

City of Petoskey

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2017

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Management Discussion and Analysis

December 31, 2017

The City of Petoskey's financial statements consists of a series of financial reports. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and presents a longer-term view of the City's finances. Fund financial statements tell how the services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

Financial Highlights

The City's net position increased by \$2,512,468 or 3% in 2017 with the increase made up of the following:

- Governmental net position increased by \$1,777,003.
- Business-type net position increased by \$568,216.
- Component units net position increased by \$167,249.

Total revenues and transfers for the year are \$27.1 million and are made up of the following:

- Governmental activities \$10.6 million.
- Business-type activities \$14.5 million.
- Component units activities \$2.0 million.

Total expenses for the year are \$24.6 million and are made up of the following:

- Governmental activities \$8.9 million.
- Business-type activities \$13.9 million.
- Component units activities \$1.8 million.

The General Fund on a current financial resources basis experienced an increase of \$373,641 in fund balance resulting in a total fund balance at year-end of \$5,228,949.

Project Highlights

The City reconstructed Emmet Street from State Street to Washington Street which included streetscape design concepts developed through neighborhood workshops in 2015. The project included complete removal and replacement of all asphalt, curb and gutter, sidewalks and street trees. Other improvements included conversion of overhead electrical lines and circuits to underground and upgrade of water mains from cast iron to ductile iron pipes, along with replacement of sewer mains and manholes.

For 2018 the City will continue a street resurfacing program, which removes a thin layer of the street's surface and adds a new layer of asphalt, along with some spot repairs in the downtown area in preparation for the Michigan Department of Transportation's realignment of US-31 in 2019.

Phase three of the reconstruction of the Wastewater Treatment Plant began in 2017, with the issuance of \$5,000,000 in revenue bonds. Phase three includes upgrades and rehabilitation of the following plant components; primary tank mechanisms, aeration tank-secondary process, administration building including the laboratory, digester building and drainage, and disinfection building improvements.

In 2013 the City applied to the Michigan Department of Environmental Quality for a grant through the Stormwater Asset Management and Wastewater Program, which began last year. 2017 was year two of the grant program that involves GIS mapping of all stormwater assets in the City. The project is expected to be completed in 2018.

Financial Statement Presentation

Overview of Statements

The financial statements provide two views of the City's financial position. Government-wide statements are the top level which summarizes all City funds into two statements using the full accrual method of accounting. This method of accounting is similar to private sector for profit accounting.

Government-wide statements include the Statement of Net Position and the Statement of Activities. The Statement of Net Position includes: assets, liabilities and the resulting difference between the two called net positions. Changes in net position can be reviewed to determine financial strength with increases to net position perceived as a sign of improving condition.

The Statement of Activities presents revenues and expenses (including depreciation) that are the underlying cause of changes in net position. Capital projects are excluded from this statement since they are included in the Statement of Net Position as additions to capital assets.

Fund financial statements under GASB Statement 34 separate funds into major and nonmajor categories. Major funds focus on funds with a large amount of financial activities which results in the inclusion of more detailed information. Governmental Funds for the City of Petoskey include the following major funds:

- General Fund
- Major Street Fund
- Local Street Fund
- Right of Way Fund

Non major funds are smaller funds with less activity and are consolidated into one column in the fund financial statements. Additional and more detailed information on nonmajor funds is presented after the notes to the financial statements.

Fund Type Statements

The City's funds are organized on the basis of individual funds with each fund having a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses as appropriate. Funds are classified as governmental, proprietary or fiduciary in nature.

Governmental funds make up the funds included within the governmental activities column of the government-wide statements discussed above except for the internal service fund (Motor Pool) that is included in government-wide statements and is not a governmental fund. Governmental funds utilize a modified accrual basis of accounting that focuses on more available and spendable resources and expenses like debt payments and capital purchases. Long-term debt and depreciation are not recorded under the modified accrual basis of accounting.

This varies from the full accrual basis of accounting used in the government-wide statements that records the purchase of capital items as assets and depreciates them over time and records long-term debt as a liability reducing the principal portion from the liability when paid and only expensing interest. There are also other less significant differences between the two accounting methods.

Proprietary funds use the full accrual method of accounting for both government-wide and fund level financial statements. There are two types of proprietary funds: enterprise and internal service funds.

Financial Statement Presentation - continued

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where costs for goods and services provided to the general public are recovered primarily through user charges. The City's enterprise funds include the Electric, Water and Sewer, and Downtown Management Parking Funds, although the Downtown Management Parking Fund is included as a component unit.

Internal service funds are like enterprise funds except that they only provide goods or services to City departments and agencies. The City's internal service fund is the Motor Pool Fund. Internal service funds are consolidated into the governmental activities in the government-wide statements and are presented separately in the fund level statements.

Component units are separate legal entities for which the City has some level of financial accountability and oversight control. Component units are shown in a separate column of the government-wide financial statements. The City's component units include the Tax Increment Finance Authority, Library and Downtown Management Parking Funds. Separate financial statements for the component units are not required and none are issued.

Financial Analysis

Summary of Net Position

December 31, 2017 and 2016

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 9,812,086	\$ 9,351,923	\$15,412,139	\$14,483,623	\$25,224,225	\$23,835,546
Capital assets	23,073,895	23,345,608	47,198,591	43,144,102	70,272,486	66,489,710
Total assets	32,885,981	32,697,531	62,610,730	57,627,725	95,496,711	90,325,256
Deferred outflows of resources	534,255	1,448,228	251,396	596,562	785,651	2,044,790
Total assets and deferred outflows of resources	\$ 33,420,236	\$34,145,759	\$62,862,126	\$58,224,287	\$96,282,362	\$92,370,046
Current liabilities	\$ 392,259	\$ 329,344	\$ 1,980,613	\$ 1,661,238	\$ 2,372,871	\$ 1,990,582
Noncurrent liabilities	4,606,808	7,787,598	12,453,351	8,895,298	17,060,159	16,682,896
Total liabilities	4,999,067	8,116,942	14,433,964	10,556,536	19,433,030	18,673,478
Deferred inflows of resources	615,349	-	192,195	-	807,544	-
Total liabilities and deferred inflows of resources	\$ 5,614,416	\$ 8,116,942	\$14,626,159	\$10,556,536	\$20,240,574	\$18,673,478
Net position						
Invested in capital assets, net of related debt	\$ 22,306,324	\$22,549,618	\$28,864,697	\$31,539,324	\$51,171,021	\$54,088,942
Restricted	3,288,342	3,271,639	5,250,895	2,291,701	8,539,237	5,563,340
Unrestricted	2,211,154	207,560	14,120,375	13,836,726	16,331,530	14,044,286
Total net position	\$ 27,805,820	\$26,028,817	\$48,235,967	\$47,667,751	\$76,041,788	\$73,696,568

Financial Analysis - continued

Total net position of the City is \$76,041,788 which includes \$51,171,021 in capital assets net of debt. Capital assets are largely made up of electric, water, sewer and street systems assets.

The City used fund balance reserves during 2017 in the following governmental funds and amounts to cover anticipated expenditures that were included in the City's 2017 budget:

Local Street	\$82,613
General Street	\$50,366
Downtown Management	\$20,632

Common Effects to Net Position

There are a number of transactions in the normal course of business that will affect the comparability of the Summary of Net Position presentation.

The net result of business activities for the year will impact (increase/decrease) current assets and/or net position.

Borrowing capital will increase current assets and long-term debt.

