

CITY OF HANCOCK
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2016

CITY OF HANCOCK

June 30, 2016

ADMINISTRATION

City Manager..... Glenn Anderson
Clerk/Treasurer..... Karen Haischer

BOARD MEMBERS

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hancock as of and for the year then ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hancock as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension requirements on pages 7 through 15 and 57 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements..

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

The prior year comparative information on pages 72 and 73 has been derived from the City's 2015 audit report dated December 28, 2015 in which we expressed unmodified opinions on the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information and the related notes to the financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated December 29, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

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

December 29, 2016

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

This section of City of Hancock's annual financial report presents management's discussion and analysis of the City's financial activities during the fiscal year ended June 30, 2016. The analysis focuses on the City's financial performance as a whole. It is intended to be read as part of the City's financial statements, which immediately follow+ this section.

Financial Highlights

- The assets of the City of Hancock exceeded its liabilities at year end by \$9,533,290 (net position).
- The City of Hancock's total net position increased by \$307,636.
- The City of Hancock had charges for services of \$1,879,701 in governmental activities and \$1,960,324 for business-type activities and \$5,111,189 and \$2,866,115 in expenses for governmental and business-type activities respectively during the year ended June 30, 2016.
- At the close of the fiscal year, the City of Hancock's governmental activities funds reported a combined ending net position balance of \$2,568,007. This is an increase of \$916,248.
- At the end of the current fiscal year, the fund balance for the general fund was \$158,776. General fund operating transfers to other funds were \$83,737 in 2016 compared to \$192,718 in the prior year, a decrease of \$108,981.

Overview of the Financial Statements

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

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.
- The City implemented GASB No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27. This statement changed how governments measure and report the long-term obligations and annual costs associated with the pension benefits they provide. Reflected on these statements is the liability for the unfunded liability for the active and retired members of the MERS Defined Benefit Program.

Statement of Net Position and the Statement of Activities

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

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

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Overview of the Financial Statements - (Continued)

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

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

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

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

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

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

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

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

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

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Overview of the Financial Statements - (Continued)

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

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

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

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

Summary of Net Position

	Governmental Activities		Business-type Activities	
	2016	2015	2016	2015
Assets				
Current Assets	\$ 1,192,331	\$ 1,036,022	\$ 982,208	\$ 1,077,664
Capital assets - net	4,694,741	4,099,949	16,734,802	16,475,872
Total assets	<u>5,887,072</u>	<u>5,135,971</u>	<u>17,717,010</u>	<u>17,553,536</u>
Deferred outflows of resources - Pension	444,210	75,347	75,058	6,790
Liabilities				
Current liabilities	106,385	143,945	1,053,396	93,179
Noncurrent liabilities	<u>3,655,558</u>	<u>3,415,614</u>	<u>9,773,165</u>	<u>10,074,451</u>
Total liabilities	<u>3,761,943</u>	<u>3,559,559</u>	<u>10,826,561</u>	<u>10,167,630</u>
Deferred inflows of resources - Pension	106,385	-	224	-
Net position				
Net investment in capital assets	2,597,124	1,801,943	7,166,802	6,719,872
Restricted:				
Streets and highways	132,779	(23,737)	-	-
CDBG	51,656	2,737	-	-
TIFA	6,894	480	-	-
Cemetery	180,163	180,342	-	-
Capital projects	42,576	42,509	-	-
Program projects	20,312	20,279	-	-
Debt service	1,325	1,319	-	524,476
Unrestricted	<u>(464,822)</u>	<u>(374,113)</u>	<u>(201,519)</u>	<u>329,547</u>
Total net position	<u>\$ 2,568,007</u>	<u>\$ 1,651,759</u>	<u>\$ 6,965,283</u>	<u>\$ 7,573,895</u>

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Overview of the Financial Statements - (Continued)

	Results of Operations			
	Governmental Activities		Business-type Activities	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Program Revenue:				
Charges for services	\$ 1,879,701	\$ 1,775,426	\$ 1,960,324	\$ 2,019,383
Operating grants and contributions	-	-	109,689	128,249
Capital grants and contributions	1,064,336	380,370	124,756	-
General Revenue:				
Property taxes	1,593,546	1,623,274	-	-
State shared revenue	1,236,558	1,189,227	-	-
Other	313,296	357,164	2,734	3,599
Transfers	-	-	60,000	70,000
Total revenues	<u>6,087,437</u>	<u>5,325,461</u>	<u>2,257,503</u>	<u>2,221,231</u>
Functions/program expenses				
General government	704,962	1,368,867	-	-
Public safety	872,077	833,688	-	-
Public works	2,582,755	2,002,070	2,866,115	2,692,041
Sanitation	323,699	286,913	-	-
Recreation	201,203	220,067	-	-
Community and economic development	236,039	358,708	-	-
Interest on long-term debt	108,800	78,579	-	-
Other	81,654	76,452	-	-
Transfers	60,000	45,000	-	-
Total expenses	<u>5,171,189</u>	<u>5,270,344</u>	<u>2,866,115</u>	<u>2,692,041</u>
Change in net position	916,248	55,117	(608,612)	(470,810)
Net position - Beginning	<u>1,651,759</u>	<u>1,596,642</u>	<u>7,573,895</u>	<u>8,044,705</u>
Net position - Ending	<u>\$ 2,568,007</u>	<u>\$ 1,651,759</u>	<u>\$ 6,965,283</u>	<u>\$ 7,573,895</u>

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Overview of the Financial Statements - (Continued)

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

	<u>2016</u>	<u>% of total</u>	<u>2015</u>	<u>% of total</u>
Revenues				
Charges for services	\$ 1,879,701	30.9 %	\$ 1,775,426	33.4 %
Property taxes	1,593,546	26.2 %	1,623,274	30.5 %
State shared revenue	1,236,558	20.3 %	1,189,227	22.3 %
Grants and contributions	1,064,336	17.5 %	380,370	7.1 %
Other revenues	313,296	5.1 %	357,164	6.7 %
Total revenues	<u>\$ 6,087,437</u>	<u>100.0 %</u>	<u>\$ 5,325,461</u>	<u>100.0 %</u>
Expenditures				
General government	\$ 704,962	13.5 %	\$ 1,368,867	26.0 %
Public safety	872,077	16.9 %	833,688	15.8 %
Public works	2,582,755	49.9 %	2,002,070	38.0 %
Sanitation	323,699	6.3 %	286,913	5.4 %
Recreation and culture	201,203	3.9 %	220,067	4.2 %
Community development	236,039	4.6 %	358,708	6.8 %
Interest expense	108,800	2.1 %	78,579	1.5 %
Other	81,654	1.6 %	76,452	1.5 %
Operating transfers in (out)	60,000	1.2 %	45,000	0.9 %
Total expenditures	<u>\$ 5,171,189</u>	<u>100.0 %</u>	<u>\$ 5,270,344</u>	<u>100.0 %</u>

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

	<u>2016</u>	<u>% of total</u>	<u>2015</u>	<u>% of total</u>
Revenues				
Charges for services	\$ 1,960,324	86.7	\$ 2,019,383	90.9
Grants and contributions	234,445	10.4	128,249	5.8
Other	2,734	0.1	3,599	0.2
Transfers	60,000	2.7	70,000	3.2
Total revenues	<u>\$ 2,257,503</u>	<u>100.0</u>	<u>\$ 2,221,231</u>	<u>100.0</u>
Expenditures				
Water	\$ 1,366,950	47.7	\$ 1,331,028	49.4
Sewer	1,227,052	42.8	1,085,480	40.3
Parking Meter	6,546	0.2	1,532	0.1
Transit	265,567	9.3	274,001	10.2
Total expenditures	<u>\$ 2,866,115</u>	<u>100.0</u>	<u>\$ 2,692,041</u>	<u>100.0</u>

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Significant Transactions and Changes in Individual Funds

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

	<u>2016</u>	<u>2015</u>	<u>Change</u>
General Fund			
Revenues/Transfers	\$ 2,723,887	\$ 2,789,918	\$ (66,031)
Expenditures/Transfers	\$ 2,765,893	\$ 2,717,031	\$ 48,862
Fund Balance	\$ 158,776	\$ 200,782	\$ (42,006)

The General Fund saw a decrease in revenues of \$66,031 and an increase in expenditures of \$48,862. The decrease in revenues was mainly due to the combination of decreases in taxes, state shared revenue, interest, and other revenue and increases in federal sources, charges for services and proceeds on sale. The increase in expenditures is mainly due to increases in general government, public safety, public works, sanitation, recreation and culture, and debt service.

SPECIAL REVENUE FUNDS	<u>2016</u>	<u>2015</u>	<u>Change</u>
Major Street Fund			
Revenues/Transfers	\$ 1,404,181	\$ 597,146	\$ 807,035
Expenditures/Transfers	\$ 1,302,858	\$ 585,274	\$ 717,584
Fund Balance	\$ 77,586	\$ (23,737)	\$ 101,323
Local Street Fund			
Revenues/Transfers	\$ 280,738	\$ 466,663	\$ (185,925)
Expenditures/Transfers	\$ 231,819	\$ 392,208	\$ (160,389)
Fund Balance	\$ 48,919	\$ -	\$ 48,919
CDBG Fund			
Revenues/Transfers	\$ 70,902	\$ 97,005	\$ (26,103)
Expenditures/Transfers	\$ 70,902	\$ 98,129	\$ (27,227)
Fund Balance	\$ 48,919	\$ 2,737	\$ 46,182
Elevation Street TIF Fund			
Revenues/Transfers	\$ 33,572	\$ 37,423	\$ (3,851)
Expenditures/Transfers	\$ 27,158	\$ 90,255	\$ (63,097)
Fund Balance	\$ 6,894	\$ 480	\$ 6,414

Major Street Fund - The increase in revenue is due to increases in state and federal revenue. Expenditures increased due to increases in state trunkline maintenance and snow and ice control.

Local Street Fund - The decrease in revenues is mainly due to a decrease in transfers in. The decrease in expenses is mainly due to decreases in construction and snow and ice control.

CDBG - The CDBG fund had a decrease in revenues and expenses due to the the receipt of less grant funds and related expenses in the current year.

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

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Significant Transactions and Changes in Individual Funds (Continued)

ENTERPRISE FUNDS	2016	2015	Change
Parking Meter Fund			
Revenues/Transfers	\$ 8,435	\$ 6,464	\$ 1,971
Expenditures/Transfers	\$ 6,546	\$ 1,532	\$ 5,014
Fund Balance	\$ 22,945	\$ 21,056	\$ 1,889
Transit Fund			
Revenues/Transfers	\$ 219,978	\$ 244,487	\$ (24,509)
Expenditures/Transfers	\$ 265,567	\$ 274,001	\$ (8,434)
Fund Balance	\$ 632,158	\$ 677,747	\$ (45,589)
Sewer Fund			
Revenues/Transfers	\$ 1,014,093	\$ 983,398	\$ 30,695
Expenditures/Transfers	\$ 1,227,052	\$ 1,085,480	\$ 141,572
Fund Balance	\$ 2,600,426	\$ 2,813,385	\$ (212,959)
Water Fund			
Revenues/Transfers	\$ 1,014,997	\$ 986,882	\$ 28,115
Expenditures/Transfers	\$ 1,366,950	\$ 1,331,028	\$ 35,922
Fund Balance	\$ 3,709,754	\$ 4,061,707	\$ (351,953)

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

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

Sewer Fund - The Sewer Fund's revenues increased due to a combination of an increase in state sources and a decrease in charges for services. Expenses increased due to a combination of increases in purchased services and operations and maintenance.

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

DEBT SERVICE (BUILDING AUTHORITY)	2016	2015	Change
Revenues/Transfers	\$ 163,447	\$ 139,904	\$ 23,543
Expenditures/Transfers	\$ 163,441	\$ 139,897	\$ 23,544
Fund Balance	\$ 1,325	\$ 1,319	\$ 6
CAPITAL PROJECTS (SYLVAN ESTATES)			
Revenues/Transfers	\$ 33	\$ 43	\$ (10)
Expenditures/Transfers	\$ -	\$ -	\$ -
Fund Balance	\$ 20,312	\$ 20,279	\$ 33

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Significant Transactions and Changes in Individual Funds (Continued)

INTERNAL SERVICE FUNDS

Employee Benefits Fund - Revenue increased due to an increase in charges to other city funds. Expenses decreased mainly due to a combination of decrease in payroll taxes, sick pay/personal leave expense, vacation pay, and workers' compensation insurance and increases in retirement plan expense, hospitalization insurance, and longevity pay.

