department of Housing and Urban Development-State Programs		
Pass-through programs from:		
State of Michigan Housing Development Authority		
Neighborhood Stabilization Grant	14.228	<u>298,780</u>
Total expenditures of federal awards		<u>\$ 1,340,903</u>

CITY OF HANCOCK
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2013

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>\$ 1,340,903</u>
Federal awards per financial statements:	
Federal awards governmental funds	\$ 302,980
Federal awards enterprise funds	1,034,837
Proceeds received in prior year for current year expenditures	42
Proceeds received in excess of expenditures	<u>3,044</u>
Total federal awards per financial statements	<u>\$ 1,340,903</u>

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2013

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

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2013
(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-1 – Preparation of Financial Statements in Accordance with GAAP (Repeat Finding)

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

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

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

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

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

Instances of Non-compliance

2013-2 - Budget

Condition/Criteria: Public Act 621 of 1978, Section 18 (1) as amended, provides that cities shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City of Hancock has actual expenditures and budgeted expenditures. The approved budgets of these funds were adopted on an activity and/or program level. During the year ended June 30, 2013, the City of Hancock incurred expenditures which were in excess of the amounts appropriated as shown within the basic financial statements.

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

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

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

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

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2013
(Continued)

2013-3 - Deficit Net Position

Condition/Criteria: At June 30, 2013 the City of Hancock had an unrestricted equity deficit in their Parking Meter Fund in the amount of \$2,166. 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 to eliminate the deficit. Contact Person(s) Responsible for Correction: Glenn Anderson, City Manager, Corrective Action Planned:

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Current Year - No matters were reported.

Prior Year - No matters were reported.

COMMUNICATION SECTION

RUKKILA | NEGRO AND ASSOCIATES

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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, 2013, and have issued our report thereon dated December 12, 2013. 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, 2013. 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, 2013. 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 12, 2013.

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 12, 2013