Spending of borrowed proceeds on capital projects will reduce current assets and increase capital assets while having no impact on invested in capital assets, net of debt.

Spending non-borrowed current assets on capital projects will reduce current assets and increase capital assets while reducing unrestricted net position and increasing invested in capital assets net of debt.

Implementation of GASB 68, *Accounting and Financial Reporting for Pensions*, will increase long-term liabilities, and related deferred outflows of resources, and reduce unrestricted net position.

Principal payment on debt will reduce current assets, long-term debt and unrestricted net position while increasing invested in capital assets, net of related debt.

The reduction of capital assets due to annual depreciation will reduce capital assets and invested in capital assets, net of debt.

Financial Analysis - continued

Changes in Net Position
December 31, 2017 and 2016

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$1,729,918	\$1,803,084	\$15,570,068	\$16,134,849	\$17,299,986	\$17,937,933
Operating grants and contributions	925,476	1,234,051	135,298	128,586	1,060,774	1,362,637
Capital grants and contributions	24,120	239,339	216,647	99,526	240,767	338,865
	2,679,514	3,276,474	15,922,013	16,362,961	18,601,527	19,639,435
General revenues:						
Property taxes	5,504,990	5,416,542	-	-	5,504,990	5,416,542
State shared revenue	548,525	501,541	-	-	548,525	501,541
Investment earnings	88,181	99,875	154,705	150,010	242,886	249,885
Unrealized gain (loss) on investments	(2,548)	-	(19,712)	(18,373)	(22,260)	(18,373)
	6,139,148	6,017,958	134,993	131,637	6,274,141	6,149,595
Total revenues	8,818,662	9,294,432	16,057,006	16,494,598	24,875,668	25,789,030
Expenses						
Program expenses:						
Legislative	7,434	12,830	-	-	7,434	12,830
General government	1,308,093	2,131,248	-	-	1,308,093	2,131,248
Public safety	2,112,167	3,463,988	-	-	2,112,167	3,463,988
Public works	3,472,657	3,463,781	-	-	3,472,657	3,463,781
Health and social services	-	37,200	-	-	-	37,200
Recreation and cultural	1,569,791	1,697,061	-	-	1,569,791	1,697,061
Other	1,757	156	-	-	1,757	156
Interest on long-term debt	123,462	144,141	-	-	123,462	144,141
Unallocated depreciation	267,494	267,500	-	-	267,494	267,500
Water and Sewer	-	-	4,376,511	3,942,150	4,376,511	3,942,150
Electric	-	-	9,570,883	9,316,760	9,570,883	9,316,760
Total expenses	8,862,855	11,217,905	13,947,394	13,258,910	22,810,249	24,476,815
Changes in net position before transfers	(44,193)	(1,923,473)	2,109,612	3,235,688	2,065,420	1,312,215
Transfers	1,821,196	3,065,089	(1,541,396)	(2,825,189)	279,800	239,900
Changes in net position	1,777,003	1,141,616	568,216	410,499	2,345,219	1,552,115
Net position-beginning of year	26,028,817	24,887,201	47,667,751	47,257,252	73,696,568	72,144,453
Net position-end of year	\$27,805,820	\$26,028,817	\$48,235,967	\$47,667,751	\$76,041,787	\$73,696,568

Financial Analysis - continued

Total revenues of \$8,818,662 for governmental activities during 2017 were \$475,770 less than the \$9,294,432 during 2016. The operating grants and contributions in Governmental Activities totaled \$925,476 for 2017, a decrease of \$308,575 from 2016's \$1,234,051. Capital grants and contributions decreased by \$215,219 over 2016's \$239,339 to \$24,120 in 2017. Property tax totaled \$5,504,990 in 2017, up \$88,448 from 2016's total of \$5,416,542. The remaining change is due to an approximate decrease of \$73,200 in charges for services, an increase of approximately \$47,000 in state revenue sharing, and a decrease of approximately \$10,900 in investment earnings.

The City implemented the Governmental Accounting Standards Board's Statement No.68 ("GASB 68") in 2015. GASB 68 requires employers to report net position benefits as a liability in the statement of net position, which amounts to \$4,887,163 city wide at year end 2017. Additional pension information required by GASB 68 may be found in Note L of the financial statements.

Charges for services in Business-type Activities totaled \$15,570,068 in 2017, a decrease of \$564,781 from \$16,134,849 in 2016. Water and Sewer Fund charges decreased during the year by a total of \$14,166, while the Electric Fund charges decreased by \$550,615. The decrease in monthly billing charges to electric customers results from a decrease in use of 2,970,600 kWhs from the previous year.

Water and sewer customer monthly billing charges decreased by \$14,166, while usage decreased. Water usage realized a net decrease of approximately 28,700 cubic feet in 2017 compared to 2016, while sewer usage realized a net decrease of approximately 6,700 cubic feet.

Revenues from all sources total \$24,875,668, of which \$8,818,662 is from governmental activities and \$16,057,006 from business-type activities. Total revenues from governmental activities include \$5,504,990 in property taxes accounting for 62% of the funds and \$1,729,918, or 20% from charges for services. Total revenue for business-type activity receives the vast majority of revenues through charges for services totaling \$15,570,068 during 2017.

Expenses under the full accrual basis of accounting for governmental activities totaled \$8,862,854 which includes depreciation on such items as buildings and infrastructure amounting to \$1,599,429. Total expense does not include capital asset items such as street and sidewalk improvements. Public safety accounts for \$2,112,166 or 24% of expenses while public works totals \$3,472,657 or 39%. Expenses for general government were \$1,308,093 or 15% of expenses and for recreation and cultural were \$1,569,791, or 18% of expenses.

Expenses for business-type activities total \$13,947,394 which consists of \$9,570,883 or 69% from the electric system and \$4,376,511 or 31% from the water and sewer systems. Within the electric system \$6,767,100 or 71% of the expense is for purchased power. Total water and sewer system costs of \$4,376,511 are broken down between the two at \$1,444,249 or 33% water and \$2,932,262 or 67% sewer.

General Fund Budgetary Highlights

Total General Fund revenues of \$5,852,472 were more than total budgeted revenues of \$5,627,800 by \$224,672 or 4%. Actual revenues decreased from 2016 by approximately \$658,552. Contributions from local units, fines and forfeitures, and interest and investment earnings fell under budget by \$3,273, \$5,595 and \$3,709, respectively.

Total General Fund expenditures of \$7,074,627 were \$179,073 lower than total budgeted expenditures of \$7,253,700 or 2.5%. Total expenditures for 2017 were lower than the 2016 total of \$7,740,750 by \$666,123 or 8.6%. The difference is due primarily to a 2016 increase in Public Safety of \$404,000 related to the rental rehab project funded by a state grant of \$418,000.