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Revenues/Transfers	\$ 988,299	\$ 929,512	\$ 58,787
Expenditures/Transfers	\$ 937,413	\$ 969,222	\$ (31,809)
Fund Balance	\$ 90,827	\$ 39,941	\$ 50,886

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

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Revenues/Transfers	\$ 482,446	\$ 503,902	\$ (21,456)
Expenditures/Transfers	\$ 553,835	\$ 617,999	\$ (64,164)
Fund Balance	\$ 111,474	\$ 196,964	\$ (85,490)

General Fund Budgetary Highlights

During the year ended June 30, 2016, there were no budget amendments.

Financial Analysis

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

As of the end of the current fiscal year, the City's governmental funds reported combined unassigned fund balances of \$38,270.

The General Fund is the main operating fund of the City. At the end of the current fiscal year, the total fund balance of the General Fund was \$158,776. As a measure of the General Fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Fund balance represents about 6% of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$42,006 during the fiscal year.

Proprietary Funds - The City's proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail. Net position at the end of the year amounted to \$6,965,283.

**CITY OF HANCOCK
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Capital Assets and Debt Administration

The City's net capital assets for the governmental and business-type activities as of June 30, 2016, amounts to \$21,429,543. Capital asset additions totaling \$1,030,849 includes road improvements, vehicles, and water and sewer improvements.

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

Long-term Debt – At the end of the current fiscal year, the City had total debt of \$11,665,617.

Additional information on the City's long-term debt can be found starting on page 39 of this report.

Request for Information

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

CITY OF HANCOCK
STATEMENT OF NET POSITION
June 30, 2016

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 552,610	\$ 220,360	\$ 772,970	\$ 203,404
Restricted cash	235,798	524,849	760,647	-
Receivables	17,817	165,658	183,475	20,000
Inventories	99,464	105,078	204,542	-
Prepaid expenses	106,418	17,436	123,854	191
Due from fiduciary funds	3,200	-	3,200	-
Due from other funds	81,072	(81,072)	-	-
Due from government units	95,952	29,899	125,851	-
Capital assets - net	4,694,741	16,734,802	21,429,543	114,288
Total assets	5,887,072	17,717,010	23,604,082	337,883
Deferred outflow - Pension	444,210	75,058	519,268	3,717
Liabilities				
Accounts payable and accrued expense	106,385	1,053,396	1,159,781	39,066
Due to other governmental units	11,410	-	11,410	-
Bonds payable, due in one year	138,229	218,000	356,229	-
Note payable, due in one year	61,484	-	61,484	-
Bonds payable, due in more than one year	1,587,786	9,350,000	10,937,786	-
Note payable, due in more than one year	310,118	-	310,118	-
Net pension liability	1,198,638	205,165	1,403,803	10,128
Accrued benefits	347,893	-	347,893	-
Total liabilities	3,761,943	10,826,561	14,588,504	49,194
Deferred inflow - pension	1,332	224	1,556	11
Net position				
Net investment in capital assets	2,597,124	7,166,802	9,763,926	-
Restricted				
Streets and highways	132,779	-	132,779	-
CDBG	51,656	-	51,656	-
TIFA	6,894	-	6,894	-
Cemetery	180,163	-	180,163	-
Main Street	42,576	-	42,576	-
Capital projects	20,312	-	20,312	-
Debt service	1,325	-	1,325	-
Unassigned	(464,822)	(201,519)	(666,341)	292,395
Total net position	\$ 2,568,007	\$ 6,965,283	\$ 9,533,290	\$ 292,395

CITY OF HANCOCK
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position				Component Unit (DDA)
		Charges for	Grants and Contributions		Primary Government			
		Services	Operating	Capital	Governmental	Business-Type	Total	
Government Activities								
General government	\$ 704,962	\$ 988,239	\$ -	\$ -	\$ 283,277	\$ -	\$ 283,277	\$ -
Public safety	872,077	1,374	-	15,000	(855,703)	-	(855,703)	-
Public works	2,582,755	481,686	-	844,456	(1,256,613)	-	(1,256,613)	-
Sanitation	323,699	170,199	-	-	(153,500)	-	(153,500)	-
Recreation and culture	201,203	95,138	-	-	(106,065)	-	(106,065)	-
Community and economic development	236,039	-	-	204,880	(31,159)	-	(31,159)	-
Interest on long-term debt	108,800	-	-	-	(108,800)	-	(108,800)	-
Other	81,654	143,065	-	-	61,411	-	61,411	379
Total governmental activities	<u>5,111,189</u>	<u>1,879,701</u>	<u>-</u>	<u>1,064,336</u>	<u>(2,167,152)</u>	<u>-</u>	<u>(2,167,152)</u>	<u>379</u>
Business-type activities:								
Water	1,366,950	1,013,594	-	-	-	(353,356)	(353,356)	-
Sewer	1,227,052	889,253	124,756	-	-	(213,043)	(213,043)	-
Parking Meter	6,546	8,403	-	-	-	1,857	1,857	-
Transit	265,567	49,074	109,689	-	-	(106,804)	(106,804)	-
Total business-type activities	<u>2,866,115</u>	<u>1,960,324</u>	<u>234,445</u>	<u>-</u>	<u>-</u>	<u>(671,346)</u>	<u>(671,346)</u>	<u>-</u>
Total primary government	<u>\$ 7,977,304</u>	<u>\$ 3,840,025</u>	<u>\$ 234,445</u>	<u>\$ 1,064,336</u>	<u>(2,167,152)</u>	<u>(671,346)</u>	<u>(2,838,498)</u>	<u>-</u>
Component Unit	<u>\$ 269,862</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 155,498</u>	<u>-</u>	<u>-</u>	<u>(114,364)</u>	<u>(114,364)</u>
General revenues:								
Property taxes, levied for general operations					1,593,546	-	1,593,546	184,292
State shared revenue					1,236,558	-	1,236,558	-
Interest income and investment earnings					458	213	671	370
Operating transfers in (out)					(60,000)	60,000	-	-
Gain (loss) on sale of assets					(2,815)	-	(2,815)	-
Other revenues					315,653	2,521	318,174	1,090
Total general revenues, transfers, and special items					<u>3,083,400</u>	<u>62,734</u>	<u>3,146,134</u>	<u>185,752</u>
Change in net position					916,248	(608,612)	307,636	71,009
Net position - Beginning of year					<u>1,651,759</u>	<u>7,573,895</u>	<u>9,225,654</u>	<u>221,386</u>
Net position - End of year					<u>\$ 2,568,007</u>	<u>\$ 6,965,283</u>	<u>\$ 9,533,290</u>	<u>\$ 292,395</u>

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

CITY OF HANCOCK
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2016

	<u>Major Governmental Funds</u>			Total
	General <u>Fund</u>	<u>Major Street</u>	<u>Non Major</u>	<u>Governmental</u>
Assets				
Cash and cash equivalents	\$ 337,516	\$ 54,600	\$ 88,186	\$ 480,302
Restricted cash	42,576	-	185,075	227,651
Taxes receivable	2,639	-	-	2,639
Accounts receivable	15,178	-	-	15,178
Due from fiduciary funds	3,200	-	-	3,200
Due from government units	31,832	45,224	18,896	95,952
Inventories	15,780	41,635	12,861	70,276
Prepaid expenses	62,150	3,551	2,440	68,141
Total assets	<u>\$ 510,871</u>	<u>\$ 145,010</u>	<u>\$ 307,458</u>	<u>\$ 963,339</u>
Liabilities				
Accounts payable	\$ 16,832	\$ -	\$ 850	\$ 17,682
Accrued expenses	51,189	4,392	2,751	58,332
Due to other governmental units	11,410	-	-	11,410
Due to other funds	272,664	63,032	43,507	379,203
Total liabilities	<u>352,095</u>	<u>67,424</u>	<u>47,108</u>	<u>466,627</u>
Fund balances				
Nonspendable:				
Inventories	15,780	41,635	-	57,415
Prepays	62,150	3,551	-	65,701
Restricted:				
Streets and highways	-	32,400	48,919	81,319
CDBG	-	-	2,737	2,737
TIFA	-	-	6,894	6,894
Cemetery	-	-	180,163	180,163
Capital projects	-	-	20,312	20,312
Debt service	-	-	1,325	1,325
Assigned:				
Main Street	42,576	-	-	42,576
Unassigned	38,270	-	-	38,270
Total fund balances	<u>158,776</u>	<u>77,586</u>	<u>260,350</u>	<u>496,712</u>
Total liabilities and fund balances	<u>\$ 510,871</u>	<u>\$ 145,010</u>	<u>\$ 307,458</u>	<u>\$ 963,339</u>

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

CITY OF HANCOCK
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION (Continued)
June 30, 2016

Fund Balance Reported in Governmental Funds	\$	496,712
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the funds		4,511,396
Net pension liability		(1,198,638)
Deferred outflows from the difference between pension changes of assumptions and contributions subsequent to the measurement date		442,878
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.		217,280
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.		<u>(1,901,621)</u>
Net position of governmental activities	\$	<u><u>2,568,007</u></u>

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

CITY OF HANCOCK
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2016

	<u>Major Governmental Funds</u>			Total
	<u>General Fund</u>	<u>Major Street</u>	<u>Non Major</u>	<u>Governmental</u>
Revenues				
Property taxes	\$ 1,446,927	\$ -	\$ 146,619	\$ 1,593,546
State sources	667,128	747,115	167,595	1,581,838
Federal sources	15,000	633,154	70,902	719,056
Charges for services	409,776	-	-	409,776
Interest income	52	175	135	362
Contributions	-	-	-	-
Other revenues	104,888	-	163,441	268,329
Total revenues	<u>2,643,771</u>	<u>1,380,444</u>	<u>548,692</u>	<u>4,572,907</u>
Expenditures				
General government	518,136	28,795	38,722	585,653
Public safety	872,077	-	-	872,077
Public works	362,292	1,274,063	291,157	1,927,512
Sanitation	323,705	-	-	323,705
Recreation and culture	201,203	-	-	201,203
Community development	236,039	-	-	236,039
Debt service	108,800	-	-	108,800
Other	59,904	-	163,620	223,524
Total expenditures	<u>2,682,156</u>	<u>1,302,858</u>	<u>493,499</u>	<u>4,478,513</u>
Excess (deficiency) of revenues over expenditures	<u>(38,385)</u>	<u>77,586</u>	<u>55,193</u>	<u>94,394</u>
Other financing sources (uses)				
Proceeds on sale of assets	80,116	-	-	80,116
Operating transfers in (out)	<u>(83,737)</u>	<u>23,737</u>	<u>-</u>	<u>(60,000)</u>
Total other financing sources (uses)	<u>(3,621)</u>	<u>23,737</u>	<u>-</u>	<u>20,116</u>
Net change in fund balances	(42,006)	101,323	55,193	114,510
Fund balances - Beginning of year	<u>200,782</u>	<u>(23,737)</u>	<u>205,157</u>	<u>382,202</u>
Fund balances - End of year	<u>\$ 158,776</u>	<u>\$ 77,586</u>	<u>\$ 260,350</u>	<u>\$ 496,712</u>

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

CITY OF HANCOCK
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds \$ 114,510

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

Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	731,999
In the statement of activities, only the gain on the sale of equipment is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources.	(2,815)
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.	128,042
The change in net pension liability amounts does not require the use of current resources and is not reported in the governmental funds	(45,217)
Accrued expenses recorded in the statement of activities are not recorded as expenditures in the governmental funds until they are incurred.	9,354
Internal service fund is used to charge costs of equipment and operations to individual funds. The net revenue (expense) is reported with governmental activities.	<u>(19,625)</u>
Change in net position of governmental activities	<u><u>\$ 916,248</u></u>