Capital Assets and Debt Administration

Capital Assets

As of year-end the City of Petoskey had \$62,434,451 invested in capital assets as reflected in the following schedule:

Capital Assets December 31, 2017 and 2016 (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Land and land rights	\$ 4,042,213	\$ 4,042,213	\$ -	\$ -	\$ 4,042,213	\$ 4,042,213
Land improvements	2,602,701	2,709,745	-	-	2,602,701	2,709,745
Buildings	2,412,342	2,588,941	-	-	2,412,342	2,588,941
Equipment	2,983,286	2,915,626	-	-	2,983,286	2,915,626
Streets and sidewalks	11,033,353	11,089,083	-	-	11,033,353	11,089,083
Electric system	-	-	15,108,725	15,493,889	15,108,725	15,493,889
Water system	-	-	10,921,808	10,980,030	10,921,808	10,980,030
Sewer system	-	-	14,540,315	12,614,924	14,540,315	12,614,924
	\$23,073,895	\$23,345,608	\$ 40,570,848	\$ 39,088,843	\$63,644,743	\$62,434,451

Major capital asset additions for 2017 include:

Governmental Activities

Motor pool replacement	\$ 431,612
Street reconstruction projects	679,066
Sidewalks	171,038
Parking meters	46,000

Business-Type Activities

Electric system improvement	\$ 758,836
Water system improvements	3,002,832

Bond Debt

The City had \$12,254,094 of face value in outstanding bond debt at year-end which is distributed in the following debt schedule:

Debt Schedule

December 31, 2017 and 2016

Governmental Activities	<u>2017</u>	<u>2016</u>
General Obligation Bonds:		
Municipal facilities - marina	<u>\$ 729,094</u>	<u>\$ 800,000</u>
Business-Type Activities		
Revenue Bonds:		
Sewer system improvements	4,410,000	4,805,000
Water system improvements	5,000,000	425,000
Sewer system improvements	<u>2,115,000</u>	<u>2,225,000</u>
	<u>11,525,000</u>	<u>7,455,000</u>
Total bond debt	<u>\$ 12,254,094</u>	<u>\$8,255,000</u>

Principal payments on bonds in the amount of \$51,229 for governmental activities and \$930,000 for business-type activities were made in 2017.

Economic Factors

The City of Petoskey's three largest sources of revenue include property taxes, revenues received from the State of Michigan and utility charges. The economic forecast for the community is dependent on these three revenue sources.

Due to a general decline in the real estate market, including a large volume of foreclosures within the City, the City's total taxable value decreased by 10% in 2010, 6.4% in 2011, and 3.4% in 2012. After three straight years of declining property tax values, the taxable values increased a total of 7.06% in the last four years and 1.89% in 2017 and 2.8% in 2018. The City has not been able to take full advantage of the increases due to the State's low inflation factor for recent year. However, the State's 2018 inflation rate of 2.1% will not require the City's millage rate to be rolled back, which will result in a little larger increase in tax revenue than budgeted for. Property values are continuing to rise at a higher rate each year in the City as well as the State, which is a positive economic indicator. With growth in property taxes restricted by the State's rate of inflation, higher rates will help the City's overall financial condition.

Revenues received from the State, which include revenue sharing and transportation funds, are affected as well by current economic conditions along with allocation to local units established by the legislature. Revenue sharing amounts are dependent on the collection of sales tax, which tend to go down when the economy is slow with the reverse being true when the economy is good. Transportation funds are derived through gas taxes and while they are affected by the economy they are more affected by the price of oil and resulting gas prices that do not always follow certain economic conditions. The improvement in the State's economy has affected state revenue sharing as it is steadily increasing. State revenue sharing in the General Fund increased again in 2017 by 9.1% or \$36,742. A second straight increase after a 17.1% increase in 2016. Gas tax revenue in the Major and Local Street Funds increased by \$82,497 or 17.2% from the previous year and future years are expected to see larger increases as the State increased the gas tax on January 1, 2017.

Utility charges for electric, water and sewer services tend to fluctuate based on weather conditions more so than any other factor. For 2014 the City saw slight decreases in all three utility systems. The slight reduction is probably due to the mild temperatures last summer with good rainfall amounts. Revenues are correspondingly down due to the reduction in usage. Utility rates were last increased for all services in 2014 and there are no utility rate increases scheduled for 2018, although an electric rate study is in progress.

Wholesale electric power purchases increased for several years, but continued efforts in purchasing long term power purchased, has resulted in declining costs and customers are realizing a savings as reduced purchased power costs are passed on to the customers. Variances in wholesale power costs, either increases or decreases are passed on to the customer in the way of a power cost adjustment on their monthly utility bill. Federal and State regulations tend to affect power costs most often, usually due to new regulations on emissions at coal fired plants or by way of state regulations such as, requiring certain levels of renewable energy sources by electric utilities.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions regarding this report or need additional information, contact the Director of Finance at 101 E. Lake Street, Petoskey, MI 49770.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Members of City Council and City Manager
City of Petoskey

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund and the aggregate remaining fund information of the *City of Petoskey* (the "City") as of and for the year ended December 31, 2017, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 City'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 City'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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Petoskey as of December 31, 2017, 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.

Emphasis of Matter

Accounting Change

As described in Note O to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*, during the year ended December 31, 2017.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *ix*, and the required supplementary information on pages 51 - 58, 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 inquires 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.

Combining Financial Statements

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 financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Dennis, Gartland & Niergarth

April 25, 2018

City of Petoskey

STATEMENT OF NET POSITION

December 31, 2017

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	TIFA	Library	Downtown Management Parking
ASSETS						
Current assets						
Cash and equivalents	\$ 8,584,483	\$ 5,631,965	\$ 14,216,448	\$ 966,643	\$ 950,513	\$ 697,668
Investments	546,056	6,456,060	7,002,116	198,226	-	-
Receivables						
Special assessments	20,506	-	20,506	-	-	-
Accounts receivable	13,439	2,129,324	2,142,763	46,953	85	-
Due from fiduciary funds	305,088	-	305,088	-	39,276	-
Due from other governments	158,133	-	158,133	-	-	-
Inventory	184,381	1,194,790	1,379,171	-	-	-
	<u>9,812,086</u>	<u>15,412,139</u>	<u>25,224,225</u>	<u>1,211,822</u>	<u>989,874</u>	<u>697,668</u>
Total current assets						
Non-current assets						
Restricted cash and investments						
Customer deposits	-	215,418	215,418	-	-	-
Sewage service covenants	-	770,923	770,923	-	-	-
Revenue bond covenants	-	4,733,519	4,733,519	-	-	-
MPPA energy restrictions	-	447,884	447,884	-	-	-
MPPA working capital advance	-	459,999	459,999	-	-	-
Capital assets	48,306,904	78,295,820	126,602,724	3,715,591	7,526,346	-
Less accumulated depreciation	(25,233,009)	(37,724,972)	(62,957,981)	(1,452,742)	(3,522,062)	-
	<u>23,073,895</u>	<u>47,198,591</u>	<u>70,272,486</u>	<u>2,262,849</u>	<u>4,004,284</u>	<u>-</u>
Total non-current assets						
DEFERRED OUTFLOWS OF RESOURCES						
Deferred loss on debt refunding	3,015	125,304	128,319	9,753	58,566	-
Deferred outflows for pension obligation	531,240	126,092	657,332	-	10,146	-
	<u>534,255</u>	<u>251,396</u>	<u>785,651</u>	<u>9,753</u>	<u>68,712</u>	<u>-</u>
Total deferred outflows of resources						
Total assets and deferred outflows of resources	<u>\$ 33,420,236</u>	<u>\$ 62,862,126</u>	<u>\$ 96,282,362</u>	<u>\$ 3,484,424</u>	<u>\$ 5,062,870</u>	<u>\$ 697,668</u>

The accompanying notes are an integral part of these financial statements.

City of Petoskey

STATEMENT OF NET POSITION- Continued

December 31, 2017

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	TIFA	Library	Downtown Management Parking
LIABILITIES						
Current liabilities						
Accounts payable	\$ 205,611	\$ 1,230,725	\$ 1,436,336	\$ -	\$ 47,974	\$ 18,128
Accrued expenses	93,442	48,457	141,899	-	30,844	-
Unearned revenue	700	-	700	-	-	-
Accrued interest	5,038	-	5,038	18,690	-	-
Payable from restricted assets						
Current portion of revenue bonds	-	495,000	495,000	-	-	-
Accrued interest	-	206,431	206,431	-	-	-
Bonds payable, due within one year	<u>87,468</u>	<u>-</u>	<u>87,468</u>	<u>127,532</u>	<u>210,000</u>	<u>-</u>
Total current liabilities	<u>392,259</u>	<u>1,980,613</u>	<u>2,372,872</u>	<u>146,222</u>	<u>288,818</u>	<u>18,128</u>
Noncurrent liabilities						
Payable from restricted assets						
Customer deposits	-	109,215	109,215	-	-	-
Long-term accrued expenses	29,582	-	29,582	-	-	-
Estimated liability for landfill post-closure care costs	85,000	-	85,000	-	-	-
Net pension obligation	3,809,107	1,007,681	4,816,788	-	70,375	-
Bonds payable, net	<u>683,119</u>	<u>11,336,455</u>	<u>12,019,574</u>	<u>2,242,609</u>	<u>2,428,547</u>	<u>-</u>
Total noncurrent liabilities	<u>4,606,808</u>	<u>12,453,351</u>	<u>17,060,159</u>	<u>2,242,609</u>	<u>2,498,922</u>	<u>-</u>
Total liabilities	<u>4,999,067</u>	<u>14,433,964</u>	<u>19,433,031</u>	<u>2,388,831</u>	<u>2,787,740</u>	<u>18,128</u>
Deferred inflows for pension obligation	<u>615,349</u>	<u>192,195</u>	<u>807,544</u>	<u>-</u>	<u>13,399</u>	<u>-</u>
NET POSITION						
Invested in capital assets, net of debt	22,306,324	28,864,697	51,171,021	(97,539)	1,424,303	-
Restricted						
Refuse collection	228,257	-	228,257	-	-	-
Marina	850,400	-	850,400	-	-	-
Streets and improvements	2,087,054	-	2,087,054	-	-	-
Downtown programs and services	122,631	-	122,631	-	-	-
Debt service	-	-	-	-	173,000	-
Sewage service covenants	-	770,923	770,923	-	-	-
Revenue bond indentures	-	4,032,088	4,032,088	-	-	-
MPPA energy expenses	-	447,884	447,884	-	-	-
TIFA expenses	-	-	-	1,193,132	-	-
Library	-	-	-	-	664,428	-
Unrestricted	<u>2,211,154</u>	<u>14,120,375</u>	<u>16,331,529</u>	<u>-</u>	<u>-</u>	<u>679,540</u>
Total net position	<u>27,805,820</u>	<u>48,235,967</u>	<u>76,041,787</u>	<u>1,095,593</u>	<u>2,261,731</u>	<u>679,540</u>
Total liabilities and net position	<u>\$ 33,420,236</u>	<u>\$ 62,862,126</u>	<u>\$ 96,282,362</u>	<u>\$ 3,484,424</u>	<u>\$ 5,062,870</u>	<u>\$ 697,668</u>

The accompanying notes are an integral part of these financial statements.

City of Petoskey

STATEMENT OF ACTIVITIES

Year ended December 31, 2017

Functions/Program	Program Revenues				Net (Expense) Revenue and Changes in Net Position						
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units			
					Governmental Activities	Business-type Activities	Total	TIFA	Library	Downtown Management Parking	
Primary Government											
Governmental activities											
Legislative	\$ 7,434	\$ -	\$ -	\$ -	\$ (7,434)	\$ -	\$ (7,434)	\$ -	\$ -	\$ -	\$ -
General government	1,308,093	102,181	-	-	(1,205,912)	-	(1,205,912)	-	-	-	-
Public safety	2,112,167	24,217	9,686	24,120	(2,054,144)	-	(2,054,144)	-	-	-	-
Public works	3,472,657	418,708	861,563	-	(2,192,386)	-	(2,192,386)	-	-	-	-
Recreation and cultural	1,569,791	1,184,812	54,227	-	(330,752)	-	(330,752)	-	-	-	-
Other	1,757	-	-	-	(1,757)	-	(1,757)	-	-	-	-
Interest on long-term debt	123,462	-	-	-	(123,462)	-	(123,462)	-	-	-	-
Unallocated depreciation	267,494	-	-	-	(267,494)	-	(267,494)	-	-	-	-
Total governmental activities	<u>8,862,855</u>	<u>1,729,918</u>	<u>925,476</u>	<u>24,120</u>	<u>(6,183,341)</u>	<u>-</u>	<u>(6,183,341)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-type activities											
Water and sewer	4,376,511	5,114,567	135,298	216,647	-	1,090,001	1,090,001	-	-	-	-
Electric	9,570,883	10,455,501	-	-	-	884,618	884,618	-	-	-	-
Total business-type activities	<u>13,947,394</u>	<u>15,570,068</u>	<u>135,298</u>	<u>216,647</u>	<u>-</u>	<u>1,974,619</u>	<u>1,974,619</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 22,810,249</u>	<u>\$ 17,299,986</u>	<u>\$ 1,060,774</u>	<u>\$ 240,767</u>	<u>(6,183,341)</u>	<u>1,974,619</u>	<u>(4,208,722)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Component Units											
TIFA	\$ 139,803	\$ -	\$ -	\$ -	-	-	-	(139,803)	-	-	-
Library	1,283,692	171,933	502,649	-	-	-	-	-	(609,110)	-	-
Downtown Management Parking	418,669	511,238	-	-	-	-	-	-	-	92,569	-
Total component units	<u>\$ 1,842,164</u>	<u>\$ 683,171</u>	<u>\$ 502,649</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(139,803)</u>	<u>(609,110)</u>	<u>92,569</u>	<u>-</u>
General revenues											
Property taxes					5,504,990	-	5,504,990	290,418	792,309	-	-
State shared revenue					548,525	-	548,525	-	-	-	-
Unrestricted interest and investment earnings					88,181	154,705	242,886	7,776	3,160	624	-
Unrealized loss on investments					(2,548)	(19,712)	(22,260)	(314)	-	-	-
Other					-	-	-	-	9,420	-	-
Transfers					1,821,196	(1,541,396)	279,800	(260,000)	-	-	(19,800)
Total general revenues and transfers					<u>7,960,344</u>	<u>(1,406,403)</u>	<u>6,553,941</u>	<u>37,880</u>	<u>804,889</u>	<u>(19,176)</u>	<u>-</u>
Change in net position					1,777,003	568,216	2,345,219	(101,923)	195,779	73,393	-
Net position, beginning of year					26,028,817	47,667,751	73,696,568	1,197,516	2,065,952	606,147	-
Net position, end of year					<u>\$ 27,805,820</u>	<u>\$ 48,235,967</u>	<u>\$ 76,041,787</u>	<u>\$ 1,095,593</u>	<u>\$ 2,261,731</u>	<u>\$ 679,540</u>	<u>-</u>