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

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2016

	Business-Type Activities Enterprise Funds					Governmental Activities
	Major Funds		Non-Major Funds			Internal Service Fund
	Sewer Fund	Water Fund	Transit fund	Parking Meter Fund	Total	
Assets						
Cash and cash equivalents	\$ 182,881	\$ 12,183	\$ 2,553	\$ 22,743	\$ 220,360	\$ 72,308
Restricted cash	208,343	316,506	-	-	524,849	8,147
Accounts receivable	75,257	90,401	-	-	165,658	-
Inventories	41,968	63,110	-	-	105,078	29,188
Due from other funds	-	-	-	-	-	460,306
Due from government units	29,899	-	-	-	29,899	-
Prepaid expenses	3,092	6,404	7,434	506	17,436	38,277
Capital assets - net	4,135,819	11,926,039	672,944	-	16,734,802	183,345
Total assets	4,677,259	12,414,643	682,931	23,249	17,798,082	791,571
Deferred outflows of resources - Pension	24,512	25,822	24,724	-	75,058	8,641
Liabilities						
Accounts payable	89,171	911,053	-	-	1,000,224	6,478
Accrued expenses	8,716	36,408	7,808	240	53,172	196,180
Due to other funds	3,420	77,588	-	64	81,072	31
Due to other governmental units	-	-	-	-	-	-
Current maturities on long-term debt	34,000	184,000	-	-	218,000	61,484
Net pension liability	66,965	70,585	67,615	-	205,165	23,594
Bonds/note payable	1,899,000	7,451,000	-	-	9,350,000	310,118
Total liabilities	2,101,272	8,730,634	75,423	304	10,907,633	597,885
Deferred inflows of resources - pension	73	77	74	-	224	26
Net Position						
Reserved	208,343	316,506	-	-	524,849	8,147
Unreserved	2,392,083	3,393,248	632,158	22,945	6,440,434	194,154
Total net position	\$ 2,600,426	\$ 3,709,754	\$ 632,158	\$ 22,945	\$ 6,965,283	\$ 202,301

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

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Year Ended June 30, 2016

	Business-Type Activities Enterprise Funds					Governmental Activities
	Major Funds		Non-major Fund			Internal Service Fund
	Sewer Fund	Water Fund	Transit fund	Parking Meter Fund	Total	
Operating revenues:						
Charges for services	\$ 889,253	\$ 1,013,594	\$ 49,074	\$ 8,403	\$ 1,960,324	\$ 1,469,925
State sources	124,756	-	67,705	-	192,461	-
Federal sources	-	-	41,984	-	41,984	-
Other revenues	-	1,321	1,200	-	2,521	724
Total operating revenues	<u>1,014,009</u>	<u>1,014,915</u>	<u>159,963</u>	<u>8,403</u>	<u>2,197,290</u>	<u>1,470,649</u>
Operating expenses						
General administration	43,721	85,327	70,062	6,546	205,656	949,677
Meter reading	14,534	14,533	-	-	29,067	-
Purchased services	642,705	297,168	-	-	939,873	-
Operations and maintenance	276,947	362,306	161,525	-	800,778	393,806
Depreciation	205,281	416,575	33,980	-	655,836	134,392
Total operating expenses	<u>1,183,188</u>	<u>1,175,909</u>	<u>265,567</u>	<u>6,546</u>	<u>2,631,210</u>	<u>1,477,875</u>
Operating income (loss)	<u>(169,179)</u>	<u>(160,994)</u>	<u>(105,604)</u>	<u>1,857</u>	<u>(433,920)</u>	<u>(7,226)</u>
Non-operating revenues (expenses)						
Gain on sale of assets	-	-	-	-	-	-
Interest income	84	82	15	32	213	96
Interest expense	(43,864)	(191,041)	-	-	(234,905)	(13,373)
Operating transfers in (out)	-	-	60,000	-	60,000	-
Total non-operating revenues (expenses)	<u>(43,780)</u>	<u>(190,959)</u>	<u>60,015</u>	<u>32</u>	<u>(174,692)</u>	<u>(13,277)</u>
Net income (loss)	(212,959)	(351,953)	(45,589)	1,889	(608,612)	(20,503)
Net position (deficit), beginning of the year	<u>2,813,385</u>	<u>4,061,707</u>	<u>677,747</u>	<u>21,056</u>	<u>7,573,895</u>	<u>222,804</u>
Net position (deficit), end of year	<u>\$ 2,600,426</u>	<u>\$ 3,709,754</u>	<u>\$ 632,158</u>	<u>\$ 22,945</u>	<u>\$ 6,965,283</u>	<u>\$ 202,301</u>

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

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
Year Ended June 30, 2016

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers	\$ 1,242,805	\$ 1,463,544	\$ 2,706,349
Payments to suppliers	(1,486,134)	(1,368,732)	(2,854,866)
Internal activity - receipts (payments) to other funds	-	-	-
Payments to employees	527,284	(1,190)	526,094
Other receipts (payments)	-	-	-
Net cash provided by operating activities	<u>283,955</u>	<u>93,622</u>	<u>377,577</u>
Cash flows from noncapital financing activities			
Operating subsidies and transfers to other funds	<u>162,710</u>	<u>(59,949)</u>	<u>102,761</u>
Cash flows from capital and related financing activities			
Loan Proceeds	23,000	-	(23,000)
Purchases of capital assets	-	-	-
Principal paid on capital debt	(211,000)	(59,300)	(270,300)
Interest paid on capital debt	<u>(234,905)</u>	<u>(13,373)</u>	<u>(248,278)</u>
Net cash (used) by capital and related financing activities	<u>(422,905)</u>	<u>(72,673)</u>	<u>(495,578)</u>
Cash flows from investing activities			
Interest and dividends	<u>213</u>	<u>96</u>	<u>309</u>
Net cash provided by investing activities	<u>213</u>	<u>96</u>	<u>309</u>
Net (decrease) in cash	23,973	(38,904)	(14,931)
Balances - beginning of the year	<u>721,236</u>	<u>119,359</u>	<u>840,595</u>
Balances - end of the year	<u>\$ 745,209</u>	<u>\$ 80,455</u>	<u>\$ 825,664</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	(433,920)	(7,226)	(426,694)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	655,836	134,392	790,228
Change in assets and liabilities			
Receivables, net	(892,620)	-	(892,620)
Due from other governmental units	(30,439)	76	(30,363)
Deferred outflows and inflows	(61,821)	(7,121)	(68,942)
Inventory	32,874	2,229	35,103
Prepaid expenses	(15,800)	(12,953)	(28,753)
Net pension liability	69,448	7,999	77,447
Accounts and other payables	952,634	(22,584)	930,050
Accrued expenses	7,763	(1,190)	6,573
Due to other governmental units	-	-	-
Net cash provided by operating activities	<u>\$ 283,955</u>	<u>\$ 93,622</u>	<u>\$ 377,577</u>

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

CITY OF HANCOCK
FIDUCIARY FUNDS
STATEMENT OF ASSETS AND LIABILITIES
June 30, 2016

	<u>Agency Fund</u>	<u>Payroll Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 3,200	\$ 60	\$ 3,260
Total Assets	<u>\$ 3,200</u>	<u>\$ 60</u>	<u>\$ 3,260</u>
Liabilities			
Accounts payable	\$ -	\$ 60	\$ 60
Due to other governmental funds	3,200	-	3,200
Total Liabilities	<u>\$ 3,200</u>	<u>\$ 60</u>	<u>\$ 3,260</u>

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

HANCOCK HOUSING COMMISSION

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

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

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, 2015 is as follows:

Total Assets	\$ 624,366
Total Liabilities	\$ 165,980
Total Net Position	\$ 458,386
Total Revenues	\$ 787,698
Total Expenses	\$ 743,991
Net Operating Income	\$ (24,216)
Long-Term Debt	\$ -

Portage Lake Water and Sewage Authority

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

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

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of the Authorities financial information for the year ended June 30, 2016 (most recent year audited) shows the following:

Total Assets	\$ 13,577,367
Total Liabilities	\$ 5,551,833
Total Net Position	\$ 8,025,534
Total Revenues	\$ 2,077,426
Total Expenses	\$ 2,067,159
Long-Term Debt	\$ 5,243,399

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

COMPONENT UNITS

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

DISCRETELY PRESENTED COMPONENT UNITS

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

BLENDED COMPONENT UNITS

City of Hancock Building Authority

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

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The City does not allocate indirect costs.

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

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

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

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

The City reports the following major governmental funds:

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUND TYPES

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

The City reports the following proprietary funds:

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

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

The City reports the following major proprietary funds:

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

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

FIDUCIARY FUND TYPES

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

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

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

**CITY OF HANCOCK
 NOTES TO FINANCIAL STATEMENTS - June 30, 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Other Accounting Policies

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

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

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

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

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

<u>Fund</u>	<u>Purpose</u>	<u>Mills</u>
General	Operating	13.4215
General	Fire	.7806

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

1. On or before the 1st Monday in April of each year, the City Manager submits to the City Council an operating budget and capital improvement projections for the ensuing fiscal year.
2. A public hearing on the budget is held not less than one week before the budget's final adoption at such time as the council shall direct.
3. On or before the last day in May, the Council, by resolution, adopts a budget for the ensuing fiscal year.
4. The City Council adopts the budget by activity categories generally the same as those presented in the combined financial statements. All budget amendments and transfers during the fiscal year are approved by the Council. The City Council has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined. The City maintains and monitors the budget on a line item basis for accounting control purposes. During the year ended June 30, 2016, the City's budget had been amended.
5. The City allows all unencumbered and unexpended appropriations to lapse at year end.

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

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

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE C - CASH AND INVESTMENTS

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

	Governmental	Enterprise Fund	Total	Component Unit	Fiduciary Fund
Cash and cash equivalents	\$ 552,610	\$ 220,360	\$ 772,970	\$ 203,404	\$ -
Restricted cash	235,798	524,849	760,647	-	3,260
Total cash	<u>\$ 788,408</u>	<u>\$ 745,209</u>	<u>\$ 1,533,617</u>	<u>\$ 203,404</u>	<u>\$ 3,260</u>

Interest Rate Risk - In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City’s cash requirements.

Credit Risk - State law limits investments in commercial paper corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of Credit Risk - The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized

Custodial Credit Risk - Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. As of June 30, 2016, \$1,039,407 of the City’s bank balance of \$1,905,557 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

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

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

NOTE D - TRANSFERS AND INTERFUND BALANCES

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

Fund	Transfer In	Fund	Transfer Out
General Fund	\$ 83,737	Major Street	\$ 23,737
	-	Transit fund	60,000
Total	<u>\$ 83,737</u>	Total	<u>\$ 83,737</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

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, 2016 are as follows:

<u>Fund</u>	Interfund <u>Receivable</u>	<u>Fund</u>	Interfund <u>Payable</u>
General Fund	\$ 3,200	General Fund	\$ 272,664
Employee Benefits	227,769	Major Street	63,032
Motor Vehicle Fund	232,537	Local Street	42,602
Water Fund	-	Water Fund	77,588
Sewer Fund	-	Sewer Fund	3,420
Parking Meter Fund	-	Parking Meter Fund	64
Transit fund	-	Elevation Street TIF	905
Major Street	-	Employee Benefits	31
Agency Fund	-	Agency Fund	3,200
Total	<u>\$ 463,506</u>	Total	<u>\$ 463,506</u>

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

NOTE E - RECEIVABLES

The detail of receivables at June 30, 2016 are as follows:

<u>Receivables</u>	<u>Governmental</u>	<u>Enterprise Fund</u>	<u>Total</u>
Accounts receivable	\$ 15,178	\$ 165,658	\$ 180,836
Taxes receivable	2,639	-	2,639
Total receivables	<u>\$ 17,817</u>	<u>\$ 165,658</u>	<u>\$ 183,475</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE F - CAPITAL ASSETS

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

	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not being depreciated				
Land	\$ 427,670	\$ -	\$ -	\$ 427,670
Capital assets, being depreciated				
Buildings	2,715,738	\$ -	\$ -	2,715,738
Equipment	1,167,889	24,050	12,994	1,178,945
Improvements	2,965,262	967,926	-	3,933,188
Vehicles	2,716,610	38,873	194,052	2,561,431
Subtotal	<u>9,565,499</u>	<u>\$ 1,030,849</u>	<u>\$ 207,046</u>	<u>10,389,302</u>
Accumulated depreciation				
Building	1,291,731	\$ 63,485	\$ -	1,355,216
Equipment	988,558	88,655	10,178	1,067,035
Improvements	1,377,654	162,631	-	1,540,285
Vehicles	2,235,277	118,470	194,052	2,159,695
Subtotal	<u>5,893,220</u>	<u>\$ 433,241</u>	<u>\$ 204,230</u>	<u>6,122,231</u>
Net capital assets being depreciated	<u>3,672,279</u>			<u>4,267,071</u>
Net capital assets	<u>\$ 4,099,949</u>			<u>\$ 4,694,741</u>

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

General Fund	\$ 173,792
Building Authority	23,759
Major Streets Fund	85,749
Local Streets Fund	15,549
Motor Vehicle Fund	134,392
	<u>\$ 433,241</u>

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016**

NOTE F - CAPITAL ASSETS (Continued)

The components of property, plant, and equipment in City proprietary funds at June 30, 2016 are summarized as follows:

	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
PARKING METER FUND				
Capital assets, being depreciated				
Equipment	\$ 30,893	\$ -	\$ -	\$ 30,893
Accumulated depreciation:	30,893	-	-	30,893
Net capital assets	<u>\$ -</u>			<u>\$ -</u>
TRANSIT FUND				
Capital assets, being depreciated				
Buildings	\$ 716,473	\$ -	\$ -	\$ 716,473
Equipment	43,120	-	-	43,120
Vehicles	336,799	-	-	336,799
Subtotal	<u>1,096,392</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,096,392</u>
Accumulated depreciation:				
Buildings	76,126	\$ 17,912	\$ 17,912	76,126
Equipment	29,763	5,768	5,768	29,763
Vehicles	283,579	10,300	10,300	283,579
Subtotal	<u>389,468</u>	<u>\$ 33,980</u>	<u>\$ 33,980</u>	<u>389,468</u>
Net capital assets	<u>\$ 706,924</u>			<u>\$ 672,944</u>
SEWER DISPOSAL FUND				
Capital assets, being depreciated				
Buildings	\$ 754,725	\$ -	\$ -	\$ 754,725
Utility system	9,181,311	-	-	9,181,311
Subtotal	<u>9,936,036</u>	<u>\$ -</u>	<u>\$ -</u>	<u>9,936,036</u>
Accumulated depreciation:				
Buildings	726,421	\$ 18,869	\$ -	745,290
Utility system	4,868,514	186,413	-	5,054,927
Subtotal	<u>5,594,935</u>	<u>\$ 205,282</u>	<u>\$ -</u>	<u>5,800,217</u>
Net capital assets	<u>\$ 4,341,101</u>			<u>\$ 4,135,819</u>

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016**

NOTE F - CAPITAL ASSETS (Continued)

	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
WATER SUPPLY FUND				
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ 914,766	\$ -	\$ 914,766
Capital assets, being depreciated				
Buildings	1,645,692	\$ -	\$ -	1,645,692
Equipment	13,383	-	-	13,383
Land	73,500	-	-	73,500
Loan fees/lease	238,496	-	-	238,496
Utility system	14,794,021	-	-	14,794,021
Subtotal	<u>16,765,092</u>	<u>\$ -</u>	<u>\$ -</u>	<u>16,765,092</u>
Accumulated depreciation:				
Buildings	1,645,692	\$ -	\$ -	1,645,692
Equipment	13,381	-	-	13,381
Loan fees/lease	181,365	5,190	-	186,555
Utility system	3,496,807	411,384	-	3,908,191
Subtotal	<u>5,337,245</u>	<u>\$ 416,574</u>	<u>\$ -</u>	<u>5,753,819</u>
Net capital assets	<u>\$ 11,427,847</u>			<u>\$ 11,926,039</u>

NOTE G - RESTRICTED CASH

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

General Fund		Other Funds		Enterprise Funds	
Main Street Local	\$ 42,576	CDBG	\$ 3,587	Water Fund	\$ 208,343
		Debt Retirement	\$ 1,325	Sewer Fund	316,506
		Employee Benefits	\$ 8,147		
		Cemetery Perpetual	\$ 180,163		

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 \$42,576 represents the balance of the commercial loan program. As of June 30, 2016, there were no outstanding loan balances.

Enterprise Funds: Certain proceeds from operations are restricted for the payment of revenue and general obligation bonds and, accordingly, are recorded as restricted assets in the amount of \$524,849 as of June 30, 2016. Use of these restricted assets are limited by applicable bond indentures and ordinances.

Internal Service Funds: The Employee Benefit Fund has restricted assets of \$8,147 as of June 30, 2016.

The Cemetery Perpetual Care Trust balance of \$180,163 is reserved for the perpetual care of cemetery lots.

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016**

NOTE H - PAYABLES

Accounts payable and accrued liabilities as of June 30, 2016, for the District’s governmental funds individual major funds and non-major funds in the aggregate, are as follows:

<u>Payables</u>	<u>Governmental</u>	<u>Enterprise</u>	<u>Total</u>
Accounts payable	\$ 24,160	\$ 1,000,224	\$ 1,024,384
Accrued expenses	82,225	53,172	135,397
Total	<u>\$ 106,385</u>	<u>\$ 1,053,396</u>	<u>\$ 1,159,781</u>

NOTE I - ACCUMULATED UNPAID VACATION AND SICK LEAVE

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

Accumulated unpaid vacation and sick leave at June 30, 2016 was \$111,438 and \$236,455 respectively

NOTE J - LONG TERM DEBT

GOVERNMENTAL ACTIVITIES

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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-2017	\$ 20,000	\$ 8,915	\$ 28,915
2017-2018	25,000	8,515	33,515
2018-2019	30,000	8,015	38,015
2019-2020	25,000	7,115	32,115
2020-2021	25,000	6,365	31,365
2021-2022	25,000	5,765	30,765
2022-2023	30,000	5,165	35,165
2023-2024	30,000	4,310	34,310
2024-2025	30,000	3,455	33,455
2025-2026	30,000	2,600	32,600
2026-2027	35,000	1,400	36,400
	<u>\$ 305,000</u>	<u>\$ 61,620</u>	<u>\$ 366,620</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE J - LONG TERM DEBT (Continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-2017	\$ 45,000	\$ 19,352	\$ 64,352
2017-2018	45,000	18,453	63,453
2018-2019	45,000	17,552	62,552
2019-2020	50,000	16,202	66,202
2020-2021	50,000	14,703	64,703
2021-2022	50,000	13,503	63,503
2022-2023	55,000	12,303	67,303
2023-2024	55,000	10,735	65,735
2024-2025	55,000	9,168	64,168
2025-2026	60,000	7,600	67,600
2026-2028	130,000	7,800	137,800
	<u>\$ 640,000</u>	<u>\$ 147,371</u>	<u>\$ 787,371</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-2017	\$ 45,000	\$ 4,500	\$ 49,500
2017-2018	45,000	3,600	48,600
2018-2019	45,000	2,700	47,700
2020-2021	45,000	1,350	46,350
	<u>\$ 180,000</u>	<u>\$ 12,150</u>	<u>\$ 192,150</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, 2016, \$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>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-2017	\$ 12,000	\$ 17,449	\$ 29,449
2017-2018	12,000	16,954	28,954
2018-2019	13,000	16,459	29,459
2020-2021	14,000	15,923	29,923
2021-2022	14,000	15,345	29,345
2022-2023	15,000	14,768	29,768
2023-2024	15,000	14,149	29,149
2024-2025	16,000	13,530	29,530
2025-2026	17,000	12,870	29,870
2026-2027	17,000	12,169	29,169
2027-2032	100,000	49,500	149,500
2032-2037	121,000	27,225	148,225
2037-2038	57,000	3,546	60,546
	<u>\$ 423,000</u>	<u>\$ 229,887</u>	<u>\$ 652,887</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE J - LONG TERM DEBT (Continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-2017	\$ 2,000	\$ 3,960	\$ 5,960
2017-2018	3,000	3,870	6,870
2018-2019	3,000	3,735	6,735
2019-2020	3,000	3,600	6,600
2020-2021	3,000	3,465	6,465
2021-2022	3,000	3,330	6,330
2022-2023	3,000	3,195	6,195
2023-2024	3,000	3,060	6,060
2024-2025	3,000	2,925	5,925
2025-2026	4,000	2,790	6,790
2026-2031	20,000	11,250	31,250
2031-2036	26,000	6,300	32,300
2036-2037	12,000	810	12,810
	<u>\$ 88,000</u>	<u>\$ 52,290</u>	<u>\$ 140,290</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-2017	\$ 14,229	\$ 2,416	\$ 16,645
2017-2018	14,796	1,847	16,643
2018-2019	15,388	1,255	16,643
2019-2020	16,006	640	16,646
	<u>\$ 60,419</u>	<u>\$ 6,158</u>	<u>\$ 66,577</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE J - LONG TERM DEBT (Continued)

ENTERPRISE FUNDS

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

Fiscal Year	Principal	Interest	Total
2016-2017	\$ 20,000	\$ 29,689	\$ 49,689
2017-2018	21,000	29,164	50,164
2018-2019	21,000	28,612	49,612
2019-2020	22,000	28,061	50,061
2020-2021	22,000	27,484	49,484
2021-2022	23,000	26,906	49,906
2022-2023	24,000	26,302	50,302
2023-2024	24,000	25,672	49,672
2024-2025	25,000	25,042	50,042
2025-2026	25,000	24,386	49,386
2026-2031	137,000	111,641	248,641
2031-2036	156,000	92,689	248,689
2036-2041	180,000	71,006	251,006
2041-2046	205,000	46,069	251,069
2046-2051	226,000	17,928	243,928
	\$ 1,131,000	\$ 610,651	\$ 1,741,651

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE J - LONG TERM DEBT (Continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-2017	\$ 64,000	\$ 81,843	\$ 145,843
2017-2018	66,000	80,323	146,323
2018-2019	67,000	78,755	145,755
2019-2020	69,000	77,164	146,164
2020-2021	71,000	75,525	146,525
2021-2022	72,000	73,839	145,839
2022-2023	74,000	72,129	146,129
2023-2024	76,000	70,371	146,371
2024-2025	77,000	68,566	145,566
2025-2026	79,000	66,738	145,738
2026-2031	425,000	304,594	729,594
2031-2036	478,000	251,679	729,679
2036-2041	539,000	192,066	731,066
2041-2046	605,000	125,044	730,044
2046-2051	684,000	49,634	733,634
	<u>\$ 3,446,000</u>	<u>\$ 1,668,270</u>	<u>\$ 5,114,270</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-2017	\$ 34,000	\$ 50,295	\$ 84,295
2017-2018	35,000	49,389	84,389
2018-2019	36,000	48,458	84,458
2019-2020	37,000	47,500	84,500
2020-2021	38,000	46,515	84,515
2021-2022	39,000	45,504	84,504
2022-2023	40,000	44,467	84,467
2023-2024	41,000	43,404	84,404
2024-2025	42,000	42,315	84,315
2025-2026	43,000	41,200	84,200
2026-2031	234,000	188,132	422,132
2031-2036	267,000	155,282	422,282
2036-2041	304,000	117,864	421,864
2041-2046	346,000	75,287	421,287
2046-2051	397,000	26,685	423,685
	<u>\$ 1,933,000</u>	<u>\$ 1,022,297</u>	<u>\$ 2,955,297</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE J - LONG TERM DEBT (Continued)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-2017	\$ 100,000	\$ 75,875	\$ 175,875
2017-2018	100,000	73,375	173,375
2018-2019	105,000	70,875	175,875
2019-2020	105,000	68,250	173,250
2020-2021	110,000	65,625	175,625
2021-2022	110,000	62,875	172,875
2022-2023	115,000	60,125	175,125
2023-2024	120,000	57,250	177,250
2024-2025	120,000	54,250	174,250
2025-2026	125,000	51,250	176,250
2026-2031	665,000	208,250	873,250
2031-2036	760,000	120,375	880,375
2036-2041	500,000	25,125	525,125
	<u>\$ 3,035,000</u>	<u>\$ 993,500</u>	<u>\$ 4,028,500</u>

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

As of June 30, 2016 \$1,000 of the bond was issued at an interest rate of 2.125% per annum with principal amounts payable May 1 and interest payable semi-annually on November 1 and May 1. Bonds are financed with the United States Department of Agriculture.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-2017	\$ 32,000	\$ 34,182	\$ 66,182
2017-2018	33,000	34,300	67,300
2018-2019	33,000	33,723	66,723
2019-2020	34,000	33,145	67,145
2020-2021	35,000	32,550	67,550
2021-2022	36,000	31,938	67,938
2022-2023	36,000	31,308	67,308
2023-2024	37,000	30,678	67,678
2024-2025	38,000	30,030	68,030
2025-2026	39,000	29,365	68,365
2021-2026	206,000	136,343	342,343
2026-2031	230,000	117,512	347,512
2031-2036	255,000	96,512	351,512
2036-2043	283,000	73,273	356,273
2043-2048	315,000	47,407	362,407
2048-2053	350,000	18,671	368,671
	<u>\$ 1,992,000</u>	<u>\$ 810,937</u>	<u>\$ 2,802,937</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE J - LONG TERM DEBT (Continued)

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

As of June 30, 2016 \$22,000 of the bond was issued at an interest rate of 2.125% per annum with principal amounts payable May 1 and interest payable semi-annually on November 1 and May 1. Bonds are financed with the United States Department of Agriculture.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016-2017	\$ 1,000	\$ 1,253	\$ 2,253
2017-2018	1,000	1,260	2,260
2018-2019	1,000	1,242	2,242
2019-2020	1,000	1,225	2,225
2020-2021	1,000	1,207	2,207
2021-2022	1,000	1,190	2,190
2022-2023	1,000	1,173	2,173
2023-2024	1,000	1,155	2,155
2024-2025	1,000	1,138	2,138
2025-2026	1,000	1,120	2,120
2026-2031	7,000	5,320	12,320
2031-2036	10,000	4,550	14,550
2036-2041	10,000	3,675	13,675
2041-2046	10,000	2,800	12,800
2046-2051	10,000	1,925	11,925
2051-2056	16,000	1,050	17,050
	<u>\$ 73,000</u>	<u>\$ 31,283</u>	<u>\$ 104,283</u>

INTERNAL SERVICE FUNDS - INSTALLMENT LOANS

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

<u>Purpose of Note</u>	<u>Date</u>	<u>Original</u>	<u>Maturity</u>	<u>Interest</u>	<u>Balance</u>	<u>Current</u>
2013 Caterpillar Loader	1/21/14	\$ 160,000	1/21/19	2.24 %	\$ 98,102	\$ 31,984
2011 Snow Blower	3/2/10	91,000	2/1/19	4.00 %	41,000	10,000
2011 Sander	4/20/11	187,000	10/1/26	4.13 %	97,500	7,500
2011 Grader	4/20/11	130,000	4/1/26	4.00 %	135,000	12,000
Total					<u>\$ 371,602</u>	<u>\$ 61,484</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE J - LONG TERM DEBT (Continued)

As of June 30, 2016, the aggregate maturities of loans payable are as follows:

Fiscal Year	Principal	Interest	Total
2016-2017	\$ 61,484	\$ 13,569	\$ 75,053
2017-2018	62,701	11,663	74,364
2018-2019	63,917	9,741	73,658
2019-2020	32,000	7,343	39,343
2020-2021	22,500	6,512	29,012
2021-2022	23,500	5,621	29,121
2022-2023	24,500	4,689	29,189
2023-2024	26,000	3,716	29,716
2024-2025	27,000	2,683	29,683
2025-2026	28,000	2,104	30,104
	<u>\$ 371,602</u>	<u>\$ 67,641</u>	<u>\$ 439,243</u>

Long-term debt liabilities for governmental activities, are reported in and liquidated through all funds for the fiscal year ended June 30, 2016, was as follows:

	Balance July 01, 2015	Increase	Decrease	Balance June 30, 2016	Current Portion
GOVERNMENTAL ACTIVITIES					
USDA Building Authority Bonds	\$ 335,000	\$ -	\$ 335,000	\$ -	\$ -
USDA Building Authority Bonds	673,000	-	673,000	-	-
USDA Community Facilities Loan	261,000	-	261,000	-	-
2015 Refunding Bond:					
Fire Hall	-	330,000	25,000	305,000	20,000
Public Works Garage	-	685,000	45,000	640,000	45,000
Fire Truck	-	225,000	45,000	180,000	45,000
Premium on bond	-	32,062	2,466	29,596	-
Superior National Bank - Land	74,104	-	13,685	60,419	14,229
2008A Building Authority Bonds	434,000	-	11,000	423,000	12,000
2008B Building Authority Bonds	90,000	-	2,000	88,000	2,000
	<u>1,867,104</u>	<u>1,272,062</u>	<u>1,413,151</u>	<u>1,726,015</u>	<u>138,229</u>
ENTERPRISE FUNDS					
2010 Sanitary Sewage Disposal Bonds	1,966,000	-	33,000	1,933,000	34,000
2011A Water Supply System Bonds	1,151,000	-	20,000	1,131,000	20,000
2011 B Water Supply System Bonds	3,509,000	-	63,000	3,446,000	64,000
2016A Water Revenue Bond	-	1,000	-	1,000	-
2016B Water Revenue Bond	-	22,000	-	22,000	-
2008 Water Supply System Bond	3,130,000	-	95,000	3,035,000	100,000
	<u>9,756,000</u>	<u>23,000</u>	<u>211,000</u>	<u>9,568,000</u>	<u>218,000</u>
INTERNAL SERVICE FUND					
Installment Loans	430,902	-	59,300	371,602	61,484
TOTALS	<u>\$ 12,054,006</u>	<u>\$ 1,318,062</u>	<u>\$ 1,683,451</u>	<u>\$ 11,665,617</u>	<u>\$ 417,713</u>
Accrued compensated absences	<u>\$ 331,718</u>	<u>\$ 16,175</u>	<u>\$ -</u>	<u>\$ 347,893</u>	

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016**

NOTE J - LONG TERM DEBT (Continued)

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

GOVERNMENTAL ACTIVITIES			
Fiscal Year	Principal	Interest	Total
2016-2017	\$ 138,229	\$ 56,592	\$ 194,821
2017-2018	144,796	53,239	198,035
2018-2019	151,388	49,716	201,104
2019-2020	153,006	44,830	197,836
2020-2021	92,000	39,878	131,878
2021-2022	93,000	37,366	130,366
2022-2023	103,000	34,812	137,812
2023-2024	104,000	31,635	135,635
2024-2025	105,000	28,418	133,418
2025-2026	111,000	25,159	136,159
2026-2031	285,000	69,950	354,950
2031-2035	147,000	33,525	180,525
2035-2041	69,000	4,356	73,356
	<u>\$ 1,696,419</u>	<u>\$ 509,476</u>	<u>\$ 2,205,895</u>

INTERNAL SERVICE FUNDS			
Fiscal Year	Principal	Interest	Total
2016-2017	\$ 61,484	\$ 13,260	\$ 74,744
2017-2018	62,701	11,354	74,055
2018-2019	63,917	9,411	73,328
2019-2020	73,000	6,992	79,992
2020-2021	94,500	6,141	100,641
2021-2026	16,000	16,153	32,153
	<u>\$ 371,602</u>	<u>\$ 63,311</u>	<u>\$ 434,913</u>

ENTERPRISE FUNDS			
Fiscal Year	Principal	Interest	Total
2016-2017	\$ 251,000	\$ 273,137	\$ 524,137
2017-2018	256,000	267,811	523,811
2018-2019	263,000	261,665	524,665
2019-2020	268,000	255,345	523,345
2020-2021	277,000	248,906	525,906
2021-2022	281,000	242,252	523,252
2022-2023	290,000	235,504	525,504
2023-2024	299,000	228,530	527,530
2024-2025	303,000	221,341	524,341
2025-2026	312,000	214,059	526,059
2026-2031	1,674,000	954,280	2,628,280
2031-2036	1,901,000	742,087	2,643,087
2036-2041	1,788,000	506,248	2,294,248
2041-2046	1,449,000	322,473	1,771,473
2046-2051	1,632,000	143,579	1,775,579
2051-2056	366,000	19,721	385,721
	<u>\$ 11,610,000</u>	<u>\$ 5,136,938</u>	<u>\$ 16,746,938</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE K - PENSION PLAN

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

Retirement benefits for employees are calculated as two percent of the employee’s three-year final average compensation times the employee’s years of service. Normal retirement age is 60 with early retirement at an unreduced benefit at age 55 with 20 years of service or a reduced benefit at age 50 with 25 years of service or at age 55 with 15 years of service. Deferred retirement benefits vest after 10 years of service and there are no member contributions to the plan.

Employees covered by benefit terms - At the December 31, 2015 valuation date, the following employees were covered by the benefit terms::

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>13</u>
Total employees covered by MERS	<u>17</u>

Contributions - The City is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City may establish contribution rates to be paid by its covered employees. Employer contributions range from 11.65%-12.65% based on annual payroll for open divisions.

Net Pension Liability - The City's Net Pension Liability reported as of June 30, 2016 was measured as of December 31, 2015 and was determined by an annual actuarial valuation as of that date.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE K - PENSION PLAN (Continued)

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at 12/31/14	\$ 3,166,443	\$ 2,238,151	\$ 928,292
Service cost	64,222	-	64,222
Interest on total pension liability	259,977	-	259,977
Changes in benefits	-	-	-
Difference between expected and actual experience	(1,568)	-	(1,568)
Changes in assumptions	229,010	-	229,010
Employer contributions	-	82,780	(82,780)
Employee contributions	-	22,463	(22,463)
Net investment income	-	(34,273)	34,273
Benefit payments, including employee refunds	(94,628)	(94,628)	-
Administrative expense	-	(4,966)	4,966
Other changes	-	-	-
Net changes	457,013	(28,624)	485,637
Balances as of 12/31/15	\$ 3,623,456	\$ 2,209,527	\$ 1,413,929

Actuarial assumptions - The total pension liability in the December 31, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%	
Salary increases	4.5%	In the long term, 1 percent, 2 percent, and 3 percent for calendar years 2014, 2015, and 2016, respectively, including inflation.
Investment rate of return	10.0%	Gross of pension plan investment expense, including inflation

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

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

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

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016**

NOTE K - PENSION PLAN (Continued)

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2015, the measurement date, for each major asset class summarized in the following table:

Asset Class	Target Allocation	Long-term expected real rate of return
Global equity	57.5%	5.0%
Global fixed income	20.0%	2.2%
Real assets	12.5%	4.2%
Diversifying strategies	10.0%	6.6%

Discount rate - The discount rate used to measure the total pension liability is 8.25% for 2015 and will be 8% in 2016 and thereafter. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to changes in the discount rate - The following presents the Net Pension Liability of the City, calculated using the discount rate of 8.25%, as well as what the City’s Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	1% Decrease 7.25%	Current Discount Rate 8.25%	1% Increase 9.25%
Net pension liability of the City	\$ 1,865,938	\$ 1,413,929	\$ 1,031,598

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

For the year ended June 30, 2016 the City recognized pension expense of \$129,670. The City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$ -
Differences in assumptions	229,010	-
Excess (deficit) investment returns	250,543	1,567
Contributions subsequent to the measurement date	43,432	-
Total	<u>\$ 522,985</u>	<u>\$ 1,567</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2016.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

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

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

<u>Year ended</u>	<u>Amount</u>
2016	\$ 80,108
2017	80,108
2018	80,108
2019	80,108
2020	72,261
Thereafter	85,293
	<u>\$ 477,986</u>

NOTE M -ENTERPRISE FUNDS

SEGMENT INFORMATION - The City maintains two Enterprise Funds which provide water and sewer services. Segment information for the year ended June 30, 2016 is as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Transit</u>	<u>Parking Meter</u>
Operating revenues	\$ 1,014,009	\$ 1,014,915	\$ 159,963	\$ 8,403
Depreciation	\$ 205,281	\$ 416,575	\$ 33,980	\$ -
Income (loss) from operations	\$ (169,179)	\$ (160,994)	\$ (105,604)	\$ 1,857
Non-operating revenues (expenses)	\$ (43,780)	\$ (190,959)	\$ 60,015	\$ 32
Net income (loss)	\$ (212,959)	\$ (351,953)	\$ (45,589)	\$ 1,889
Property, plant & equipment additions	\$ -	\$ -	\$ -	\$ -
Total assets	\$ 4,677,259	\$ 13,329,409	\$ 682,931	\$ 23,249
Net working capital surplus (deficit)	\$ 406,133	\$ (720,445)	\$ 2,179	\$ 22,945
Long-term liabilities:				
Payable from operating revenues	\$ 1,965,965	\$ 7,521,585	\$ 67,615	\$ -
Net investment in capital assets	\$ 4,135,819	\$ 11,926,039	\$ 672,944	\$ -
Reserved net position	\$ 208,343	\$ 316,506	\$ -	\$ -
Unreserved net position	\$ 2,392,083	\$ 3,393,248	\$ 632,158	\$ 22,945
Total net position	\$ 2,600,426	\$ 3,709,754	\$ 632,158	\$ 22,945
Net cash provided (used) by:				
Operating activities	\$ 128,515	\$ 221,261	\$ (66,666)	\$ 845
Noncapital financing activities	\$ 2,644	\$ 104,084	\$ 56,000	\$ (18)
Capital & related financing activities	\$ (76,864)	\$ (346,041)	\$ -	\$ -
Investing activities	\$ 84	\$ 82	\$ 15	\$ 32
Beginning cash	\$ 336,845	\$ 349,303	\$ 13,204	\$ 21,884
Ending cash	\$ 391,224	\$ 328,689	\$ 2,553	\$ 22,743

**CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016**

NOTE N - RESERVES AND RESTRICTED ASSETS

Water Fund

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

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

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

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

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

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

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

At June 30, 2016, 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 Account	\$ 98,450	\$ 140,861
Repair and Replacement Account	50,060	117,111
Bond and Interest Redemption Account	48,632	49,245
	<u>\$ 197,142</u>	<u>\$ 307,217</u>
<u>Sewer Fund</u>		
Bond Reserve Account	\$ 44,856	\$ 52,373
Repair and Replacement Account	41,576	71,183
Bond and Interest Redemption Account	20,962	84,787
	<u>\$ 107,394</u>	<u>\$ 208,343</u>

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE O - TRANSIT FUND

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

The following are required Michigan Department of Transportation disclosures:

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

The Department of Transportation required schedules are located on pages 72 through 76.