City of Petoskey

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2017

	General Fund	Major Street Fund	Local Street Fund	Right-of-Way Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and equivalents	\$ 4,546,411	\$ 891,010	\$ 447,619	\$ 639,570	\$ 945,083	\$ 7,469,693
Investments	546,056	-	-	-	-	546,056
Receivables						
Special assessments	-	-	-	-	20,506	20,506
Accounts receivable	8,270	727	354	397	3,016	12,764
Due from other funds	217,346	-	-	85,000	2,742	305,088
Due from governmental units	57,631	76,460	24,042	-	-	158,133
Inventory	-	-	-	-	161,095	161,095
Total assets	\$ 5,375,714	\$ 968,197	\$ 472,015	\$ 724,967	\$ 1,132,442	\$ 8,673,335
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 66,367	\$ 59,666	\$ 4,800	\$ 2,349	\$ 56,849	\$ 190,031
Accrued expenditures	79,698	6,121	5,189	-	2,336	93,344
Unearned revenue	700	-	-	-	-	700
Total liabilities	146,765	65,787	9,989	2,349	59,185	284,075
FUND BALANCES						
Non-spendable						
Inventory	-	-	-	-	161,095	161,095
Restricted	1,078,657	902,410	462,026	722,618	122,631	3,288,342
Committed	-	-	-	-	789,531	789,531
Unassigned	4,150,292	-	-	-	-	4,150,292
Total fund balances	5,228,949	902,410	462,026	722,618	1,073,257	8,389,260
Total liabilities and fund balances	\$ 5,375,714	\$ 968,197	\$ 472,015	\$ 724,967	\$ 1,132,442	\$ 8,673,335

The accompanying notes are an integral part of these financial statements.

City of Petoskey

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

December 31, 2017

Total Fund Balance - Governmental Funds \$ 8,389,260

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

Governmental funds report capital outlays as expenditures. However, in the statement of net position, these assets are capitalized and depreciated over their useful lives.

Governmental capital assets	41,475,787
Accumulated depreciation	(21,264,997)

Governmental funds report interest when due, whereas in the statement of net position, interest is accrued on outstanding bonds. (5,038)

Compensated absences (vacations and sick leave) are not due and payable in the current period and therefore, are not reported in the governmental funds' balance sheets. (29,582)

Long-term liabilities, including net pension obligation and bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

Net pension obligation	(3,809,107)
Deferred outflows of resources for net pension obligation	531,240
Deferred inflows of resources for net pension obligation	(615,349)
Governmental bonds payable, net	(767,572)
Landfill post-closure costs	(85,000)

Internal service funds are used to charge costs of certain activities, such as insurance and motor vehicle usage, to various departments within the City. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. 3,986,178

Net Position of Governmental Activities \$ 27,805,820

City of Petoskey

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

Year ended December 31, 2017

	General Fund	Major Street Fund	Local Street Fund	Right-of-Way Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 3,836,414	\$ -	\$ -	\$ 1,668,576	\$ -	\$ 5,504,990
Special assessments	-	-	-	-	90,128	90,128
Licenses and permits	21,988	-	-	-	-	21,988
Federal grants	24,120	-	-	-	-	24,120
State grants	558,210	588,109	184,533	-	88,922	1,419,774
Contributions from local units	54,227	-	-	-	-	54,227
Charges for services	1,184,812	-	-	-	-	1,184,812
Fines and forfeits	17,705	-	-	-	-	17,705
Interest and investment earnings	68,291	2,759	1,084	6,983	3,930	83,047
Other	86,705	-	-	-	42,483	129,188
	<u>5,852,472</u>	<u>590,868</u>	<u>185,617</u>	<u>1,675,559</u>	<u>225,463</u>	<u>8,529,979</u>
EXPENDITURES						
Current						
Legislative	7,434	-	-	-	-	7,434
General government	1,620,988	-	-	-	-	1,620,988
Public safety	3,065,414	-	-	-	-	3,065,414
Public works	585,541	446,089	267,827	-	1,161,986	2,461,443
Health and welfare	18,583	-	-	-	-	18,583
Recreational and cultural	1,685,402	-	-	-	-	1,685,402
Other	-	-	-	1,757	-	1,757
Capital outlay	91,265	679,066	403	-	178,538	949,272
Debt service						
Principal	-	-	-	-	205,001	205,001
Interest and fiscal charges	-	-	-	-	115,878	115,878
	<u>7,074,627</u>	<u>1,125,155</u>	<u>268,230</u>	<u>1,757</u>	<u>1,661,403</u>	<u>10,131,172</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,222,155)</u>	<u>(534,287)</u>	<u>(82,613)</u>	<u>1,673,802</u>	<u>(1,435,940)</u>	<u>(1,601,193)</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in	2,115,100	600,000	-	-	1,482,400	4,197,500
Operating transfers out	(539,104)	-	-	(1,650,000)	(352,100)	(2,541,204)
Transfers from component units	19,800	-	-	-	260,000	279,800
Bond proceeds	-	-	-	-	777,743	777,743
Escrow agent transfers	-	-	-	-	(765,710)	(765,710)
	<u>1,595,796</u>	<u>600,000</u>	<u>-</u>	<u>(1,650,000)</u>	<u>1,402,333</u>	<u>1,948,129</u>
NET CHANGE IN FUND BALANCES	373,641	65,713	(82,613)	23,802	(33,607)	346,936
Fund balance, beginning of year	<u>4,855,308</u>	<u>836,697</u>	<u>544,639</u>	<u>698,816</u>	<u>1,106,864</u>	<u>8,042,324</u>
Fund balance, end of year	<u>\$ 5,228,949</u>	<u>\$ 902,410</u>	<u>\$ 462,026</u>	<u>\$ 722,618</u>	<u>\$ 1,073,257</u>	<u>\$ 8,389,260</u>

The accompanying notes are an integral part of these financial statements.

City of Petoskey

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES

Year ended December 31, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ 346,936
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their useful lives as depreciation.	
Expenditures for capital assets	896,104
Current year depreciation	(1,202,419)
Net change in the pension obligation and related deferred outflows and inflows of resources.	1,494,397
Bonds proceeds are shown as other financing sources in the funds, but are shown as a long-term liability in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Bonds issued of \$730,323, including bond premiums of \$47,420	(777,743)
Escrow agent transfers	765,710
Principal payments	51,230
Amortization of bond premium and deferred loss on refunding	(10,779)
Interest on long-term debt is recognized as an expenditure when it is due in the governmental funds. However, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	3,192
In the statement of activities, certain operating expenses - compensated absences (vacations and sick leave) - are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation and sick time paid was less than the amounts earned.	(10,042)
Governmental funds report other post-employment benefit expenditures when paid or payable, whereas the statement of activities reports the annual actuarial cost.	101,227
Internal service funds are used to charge costs of certain activities, such as insurance and motor vehicle usage, to various departments within the City. The net revenue (expense) of the internal service funds is included in governmental activities in the statement of activities.	<u>119,190</u>
Change in Net Position of Governmental Activities	<u>\$ 1,777,003</u>

The accompanying notes are an integral part of these financial statements.