NOTE P - TAX INCREMENT FINANCING

The City had three tax increment financing districts at June 30, 2016, the Downtown Development District (DDD), the Elevation Street City(ESD), and the MTEPS (Smart Zone) City. The taxes on the DDD and the ESD City's are levied based on the increase of the state equalized value of the properties from the base year to the current year and are levied on both real and personal property. The DDD expanded the base year in 1993 from the 1984 initial base year. The tax revenues generated from the DDD and the ESD are recorded in the Downtown Development Authority Fund and Elevation Street TIFA Fund respectively.

On April 11, 2001, The Michigan Economic Development Corporation approved the application for a Smart Park that was submitted by the Michigan Tech Enterprise Smart Zone (MTEPS). The MTEPS is a partnership between Michigan Technological University, the City of Hancock and the City of Houghton. The MTEPS was funded for the first 2 years by a state grant. Thereafter, it is funded through a tax increment financing City which includes the entire Cities of Hancock and Houghton. The tax is levied annually with the school millage only and will continue until the year 2017. The Smart Zone TIF plan will not affect either City's current tax revenue. The tax revenue levied for the summer 2013 Smart Zone was collected and paid in full to the MTEPS as of June 30, 2016, via the Local Development Finance Authority – the financing entity. Summary of TIF City data as of June 30, 2016:

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE P - TAX INCREMENT FINANCING (Continued)

	<u>DDD</u>	<u>MTEPS</u>
	1984	1999
Base year		
State Equalized Value (SEV) base year		
Real Property	9,792,200	48,229,352
Personal Property	1,662,280	2,912,083
Current year SEV		
Real Property	20,370,911	99,276,564
Personal Property	1,393,159	6,706,136
Increase (Decrease) of taxable value		
Real Property	10,578,711	51,047,212
Personal Property	(269,121)	3,794,053
Authorized tax mills levied - Homestead	21	3
Non-homestead	-	12
Tax revenue collected	216,036	499,217

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, 2016, The Portage Lake Water and Sewage Authority owed the City \$4,184, and this amount is reflected on the Proprietary Funds Balance Sheet as an amount due to other governmental units.

NOTE R - RISK MANAGEMENT

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

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

Management estimates that the amount of actual or potential claims against the City as of June 30, 2016 will not materially affect the financial condition of the City. Therefore, the financial statements contain no provision for estimated claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

CITY OF HANCOCK
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

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 July 15, 2016 the City signed a loan agreement with Superior National Bank in the amount of \$280,000 for the purchase of a fire truck. The fire truck was ordered in November of 2016 for a total amount of \$360,183. The balance of the purchase price will be paid for by the City.
- On August 19, 2016 the City signed a grant agreement with the Michigan Department of Transportation in the amount of \$75,220 for the purchase of a transit bus.
- On December 15, 2016 the City signed an installment loan agreement with Superior National Bank in the amount of \$145,595 for the purchase of a sander/plow truck. The sander/plow truck is expected to be delivered in the spring of 2017.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HANCOCK
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		Final to Actual
Revenues				
Property taxes	\$ 1,444,941	\$ 1,444,941	\$ 1,446,927	\$ 1,986
Licenses & permits	281	281	50	(231)
State sources	472,998	472,998	667,128	194,130
Federal sources	-	-	15,000	15,000
Charges for services	397,761	397,761	409,776	12,015
Interest income	1,510	1,510	52	(1,458)
Contributions	-	-	-	-
Other revenues	49,288	49,288	184,954	135,666
Total revenues	2,366,779	2,366,779	2,723,887	357,108
Expenditures				
General government				
Council	13,280	13,280	19,935	(6,655)
City manager	89,862	89,862	96,274	(6,412)
Clerk	76,851	76,851	79,215	(2,364)
Treasurer	58,499	58,499	86,860	(28,361)
Accounting	37,161	37,161	29,994	7,167
Assessor	79,899	79,899	67,853	12,046
Planning	22,040	22,040	37,635	(15,595)
Elections	5,826	5,826	5,639	187
Building and grounds	61,941	61,941	59,704	2,237
Cemetery	36,979	36,979	35,027	1,952
Public safety	797,564	797,564	872,077	(74,513)
Public works	248,828	248,828	362,292	(113,464)
Recreation and culture	164,342	164,342	201,203	(36,861)
Sanitation	304,121	304,121	323,705	(19,584)
Community development	-	-	236,039	(236,039)
Debt service	66,009	66,009	108,800	(42,791)
Other	60,804	60,804	59,904	900
Total expenditures	2,124,006	2,124,006	2,682,156	(201,042)
Excess (deficiency) of revenues over expenditures	242,773	242,773	41,731	(201,042)
Other financing sources (uses)				
Increase/decrease in fair value	-	-	-	-
Operating transfers in (out)	(196,537)	(220,274)	(83,737)	136,537
Total other financing sources (uses)	(196,537)	(220,274)	(83,737)	136,537
Net change in fund balances	\$ 46,236	\$ 22,499	(42,006)	\$ (64,505)
Fund balances - Beginning of year			200,782	
Fund balances - End of year			<u>\$ 158,776</u>	

CITY OF HANCOCK
MAJOR STREET FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance
	Original	Final		Final to Actual
Revenues				
State sources	\$ 635,140	\$ 635,140	\$ 747,115	\$ 111,975
Federal sources	-	-	633,154	633,154
Interest income	1,122	1,122	175	(947)
Other revenues	-	-	-	-
Total revenues	<u>636,262</u>	<u>636,262</u>	<u>1,380,444</u>	<u>744,182</u>
Expenditures				
General administration	19,085	19,085	28,795	(9,710)
Highways and streets:				
Construction	18,828	18,828	779,276	(760,448)
State trunkline maintenance	357,711	357,711	285,382	72,329
Routine maintenance	41,012	41,012	57,151	(16,139)
Traffic services	4,716	4,716	8,772	(4,056)
Snow and ice control	192,152	192,152	140,324	51,828
Sweeping and flushing	2,407	2,407	3,158	(751)
Total expenditures	<u>635,911</u>	<u>635,911</u>	<u>1,302,858</u>	<u>(666,947)</u>
Excess (deficiency) of revenues over expenditures	351	351	77,586	77,235
Other financing sources (uses)				
Operating transfers in (out)	-	23,737	23,737	-
Total other financing sources (uses)	<u>-</u>	<u>23,737</u>	<u>23,737</u>	<u>-</u>
Net change in fund balances	<u>\$ 351</u>	<u>\$ 24,088</u>	101,323	<u>\$ 77,235</u>
Fund balances - Beginning of year			<u>(23,737)</u>	
Fund balances - End of year			<u>\$ 77,586</u>	

CITY OF HANCOCK
SCHEDULE OF CHANGES IN THE CITY NET
PENSION LIABILITY AND RATIOS
Year Ended June 30, 2016

	<u>2016</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 64,222	\$ 51,865
Interest	259,977	240,815
Difference between expected and actual experience	(1,568)	-
Changes in assumptions	229,010	-
Benefit payments, including refunds	(94,628)	(38,562)
Other changes	-	1
Net change in total pension liability	<u>457,013</u>	<u>254,119</u>
Total pension liability - beginning of year	<u>3,166,443</u>	<u>2,912,324</u>
Total pension liability - end of year	<u>\$ 3,623,456</u>	<u>\$ 3,166,443</u>
Plan fiduciary net position		
Contributions - employer	\$ 82,780	\$ 73,741
Contributions - employee	22,463	21,525
Net investment income	(34,273)	132,353
Administrative expenses	(4,966)	(4,894)
Benefit payments, including refunds	<u>(94,628)</u>	<u>(38,562)</u>
Net change in plan fiduciary net position	<u>(28,624)</u>	<u>184,163</u>
Plan fiduciary net position - beginning of year	2,238,151	2,053,989
Plan fiduciary net position - end of year	<u>\$ 2,209,527</u>	<u>\$ 2,238,152</u>
City's net pension liability - ending	<u>\$ 1,413,929</u>	<u>\$ 928,291</u>
Plan fiduciary net position as a percent of total pension	60.98 %	70.68 %
Covered employee payroll	\$ 696,554	\$ 562,531
City's net pension liability as a percent of covered employee	202.99 %	165.02 %

CITY OF HANCOCK
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Year Ended June 30, 2016

	<u>2015</u>	<u>2014</u>
Actuarial determined contributions	\$ 82,780	\$ 73,741
Contributions in relation to the actuarially determined contributions	<u>82,780</u>	<u>73,741</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 696,554	\$ 562,531
Contributions as a percentage of covered-employee payroll	12 %	13 %

CITY OF HANCOCK
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - June 30, 2016

NOTE A - METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATE

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 years smoothed
Inflation	3.5%
Salary increases	4.5%
Investment rate of return	8%
Retirement age	Varies depending on plan adoption
Mortality	50% Female/50% Male 1994 Group Annuity Mortality Table

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

CITY OF HANCOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2016

	<u>Local Street</u>	<u>CDBG</u>	<u>Elevation Street TIF</u>	<u>Building Authority</u>	<u>Sylvan Estates</u>	<u>Cemetery Perpetual</u>	<u>Total</u>
Assets							
Cash and cash equivalents	\$ 60,075	\$ -	\$ 7,799	\$ -	\$ 20,312	\$ -	\$ 88,186
Restricted cash	-	3,587	-	1,325	-	180,163	185,075
Due from government units	18,896	-	-	-	-	-	18,896
Inventories	12,861	-	-	-	-	-	12,861
Prepaid expenses	2,440	-	-	-	-	-	2,440
Total assets	<u>\$ 94,272</u>	<u>\$ 3,587</u>	<u>\$ 7,799</u>	<u>\$ 1,325</u>	<u>\$ 20,312</u>	<u>\$ 180,163</u>	<u>\$ 307,458</u>
Liabilities							
Accounts payable	\$ -	\$ 850	\$ -	\$ -	\$ -	\$ -	\$ 850
Accrued expenses	2,751	-	-	-	-	-	2,751
Due to other funds	42,602	-	905	-	-	-	43,507
Total liabilities	<u>45,353</u>	<u>850</u>	<u>905</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,108</u>
Fund balances							
Restricted:							
Restricted	48,919	2,737	6,894	1,325	20,312	180,163	260,350
Total fund balances	<u>48,919</u>	<u>2,737</u>	<u>6,894</u>	<u>1,325</u>	<u>20,312</u>	<u>180,163</u>	<u>260,350</u>
Total liabilities and fund balances	<u>\$ 94,272</u>	<u>\$ 3,587</u>	<u>\$ 7,799</u>	<u>\$ 1,325</u>	<u>\$ 20,312</u>	<u>\$ 180,163</u>	<u>\$ 307,458</u>

CITY OF HANCOCK
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2016

	<u>Local Street</u>	<u>CDBG</u>	<u>Elevation Street TIF</u>	<u>Building Authority</u>	<u>Sylvan Estates</u>	<u>Cemetery Perpetual</u>	<u>Total</u>
Revenues							
Property taxes	\$ 113,067	\$ -	\$ 33,552	\$ -	\$ -	\$ -	\$ 146,619
State sources	167,595	-	-	-	-	-	167,595
Federal sources	-	70,902	-	-	-	-	70,902
Interest income	76	-	20	6	33	-	135
Rentals	-	-	-	163,441	-	-	163,441
Total revenues	<u>280,738</u>	<u>70,902</u>	<u>33,572</u>	<u>163,447</u>	<u>33</u>	<u>-</u>	<u>548,692</u>
Expenditures							
General administration	7,078	31,644	-	-	-	-	38,722
Public works	224,741	39,258	27,158	-	-	-	291,157
Highways and streets:							
Other	-	-	-	163,441	-	179	163,620
Total expenditures	<u>231,819</u>	<u>70,902</u>	<u>27,158</u>	<u>163,441</u>	<u>-</u>	<u>179</u>	<u>493,499</u>
Excess (deficiency) of revenues over expenditures	<u>48,919</u>	<u>-</u>	<u>6,414</u>	<u>6</u>	<u>33</u>	<u>(179)</u>	<u>55,193</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	48,919	-	6,414	6	33	(179)	55,193
Fund balances - Beginning of year	<u>-</u>	<u>2,737</u>	<u>480</u>	<u>1,319</u>	<u>20,279</u>	<u>180,342</u>	<u>205,157</u>
Fund balances - End of year	<u>\$ 48,919</u>	<u>\$ 2,737</u>	<u>\$ 6,894</u>	<u>\$ 1,325</u>	<u>\$ 20,312</u>	<u>\$ 180,163</u>	<u>\$ 260,350</u>

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2016

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Transit fund</u>	<u>Parking Meter Fund</u>	<u>Total</u>
Assets					
Cash and cash equivalents	\$ 182,881	\$ 12,183	\$ 2,553	\$ 22,743	\$ 220,360
Restricted cash	208,343	316,506	-	-	524,849
Accounts receivable	75,257	90,401	-	-	165,658
Due from government units	29,899	-	-	-	29,899
Inventories	41,968	63,110	-	-	105,078
Prepaid expenses	3,092	6,404	7,434	506	17,436
Capital assets - net	<u>4,135,819</u>	<u>11,926,039</u>	<u>672,944</u>	<u>-</u>	<u>16,734,802</u>
Total assets	<u>4,677,259</u>	<u>12,414,643</u>	<u>682,931</u>	<u>23,249</u>	<u>17,798,082</u>
Deferred outflows of resources					
Pension	24,512	25,822	24,724	-	75,058
Liabilities					
Accounts payable	89,171	911,053	-	-	1,000,224
Accrued expenses	8,716	36,408	7,808	240	53,172
Due to other funds	3,420	77,588	-	64	81,072
Current maturities	34,000	184,000	-	-	218,000
Net pension liability	66,965	70,585	67,615	-	205,165
Bonds payable	<u>1,899,000</u>	<u>7,451,000</u>	<u>-</u>	<u>-</u>	<u>9,350,000</u>
Total liabilities	<u>2,101,272</u>	<u>8,730,634</u>	<u>75,423</u>	<u>304</u>	<u>10,907,633</u>
Deferred inflows of resources -					
pension	73	77	74	-	75,058
Net position					
Reserved	208,343	316,506	-	-	524,849
Unreserved	<u>2,392,083</u>	<u>3,393,248</u>	<u>632,158</u>	<u>22,945</u>	<u>6,440,434</u>
Total net position	<u>\$ 2,600,426</u>	<u>\$ 3,709,754</u>	<u>\$ 632,158</u>	<u>\$ 22,945</u>	<u>\$ 6,965,283</u>

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2016

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Transit fund</u>	<u>Parking Meter Fund</u>	<u>Total</u>
Operating revenues					
Charges for services	\$ 889,253	\$ 1,013,594	\$ 49,074	\$ 8,403	\$ 1,960,324
State sources	124,756	-	67,705	-	192,461
Federal sources	-	-	41,984	-	41,984
Other revenues	-	1,321	1,200	-	2,521
Total operating revenues	<u>1,014,009</u>	<u>1,014,915</u>	<u>159,963</u>	<u>8,403</u>	<u>2,197,290</u>
Operating expenses					
General administration	43,721	85,327	70,062	6,546	205,656
Meter reading	14,534	14,533	-	-	29,067
Purchased services	642,705	297,168	-	-	939,873
Operations and maintenance	276,947	362,306	161,525	-	800,778
Depreciation	205,281	416,575	33,980	-	655,836
Total operating expenses	<u>1,183,188</u>	<u>1,175,909</u>	<u>265,567</u>	<u>6,546</u>	<u>2,631,210</u>
Operating income (loss)	<u>(169,179)</u>	<u>(160,994)</u>	<u>(105,604)</u>	<u>1,857</u>	<u>(433,920)</u>
Non-operating revenues (expenses)					
Interest income	84	82	15	32	213
Interest expense	(43,864)	(191,041)	-	-	(234,905)
Operating transfers in (out)	-	-	60,000	-	60,000
Total non-operating revenues (expenses)	<u>(43,780)</u>	<u>(190,959)</u>	<u>60,015</u>	<u>32</u>	<u>(174,692)</u>
Net income (loss)	(212,959)	(351,953)	(45,589)	1,889	(608,612)
Net position, beginning of year	<u>2,813,385</u>	<u>4,061,707</u>	<u>677,747</u>	<u>21,056</u>	<u>7,573,895</u>
Net position, end of year	<u>\$ 2,600,426</u>	<u>\$ 3,709,754</u>	<u>\$ 632,158</u>	<u>\$ 22,945</u>	<u>\$ 6,965,283</u>

CITY OF HANCOCK
ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
June 30, 2016

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Transit fund</u>	<u>Parking Meter Fund</u>	<u>Total</u>
Cash flows from operating activities					
Receipts from customers	\$ 1,010,968	\$ 83,825	\$ 139,529	\$ 8,483	\$ 1,242,805
Payments to suppliers	(1,001,966)	(83,104)	(388,488)	(12,576)	(1,486,134)
Internal activity - receipts (payments) to other .. funds	-	-	-	-	-
Payments to employees	119,513	220,540	182,293	4,938	527,284
Other receipts (payments)	-	-	-	-	-
Net cash provided by operating activities	<u>128,515</u>	<u>221,261</u>	<u>(66,666)</u>	<u>845</u>	<u>283,955</u>
Cash flows from noncapital financing activities					
Operating subsidies and transfers to other funds	2,644	104,084	56,000	(18)	162,710
Cash flows from capital and related financing activities					
Loan proceeds	-	23,000	-	-	23,000
Principal paid on capital debt	(33,000)	(178,000)	-	-	(211,000)
Interest paid on capital debt	(43,864)	(191,041)	-	-	(234,905)
Net cash (used) by capital and related financing activities	<u>(76,864)</u>	<u>(346,041)</u>	<u>-</u>	<u>-</u>	<u>(422,905)</u>
Cash flows from investing activities					
Interest and dividends	84	82	15	32	213
Net cash provided by investing activities	<u>84</u>	<u>82</u>	<u>15</u>	<u>32</u>	<u>213</u>
Net (decrease) in cash	54,379	(20,614)	(10,651)	859	23,973
Balances - beginning of the year	336,845	349,303	13,204	21,884	721,236
Balances - end of the year	<u>\$ 391,224</u>	<u>\$ 328,689</u>	<u>\$ 2,553</u>	<u>\$ 22,743</u>	<u>\$ 745,209</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	(169,179)	(160,994)	(105,604)	1,857	(433,920)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	205,281	416,575	33,980	-	655,836
Change in assets and liabilities					
Receivables, net	17,225	(909,925)	-	80	(892,620)
Due to/from other governmental units	(37,656)	-	7,217	-	(30,439)
Deferred outflows and inflows	(20,193)	(21,268)	(20,360)	-	(61,821)
Inventory	21,141	11,733	-	-	32,874
Prepaid expenses	(3,092)	(6,404)	(5,798)	(506)	(15,800)
Net pension liability	22,684	23,892	22,872	-	69,448
Accounts and other payables	89,171	865,959	(1,887)	(609)	952,634
Accrued expenses	3,133	1,693	2,914	23	7,763
Net cash provided by operating activities	<u>\$ 128,515</u>	<u>\$ 221,261</u>	<u>\$ (66,666)</u>	<u>\$ 845</u>	<u>\$ 283,955</u>

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING NET POSITION
June 30, 2016

	<u>Employee Benefits</u>	<u>Motor Vehicle Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 28,997	\$ 43,311	\$ 72,308
Restricted cash	8,147	-	8,147
Due from other funds	227,769	232,537	460,306
Due from component unit	-	-	-
Inventories	-	29,188	29,188
Prepaid expenses	22,000	16,277	38,277
Capital assets - net	-	183,345	183,345
Total assets	<u>286,913</u>	<u>504,658</u>	<u>791,571</u>
Deferred outflow of resources - Pension	-	8,641	8,641
Liabilities			
Accounts payable	6,478	-	6,478
Accrued expenses	9,355	2,785	12,140
Accrued interest payable	-	3,818	3,818
Accrued benefits	180,222	-	180,222
Due to other funds	31	-	31
Net pension liability	-	23,594	23,594
Current maturities	-	61,484	61,484
Notes payable	-	310,118	310,118
Total liabilities	<u>196,086</u>	<u>401,799</u>	<u>597,885</u>
Deferred outflow of resources - Pension	-	26	26
Net position			
Reserved	8,147	-	8,147
Unreserved	82,680	111,474	194,154
Total net position	<u>\$ 90,827</u>	<u>\$ 111,474</u>	<u>\$ 202,301</u>

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Year Ended June 30, 2016

	Employee Benefits	Motor Vehicle Fund	Total
Operating revenues			
Charges for services	\$ 988,239	\$ 481,686	\$ 1,469,925
Other revenues	-	724	724
Total operating revenues	<u>988,239</u>	<u>482,410</u>	<u>1,470,649</u>
Operating expenses			
General administration	-	12,264	12,264
Garage maintenance	-	123,247	123,247
Operations and maintenance	-	270,559	270,559
Depreciation	-	134,392	134,392
Benefit payments:			
Payroll taxes	121,890	-	121,890
Retirement plan expense	153,160	-	153,160
Holiday pay	43,612	-	43,612
Sickpay/personal leave	10,468	-	10,468
Vacation pay	29,353	-	29,353
Workers' compensation insurance	84,193	-	84,193
Hospitalization insurance	395,083	-	395,083
Employee life insurance	576	-	576
Longevity pay	92,071	-	92,071
Other	7,007	-	7,007
Total operating expenses	<u>937,413</u>	<u>540,462</u>	<u>1,477,875</u>
Operating income (loss)	<u>50,826</u>	<u>(58,052)</u>	<u>(7,226)</u>
Non-operating revenues (expenses)			
Gain on sale of assets	-	-	-
Interest income	60	36	96
Interest expense	-	(13,373)	(13,373)
Operating transfers in (out)	-	-	-
Total non-operating revenues (expenses)	<u>60</u>	<u>(13,337)</u>	<u>(13,277)</u>
Net income (loss)	50,886	(71,389)	(20,503)
Net Position- Beginning of year	<u>39,941</u>	<u>182,863</u>	<u>222,804</u>
Net Position - End of year	<u>\$ 90,827</u>	<u>\$ 111,474</u>	<u>\$ 202,301</u>

CITY OF HANCOCK
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOW
Year Ended June 30, 2016

	<u>Employee Benefits</u>	<u>Motor Vehicle Fund</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers	\$ 988,239	\$ 475,305	\$ 1,463,544
Payments to suppliers	(956,321)	(412,411)	(1,368,732)
Payments to employees	(203)	(987)	(1,190)
Other receipts (payments)	-	-	-
Net cash provided by operating activities	<u>31,715</u>	<u>61,907</u>	<u>93,622</u>
Cash flows from noncapital financing activities			
Operating subsidies and transfers to other funds	<u>(46,750)</u>	<u>(13,199)</u>	<u>(59,949)</u>
Cash flows from capital and related financing activities			
Principal paid on capital debt	-	(59,300)	(59,300)
Interest paid on capital debt	-	<u>(13,373)</u>	<u>(13,373)</u>
Net cash (used) by capital and related financing activities	<u>-</u>	<u>(72,673)</u>	<u>(72,673)</u>
Cash flows from investing activities			
Interest and dividends	<u>60</u>	<u>36</u>	<u>96</u>
Net cash provided by investing activities	<u>60</u>	<u>36</u>	<u>96</u>
Net (decrease) in cash	(14,975)	(23,929)	(38,904)
Balances - beginning of the year	52,119	67,240	119,359
Balances - end of the year	<u>\$ 37,144</u>	<u>\$ 43,311</u>	<u>\$ 80,455</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	50,826	(58,052)	(7,226)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	-	134,392	134,392
Change in assets and liabilities			
Receivables, net	-	-	-
Due to/from other governmental units	-	76	76
Deferred outflows and inflows	-	(7,121)	(7,121)
Inventory	-	2,229	2,229
Prepaid expenses	(13,590)	637	(12,953)
Net pension liability	-	7,999	7,999
Accounts and other payables	(5,318)	(17,266)	(22,584)
Accrued expenses	<u>(203)</u>	<u>(987)</u>	<u>(1,190)</u>
Net cash provided by operating activities	<u>\$ 31,715</u>	<u>\$ 61,907</u>	<u>\$ 93,622</u>

**CITY OF HANCOCK
TRANSIT FUND SUPPLEMENTAL INFORMATION
June 30, 2016**

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING REVENUE
Year Ended June 30, 2016

	07/01/15 through 09/30/15	10/01/15 through 06/30/16	Total
Farebox receipts - passenger fares****	\$ 10,979	\$ 38,088	\$ 49,067
Charter Service	-	600	600
Contract Fares	200	400	600
State Operating Assistance*	14,331	61,357	75,688
Federal Section 5311**	-	31,224	31,224
Federal RTAP	-	2,777	2,777
Local Operating Assistance***	10,000	50,000	60,000
Interest Income****	4	12	16
Total Operating Revenue	\$ 35,514	\$ 184,458	\$ 219,972

	10/01/14 through 06/30/15	07/01/15 through 09/30/15	Total
Farebox receipts - passenger fares	\$ 33,410	\$ 10,979	\$ 44,389
Charter Service	-	-	-
Contract Fares	900	200	1,100
State Operating Assistance	84,811	14,331	99,142
Federal Section 5311	18,802	-	18,802
Federal RTAP	3,149	-	3,149
Local Operating Assistance	60,000	10,000	70,000
Interest Income	20	4	24
Total Operating Revenue	\$ 201,092	\$ 35,514	\$ 236,606

* State revenue on page 24 of audit report is less than total of State operating assistance by \$7,983. The difference is due to the combination of a reclassification of Federal Section 5311 revenue in the amount of \$10,760 from the State revenue line to the Federal revenue line during the audit and Federal RTAP revenue in the amount of \$2,777 is reported on a separate line above and is combined with State revenue on page 24.