City of Petoskey

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

December 31, 2017

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Electric System	Water and Sewer System	Totals	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS				
Current assets				
Cash and equivalents	\$ 3,407,848	\$ 2,224,117	\$ 5,631,965	\$ 1,114,790
Investments	3,018,644	3,437,416	6,456,060	-
Accounts receivable	1,466,710	662,614	2,129,324	675
Inventory	951,263	243,527	1,194,790	23,286
Total current assets	8,844,465	6,567,674	15,412,139	1,138,751
Noncurrent assets				
Restricted cash and investments				
Customer deposits	208,018	7,400	215,418	-
Sewage service covenants	-	770,923	770,923	-
Revenue bond covenants	-	4,733,519	4,733,519	-
MPPA energy charges	447,884	-	447,884	-
MPPA working capital advance	459,999	-	459,999	-
Capital assets	33,737,919	44,557,901	78,295,820	6,831,117
Less accumulated depreciation	(18,629,194)	(19,095,778)	(37,724,972)	(3,968,012)
Total noncurrent assets	16,224,626	30,973,965	47,198,591	2,863,105
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on debt refunding	-	125,304	125,304	-
Deferred outflows for pension obligation	42,838	83,254	126,092	-
Total deferred outflows of resources	42,838	208,558	251,396	-
Total assets and deferred outflows of resources	\$ 25,111,929	\$ 37,750,197	\$ 62,862,126	\$ 4,001,856

The accompanying notes are an integral part of these financial statements.

City of Petoskey

STATEMENT OF NET POSITION - PROPRIETARY FUNDS - Continued

December 31, 2017

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Electric System	Water and Sewer System	Totals	
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES				
Accounts payable	\$ 362,176	\$ 868,549	\$ 1,230,725	\$ 15,580
Accrued expenses	34,766	13,691	48,457	98
Total current liabilities	396,942	882,240	1,279,182	15,678
CURRENT LIABILITIES (payable from restricted assets)				
Current portion of revenue bonds	-	495,000	495,000	-
Accrued interest	-	206,431	206,431	-
Total current liabilities (payable from restricted assets)	-	701,431	701,431	-
NONCURRENT LIABILITIES				
Payable from restricted assets				
Customer deposits	101,815	7,400	109,215	-
Net pension obligation	370,021	637,660	1,007,681	-
Revenue bonds (net current portion and unamortized premiums)	-	11,336,455	11,336,455	-
Total noncurrent liabilities	471,836	11,981,515	12,453,351	-
Total liabilities	868,778	13,565,186	14,433,964	15,678
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows for pension obligation	82,068	110,127	192,195	-
NET POSITION				
Invested in capital assets, net of debt	15,108,725	13,755,972	28,864,697	2,863,105
Restricted for sewage service covenants	-	770,923	770,923	-
Restricted for revenue bond indentures	-	4,032,088	4,032,088	-
Restricted for MPPA energy expenses	447,884	-	447,884	-
Unrestricted	8,604,474	5,515,901	14,120,375	1,123,073
Total net position	24,161,083	24,074,884	48,235,967	3,986,178
Total liabilities and net position	\$ 25,111,929	\$ 37,750,197	\$ 62,862,126	\$ 4,001,856

The accompanying notes are an integral part of these financial statements.

City of Petoskey

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS

Year ended December 31, 2017

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Fund
	<u>Electric System</u>	<u>Water and Sewer System</u>	<u>Totals</u>	
Operating revenue				
Charges for services	\$ 10,009,223	\$ 5,114,567	\$ 15,123,790	\$ 1,051,492
Operating expenses				
Purchased power	6,767,100	-	6,767,100	-
Personnel services	643,827	908,267	1,552,094	16,595
Contractual services	527,604	1,098,744	1,626,348	327,502
Supplies	3,388	9,092	12,480	115,716
Materials	188,505	316,002	504,507	-
Heat, light and power	1,050	424,692	425,742	-
Depreciation	1,101,179	1,135,664	2,236,843	397,009
Rent	21,000	61,600	82,600	-
Total operating expenses	<u>9,253,653</u>	<u>3,954,061</u>	<u>13,207,714</u>	<u>856,822</u>
OPERATING INCOME	<u>755,570</u>	<u>1,160,506</u>	<u>1,916,076</u>	<u>194,670</u>
Nonoperating revenues				
Unrestricted interest and investment earnings	63,658	91,047	154,705	5,134
Unrealized gain (loss) from investments	(10,509)	(9,203)	(19,712)	(2,548)
Rent	130,400	-	130,400	-
Sewage service covenant	-	135,298	135,298	-
Construction	144,009	48,359	192,368	-
Miscellaneous	171,869	-	171,869	36,834
Total nonoperating revenues	<u>499,427</u>	<u>265,501</u>	<u>764,928</u>	<u>39,420</u>
Nonoperating expenses				
Personnel services	28,646	-	28,646	-
Contractual services	144,696	-	144,696	-
Supplies	18,677	-	18,677	-
Materials	55,256	-	55,256	-
Heat, light and power	27,135	-	27,135	-
Interest	-	385,615	385,615	-
Depreciation	42,820	-	42,820	-
Other expenses	-	36,835	36,835	-
Total nonoperating expenses	<u>317,230</u>	<u>422,450</u>	<u>739,680</u>	<u>-</u>
Net nonoperating revenues (expenses)	<u>182,197</u>	<u>(156,949)</u>	<u>25,248</u>	<u>39,420</u>
INCOME BEFORE OPERATING TRANSFERS	937,767	1,003,557	1,941,324	234,090
Other financing uses				
Operating transfers in	453,104	-	453,104	-
Operating transfers out	(1,047,200)	(947,300)	(1,994,500)	(114,900)
Total transfers	<u>(594,096)</u>	<u>(947,300)</u>	<u>(1,541,396)</u>	<u>(114,900)</u>
Capital contributions	<u>-</u>	<u>168,288</u>	<u>168,288</u>	<u>-</u>
CHANGE IN NET POSITION	343,671	224,545	568,216	119,190
Net position, beginning of year	<u>23,817,412</u>	<u>23,850,339</u>	<u>47,667,751</u>	<u>3,866,988</u>
Net position, end of year	<u>\$ 24,161,083</u>	<u>\$ 24,074,884</u>	<u>\$ 48,235,967</u>	<u>\$ 3,986,178</u>

The accompanying notes are an integral part of these financial statements.

City of Petoskey

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended December 31, 2017

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Electric System	Water and Sewer System	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 10,087,180	\$ 5,102,781	\$ 15,189,961	\$ 1,051,492
Cash payments to suppliers for goods and services	(7,498,474)	(1,157,302)	(8,655,776)	(443,379)
Cash payments to employees for services	(851,015)	(1,181,532)	(2,032,547)	(17,341)
Cash payments to other funds for services	(21,000)	(61,600)	(82,600)	-
	<u>1,716,691</u>	<u>2,702,347</u>	<u>4,419,038</u>	<u>590,772</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES				
Operating transfers in/(out) to other funds	(594,096)	(947,300)	(1,541,396)	(114,900)
Increase/(Decrease) in customer deposits	(13,264)	(16,200)	(29,464)	-
Net cash provided by rental, construction and miscellaneous non-operating activities	102,978	5,233,454	5,336,432	-
Net cash from non-capital and related financing activities	<u>(504,382)</u>	<u>4,269,954</u>	<u>3,765,572</u>	<u>(114,900)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(758,836)	(3,002,832)	(3,761,668)	(431,612)
Principal paid on revenue bonds and contracts payable	-	(930,000)	(930,000)	-
Interest paid on revenue bonds and contracts payable	-	(317,138)	(317,138)	-
Capital contributed by customers	-	168,288	168,288	36,834
Net cash from capital and related financing activities	<u>(758,836)</u>	<u>(4,081,682)</u>	<u>(4,840,518)</u>	<u>(394,778)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale (purchase) of investments, net	(1,457,033)	(1,482,340)	(2,939,373)	(2,548)
Interest received	63,658	91,047	154,705	5,134
Net cash from investing activities	<u>(1,393,375)</u>	<u>(1,391,293)</u>	<u>(2,784,668)</u>	<u>2,586</u>
NET CHANGE IN CASH	(939,902)	1,499,326	559,424	83,680
Cash, beginning of year	<u>4,555,768</u>	<u>5,252,484</u>	<u>9,808,252</u>	<u>1,031,110</u>
Cash, end of year	<u>\$ 3,615,866</u>	<u>\$ 6,751,810</u>	<u>\$ 10,367,676</u>	<u>\$ 1,114,790</u>
Current assets	\$ 3,407,848	\$ 2,224,117	\$ 5,631,965	\$ 1,114,790
Restricted assets	208,018	4,527,693	4,735,711	-
Totals	<u>\$ 3,615,866</u>	<u>\$ 6,751,810</u>	<u>\$ 10,367,676</u>	<u>\$ 1,114,790</u>

The accompanying notes are an integral part of these financial statements.