** Federal revenue on page 24 of audit report exceeds total Federal Section 5311 above by \$10,760 due to the reclassification of Federal Section 5311 revenue from State revenue to Federal Section 5311 revenue during the audit.

*** As noted above, the \$2,777 is included on the State revenue line of the audit report on page 24.

****Farebox receipts are \$6 less than charges for services on page 24 and interest income is \$3 higher than on page 24 due to rounding.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
Year Ended June 30, 2016

	07/01/15 through 09/30/15				10/01/15 through 06/30/16				Total			
	Operations	Maint.	Gen. Admin	Total	Operations	Maint.	Gen. Admin	Total	Operations	Maint.	Gen. Admin	Total
Labor:												
Wages - operations	\$ 17,589	\$ -	\$ -	\$ 17,589	\$ 57,134	\$ -	\$ 9,815	\$ 66,949	\$ 74,723	\$ -	\$ 9,815	\$ 84,538
Other salaries and wages	-	4,121	3,726	7,847	-	12,775	6,461	19,236	-	16,896	10,187	27,083
Dispatchers wages	2,090	-	-	2,090	6,270	-	-	6,270	8,360	-	-	8,360
Fringe benefits	5,125	4,156	4,260	13,541	13,504	10,971	13,903	38,378	18,629	15,127	18,163	51,919
Services:												
Advertising	-	-	120	120	-	-	620	620	-	-	740	740
Audit costs	-	-	1,000	1,000	-	-	-	-	-	-	1,000	1,000
Other	129	594	199	922	876	3,686	332	4,894	1,005	4,280	531	5,816
Materials and supplies:												
Fuel and lubricants	4,615	-	-	4,615	11,391	-	-	11,391	16,006	-	-	16,006
Tires and tubes	904	-	-	904	3,354	-	-	3,354	4,258	-	-	4,258
Major Supplies	-	-	-	-	-	8,313	-	8,313	-	8,313	-	8,313
Other	-	1,259	10	1,269	-	-	248	248	-	1,259	258	1,517
Utilities	-	-	1,373	1,373	-	-	6,202	6,202	-	-	7,575	7,575
Insurance	1,636	-	-	1,636	228	-	-	228	1,864	-	-	1,864
Operating lease and rentals	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous expense:												
Travel	-	-	-	-	-	-	2,497	2,497	-	-	2,497	2,497
Dues & Subscriptions	-	-	644	644	-	-	165	165	-	-	809	809
Other	18	-	-	18	24	57	148	229	42	57	148	247
Depreciation	-	-	-	-	33,980	-	-	33,980	33,980	-	-	33,980
	<u>32,106</u>	<u>10,130</u>	<u>11,332</u>	<u>53,568</u>	<u>126,761</u>	<u>35,802</u>	<u>40,391</u>	<u>202,954</u>	<u>158,867</u>	<u>45,932</u>	<u>51,723</u>	<u>256,522</u>
Less:												
Ineligible expenses - RTAP	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	33,980	-	-	33,980	33,980	-	-	33,980
	<u>\$ 32,106</u>	<u>\$ 10,130</u>	<u>\$ 11,332</u>	<u>\$ 53,568</u>	<u>\$ 92,781</u>	<u>\$ 35,802</u>	<u>\$ 40,391</u>	<u>\$ 168,974</u>	<u>\$ 124,887</u>	<u>\$ 45,932</u>	<u>\$ 51,723</u>	<u>\$ 222,542</u>

Total expenses in the amount of \$256,522 are less than total operating expenses on page 24 by \$9,089 due to the recording of pension expense, other audit adjustments, and a timing difference due to a software conversion at the time of the filing of the 1st quarter report.

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
OPERATING EXPENSES
Reporting period October 1, 2014 through September 30, 2015

	<u>10/01/14 through 06/30/15</u>				<u>07/01/15 through 09/30/15</u>				<u>Total</u>			
	<u>Operations</u>	<u>Maint.</u>	<u>Gen. Admin</u>	<u>Total</u>	<u>Operations</u>	<u>Maint.</u>	<u>Gen. Admin</u>	<u>Total</u>	<u>Operations</u>	<u>Maint.</u>	<u>Gen. Admin</u>	<u>Total</u>
Labor:												
Wages - operations	\$ 59,353	\$ -	\$ -	\$ 59,353	\$ 17,589	\$ -	\$ -	\$ 17,589	\$ 76,942	\$ -	\$ -	\$ 76,942
Other salaries and wages	-	10,170	16,197	26,367	-	4,121	3,726	7,847	-	14,291	19,923	34,214
Dispatchers wages	6,270	-	-	6,270	2,090	-	-	2,090	8,360	-	-	8,360
Fringe benefits	13,843	8,152	12,948	34,943	5,125	4,156	4,260	13,541	18,968	12,308	17,208	48,484
Services:												
Advertising	-	-	645	645	-	-	120	120	-	-	765	765
Audit costs	-	-	-	-	-	-	1,000	1,000	-	-	1,000	1,000
Other	1,803	4,968	1,025	7,796	129	594	199	922	1,932	5,562	1,224	8,718
Materials and supplies:												
Fuel and lubricants	17,433	-	-	17,433	4,615	-	-	4,615	22,048	-	-	22,048
Tires and tubes	1,292	-	-	1,292	904	-	-	904	2,196	-	-	2,196
Major Supplies	-	9,517	-	9,517	-	-	-	-	-	9,517	-	9,517
Other	-	-	-	-	-	1,259	10	1,269	-	1,259	10	1,269
Utilities	-	-	9,844	9,844	-	-	1,373	1,373	-	-	11,217	11,217
Insurance	234	-	-	234	1,636	-	-	1,636	1,870	-	-	1,870
Operating lease and rentals	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous expense:												
Travel	122	-	2,760	2,882	-	-	-	-	122	-	2,760	2,882
Dues & Subscriptions	-	-	165	165	-	-	644	644	-	-	809	809
Other	134	39	51	224	18	-	-	18	152	39	51	242
Depreciation	40,260	-	-	40,260	-	-	-	-	40,260	-	-	40,260
	<u>140,744</u>	<u>32,846</u>	<u>43,635</u>	<u>217,225</u>	<u>32,106</u>	<u>10,130</u>	<u>11,332</u>	<u>53,568</u>	<u>172,850</u>	<u>42,976</u>	<u>54,967</u>	<u>270,793</u>
Less:												
Ineligible expenses - RTAP	-	-	3,149	3,149	-	-	-	-	-	-	3,149	3,149
Depreciation	40,260	-	-	40,260	-	-	-	-	40,260	-	-	40,260
	<u>\$ 100,484</u>	<u>\$ 32,846</u>	<u>\$ 40,486</u>	<u>\$ 173,816</u>	<u>\$ 32,106</u>	<u>\$ 10,130</u>	<u>\$ 11,332</u>	<u>\$ 53,568</u>	<u>\$ 132,590</u>	<u>\$ 42,976</u>	<u>\$ 51,818</u>	<u>\$ 227,384</u>

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
COMPUTATION OF STATE AND FEDERAL OPERATING ASSISTANT
Year Ended June 30, 2016

<u>NON URBAN AREAS</u>	<u>07/01/15 through 09/30/15</u>	<u>10/01/15 through 06/30/16</u>	<u>Total</u>
STATE OF MICHIGAN			
Total Eligible Expenses	\$ 53,568	\$ 168,974	<u>\$ 222,542</u>
Reimbursement Rate %	<u>39.3228 %</u>	<u>35.7560 %</u>	
Eligible operating assistance*	<u>\$ 21,064</u>	<u>\$ 60,418</u>	<u>\$ 81,482</u>
FEDERAL SECTION 5311			
Total Eligible Expenses	\$ 53,568	\$ 168,974	<u>\$ 222,542</u>
Reimbursement Rate %	<u>18.5000 %</u>	<u>18.5000 %</u>	
Eligible operating assistance	<u>\$ 9,910</u>	<u>\$ 31,260</u>	<u>\$ 41,170</u>

CITY OF HANCOCK
TRANSIT FUND
MDOT-PASSENGER TRANSPORTATION DIVISION
MILEAGE DATA REPORT (UNAUDITED)
Year Ended June 30, 2016

<u>Quarter Ending</u>	<u>Miles</u>
September 30, 2015	15,525
December 31, 2015	16,226
March 31, 2016	16,591
June 30, 2016	15,804
Total Miles	<u><u>64,146</u></u>

**CITY OF HANCOCK
FEDERAL AWARDS PROGRAMS
JUNE 30, 2016**

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hancock as of and for the year then ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 29, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2016-001.

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 29, 2016

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2016. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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, 2016.

Report on Internal Control Over Compliance

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

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

December 29, 2016

CITY OF HANCOCK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2016

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation - Federal Transit Administration		
Pass-through programs from:		
Michigan Department of Transportation		
Operating Assistance-Section 5311	20.509	\$ 41,984
TAP Grant -1631(005)	20.205	<u>116,623</u>
		158,607
U.S. Department of Health and Human Services		
Pass-through Western Upper Peninsula Health Department		
Sidewalk project	93.911	15,000
U.S. Department of Housing and Urban Development		
Michigan State Housing Authority		
CDBG MSC 215002-CDF	14.228	169,747
CDBG MSC-2012-0657-1	14.228	64,553
CDBG MSC 2015-0657-HO	14.228	6,349
HOME MSC 213014-ESB	14.228	<u>17,433</u>
		258,082
U.S. Department of Agriculture		
Police vehicle grant	10.766	15,000
Water and Waste Disposal Systems for Rural Communities Loan	10.781	<u>914,766</u>
		<u>929,766</u>
Total expenditures of federal awards		<u>\$ 1,361,455</u>

CITY OF HANCOCK
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2016

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.

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal Control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None Reported
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:	Unmodified
Any audit findings disclosed that are required to be reported in with Title 2 CFR Section 200.516(a)?	No
Name of Federal Program	<u>CFDA Number</u>
U.S. Department of Agriculture	
Water and Waste Disposal Systems	
for rural communities loan	10.781
Dollar threshold used to distinguish between type A and type B program:	\$750,000
Auditee qualified as low-risk auditee?	No

SECTION II - FINANCIAL STATEMENT FINDINGS

INSTANCES OF NON-COMPLIANCE

2016-001 - 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, 2016. 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.

CITY OF HANCOCK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the year ended June 30, 2016

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Current Year - No matters were reported.

Prior Year - No matters were reported.

COMMUNICATIONS SECTION

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hancock for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 12, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Hancock are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the City of Hancock during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 29, 2016.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

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

Restriction on Use

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

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

We appreciate your business, thank you.

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

December 29, 2016

**CITY OF HANCOCK
COMMENTS AND RECOMMENDATIONS - June 30, 2016**

In planning and performing our audit of the financial statements of the City of Hancock as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

ADDITIONAL COMMENTS AND RECOMMENDATIONS

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

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

Bank Accounts

It was noted during the audit that bank accounts are not reconciled in a timely fashion. We recommend that procedures be implemented ensuring that bank accounts can be reconciled in a more timely fashion.

It was also noted that no review of the bank statements and reconciliations are taking place. We recommend that the city manager or a board member review the bank reconciliations on a monthly basis.

Budget Review

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

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