City of Petoskey

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS- Continued

Year ended December 31, 2017

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Electric System	Water and Sewer System	Totals	
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 755,570	\$ 1,160,506	\$ 1,916,076	\$ 194,670
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	1,143,999	1,135,664	2,279,663	397,009
(Increase) decrease in accounts receivable	77,957	(11,786)	66,171	-
(Increase) decrease in inventory	(46,842)	(15,175)	(62,017)	(1,448)
Increase in prepaid expenses	-	-	-	(675)
Increase (decrease) in accounts payable	(6,805)	706,403	699,598	1,962
Increase (decrease) in accrued expenses	(7,885)	(5,814)	(13,699)	(746)
Increase(decrease) in net pension obligation and related deferred outflows	(199,303)	(267,451)	(466,754)	-
Total adjustments	961,121	1,541,841	2,502,962	396,102
Net cash provided by operating activities	\$ 1,716,691	\$ 2,702,347	\$ 4,419,038	\$ 590,772

The accompanying notes are an integral part of these financial statements.

City of Petoskey

STATEMENT OF FIDUCIARY NET POSITION

December 31, 2017

	Pension Trust Fund	Library Private Purpose Trust Fund	Agency Funds
ASSETS			
Cash	\$ -	\$ -	\$ 1,780,828
Investments	153,281	-	-
Receivables			
Taxes	-	-	2,138,307
 Total assets	<u>\$ 153,281</u>	<u>\$ -</u>	<u>\$ 3,919,135</u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 60,347
Due to other funds	-	-	305,088
Due to component unit	-	-	39,276
Due to other governmental units	-	-	3,514,424
 Total liabilities	-	-	3,919,135
NET POSITION			
Held in trust for pension benefits and other purposes	153,281	-	-
 Total liabilities and net position	<u>\$ 153,281</u>	<u>\$ -</u>	<u>\$ 3,919,135</u>

The accompanying notes are an integral part of these financial statements.

City of Petoskey

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year ended December 31, 2017

	Pension Trust Fund	Library Private Purpose Trust Fund
ADDITIONS TO NET POSITION		
Contributions		
Employer	\$ 15,710	\$ -
Private donations	-	-
Total contributions	15,710	-
Net investment earnings		
Interest and unrealized gains (losses)	19,785	-
Total additions	35,495	-
DEDUCTIONS FROM NET POSITION		
Library expenses	-	15,370
NET CHANGE IN NET POSITION	35,495	(15,370)
Net position, beginning of year	117,786	15,370
Net position, end of year	\$ 153,281	\$ -

The accompanying notes are an integral part of these financial statements.

City of Petoskey

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The City of Petoskey (the "City") was incorporated November 4, 1924, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), public works (streets and sanitation), health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The Financial Reporting Entity

The City's financial statements include the accounts of all City operations. In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the City may or may not be financially accountable and, as such, be includable within the City's financial statements. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board ("GASB") Statement No. 14, as amended, *The Financial Reporting Entity*, the City is financially accountable if it appoints a voting majority of an organization's governing board and (1) it is able to impose its will on the organization and (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

Based on this criteria, the City has identified the following blended and discretely presented component units requiring inclusion in the City's financial statements:

Blended Component Unit

City of Petoskey Building Authority - The City of Petoskey Building Authority is governed by a three-member board appointed by the City of Petoskey. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole purpose is to provide financing for the construction of buildings, parking lots, recreational facilities and to acquire the necessary sites for such facilities for the City of Petoskey. Separate financial statements for the Building Authority are not required or issued.

Discretely Presented Component Units

Tax Increment Finance Authority ("TIFA") - The Tax Increment Finance Authority, which was established pursuant to the provisions of Public Act 450 of 1980, as amended, is governed by an eight-person board appointed by the City Council. The Finance Authority may issue debt subject to limitations set forth in the Act and is funded by a specified annual property tax capture of a portion of all units' levies which may only be used for activities within the tax increment finance district. Separate financial statements for the Tax Increment Finance Authority are not required or issued.

NOTES TO FINANCIAL STATEMENTS - Continued

Library - The Petoskey District Library, which was established in 2009 pursuant to the provisions of the District Library Establishment Act MCL 397.171 et seq, is governed by a five-person board appointed by the City. The Library may issue debt, but the tax levy is currently subject to approval by the City Council. Separate financial statements for the District Library are not required or issued.

Downtown Management Board (Downtown Management/Parking) - The Downtown Management Board was established in February of 1994 pursuant to the provisions of Public Act 120 of 1961. By a resolution dated February 1, 2000, responsibilities for operating and maintaining the City's downtown area parking system and facilities were transferred to the Downtown Management Board. Separate financial statements for the Downtown Management Board are not required or issued.

Government-Wide and Fund Financial Statements

The City of Petoskey's basic financial statements include both government-wide (reporting the City as a whole) and the fund financial statements (reporting the City's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business-type. 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 primary government is reported separately from legally separate component units for which the primary government is financially accountable.

Government-Wide Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule, the effect of interfund activity such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

Internal service funds are consolidated into the governmental column when presented at the government-wide level. This is because the principal users of the internal service are the City's governmental activities. The net profit/loss in the internal service funds is allocated to the functional activity (public safety, public works, etc.) based upon usage.

In the government-wide statement of net position, both the governmental and business-type activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations, are recognized. The City's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net position; and unrestricted net position.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.

The program revenues must be directly associated with the function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

NOTES TO FINANCIAL STATEMENTS - Continued

Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses and balances of resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The balance sheets; statements of revenues, expenditures/expenses and changes in fund balances/net position; and statements of cash flows (i.e., fund financial statements) for the City's governmental, proprietary and fiduciary funds display information about the major and aggregated non-major funds for the various fund types. Major funds are generally those that represent 10% or more of the respective fund types fixed assets, liabilities, revenues or expenses/expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the City are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The City applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental funds use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the financial resources measurement focus, only current assets and current liabilities are generally included on governmental fund balance sheets. An exception to this general rule is long-term interfund advances payable. The governmental fund operating statements present a summary of sources and uses of available spendable resources. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (generally 60 days). Grants are recognized when grantor eligibility requirements are met. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

NOTES TO FINANCIAL STATEMENTS - Continued

The proprietary funds use the accrual basis of accounting and are accounted for on a cost-of-service or "capital maintenance" measurement focus. Under the capital maintenance measurement focus, all assets and liabilities associated with the fund's activities are included on its balance sheet. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they are incurred.

The fiduciary funds are generally maintained on the accrual basis which is consistent with the accounting measurement objectives of the funds.

Fund Types and Major Funds

Activities in Major Funds

Governmental Funds

General Fund - The General Fund is the government's primary operating fund. It accounts for all financial resources of the City, except those accounted for in another fund. Revenues are primarily derived from property taxes and State shared revenue.

Major Street Fund - The Major Street Fund accounts for State gas and weight tax revenues and transfers from the Right-of-Way Fund that are restricted for expenditures related to maintaining and improving the City's major streets. Management has chosen to present this fund as a major fund even though it is not required to do so.

Local Street Fund - The Local Street Fund accounts for State gas and weight tax revenues and transfers from the Right-of-Way Fund that are restricted for expenditures related to maintaining and improving the City's local streets. Management has chosen to present this fund as a major fund even though it is not required to do so.

Right-of-Way Fund - The Right-of-Way Fund is used to account for the disposition of tax revenues restricted for right-of-way associated costs. Transfers are made to other funds, primarily street funds, to reimburse their costs.

Proprietary (Enterprise) Funds

Electric Fund - The Electric Fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing electricity to the general public are recovered through user charges.

Water and Sewer Fund - The Water and Sewer Fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing water and sewer services to the general public are recovered through user charges.

Activities in Non-Major Funds

Governmental Funds

Special Revenue Funds - These funds are used to account for specific revenue (other than general special assessments, expendable trusts or major capital projects) derived from State and Federal grants, restricted or committed to be used for specific purposes, and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

NOTES TO FINANCIAL STATEMENTS - Continued

Debt Service Funds - These funds are used to record revenues which are restricted or otherwise provided for the payment of principal and interest on general long-term debt.

Proprietary Funds

Internal Service Fund - The Motor Vehicle and Equipment fund accounts for the cost of acquiring, maintaining and providing equipment and services for the benefit of other funds, generally on a cost-reimbursement basis.

Fiduciary Funds

Trust and Agency Funds - These funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

Budgets and Budgetary Accounting

Budgets are adopted by the City Council for the primary government's General and Special Revenue Funds. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the functional level and control is exercised at the fund level.

The City does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Cash and Investments

The City pools financial resources of its various funds to facilitate the management of cash and investments. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in bank certificates of deposit and in various interest-bearing securities.

For the purpose of the statement of cash flows, the City considers all highly liquid investments, including all certificates of deposit and all restricted investments, with a maturity of 90 days or less, to be cash equivalents.

Cash deposits are reported at carrying amounts which reasonably estimates fair value. Short-term investments are reported at cost, which approximates fair value. Other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value.

Property Taxes

Property taxes are levied and become a lien on property as of July 1 on the State taxable valuation of property in the City as of the preceding December 31. The City bills and collects its own property taxes and also collects taxes for other governmental units. Collection of other governmental units' taxes and remittance of them to the units are accounted for in the Agency Fund. Property taxes are recognized as revenue in the year for which they are levied.

Taxes receivable are considered to be available to fund current operations, even if collection occurs beyond 60 days, if they are purchased by the Emmet County delinquent tax collection program.

Interfund Transactions and Balances

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Due to/from other funds are short-term interfund balances that occur in the normal course of operations. Advances to/from other funds are long-term interfund financing arrangements. Outstanding balances on the government-wide statement of net position are captioned "internal balances."

Operating transfers in and out arise in the normal course of operations from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Governmental financing leases entered into between the building authority, as lessor, and the primary government and component units, as lessees, are not given effect in these financial statements. Rather, the bonded indebtedness secured by the leases are reported directly by the primary government activity or component unit lessee responsible for providing the funds to repay debt principal and interest.

Inventories

Inventory is valued at cost, which approximates market, using the first-in, first-out method. Inventory in the Special Revenue Funds consist of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased. Fund balance has been reserved for inventory in governmental funds.

Capital Assets

Property, plant and equipment used in proprietary funds are stated in a manner consistent with the presentation in the entity-wide financial statements. Capital assets, which include property, buildings, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded by the City when the initial individual costs are equal to or greater than the following amounts:

<u>Asset Type</u>	<u>Amount</u>
Land	\$ 1
Equipment	5,000
Buildings	50,000
Infrastructure	100,000

Capital 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.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

NOTES TO FINANCIAL STATEMENTS - Continued

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

Buildings	20 - 60 years
Building improvements	15 - 30 years
Land improvements	10 - 20 years
Water and sewer lines	50 - 75 years
Streets, curbs and gutters	10 - 30 years
Sidewalks	20 years
Vehicles	3 - 5 years
Furniture and equipment	10 - 20 years
Office equipment	5 - 7 years

Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond issuance costs are expensed as incurred. Gains or losses on debt refunding are deferred and amortized over the life of the bonds, and shown as deferred outflows or inflows of resources, as applicable, in the government-wide and proprietary fund financial statements.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the period in which the bonds were issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Compensated Absences (Personal, Vacation and Sick Time)

All employees are entitled to 56 hours of personal time starting on December 1. The City reimburses all employees for any unused portion, on an annual basis. Vacation days not used during the year may not be accumulated. Unpaid sick time accrued represents sick time accumulated before December 1, 1990 and payable to eligible employees on termination. Due to contract years differing from the City's fiscal year, unpaid vacation time represents earned but unused vacation time.

All vacation, sick pay and other employee benefit amounts accrue when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when they become current.

Deferred Inflows and Outflows of Resources

In addition to assets and liabilities, the government-wide and proprietary fund statements of net position and governmental funds balance sheet will sometimes report separate sections for deferred outflows and deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The City recognized unavailable receivables not received within 60 days of year-end and unavailable property taxes as deferred inflows of resources in the governmental fund financial statements. Deferred inflows and outflows of resources have been recognized concurrent with the City's pension obligation, and gains and losses on debt refunding.

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Council through approval of resolutions. Assigned fund balances is a limitation imposed by the Director of Finance as a designee of the Council, or unrestricted and unclassified balances held in governmental funds other than the General Fund. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories.

Spending Policy

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use the restricted fund balance first, then the unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Post Employment Benefits

In addition to providing pension benefits, the City provides health insurance coverage for current retirees and their spouses as described in Note O. In the government-wide statements, costs associated with providing this benefit are generally recognized over the employees' years of service based on actuarial calculations. Such costs in excess of benefit payments are reported as a liability. In the governmental funds, only the actual benefit payments are reported.

Pension Plan

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.

NOTES TO FINANCIAL STATEMENTS - Continued

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE B - BUDGETARY COMPLIANCE

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended December 31, 2017, the following functions incurred total expenditures in excess of amounts appropriated for expenditures:

Fund	Final Budget	Amount of Expenditures	Budget Variance
General Fund			
Capital outlay	\$ 87,000	\$ 91,265	\$ 4,265
Operating transfers out	514,500	539,104	24,604

NOTE C - DEPOSITS AND INVESTMENTS

The funds of the City are deposited and invested as permitted under Act 20 P.A. 1943, as amended by Act 196 P.A. 1997. Pension trust funds are invested as permitted under Act 314 P.A. 1965, as amended.

At December 31, 2017, the City's cash and investments include the following:

	Primary Government		Component Unit		Fiduciary Funds	
	Deposits	Investments	Deposits	Investments	Deposits	Investments
Carrying amounts						
Cash and equivalents	\$ 8,860,238	\$ 5,356,209	\$ 2,614,824	\$ -	\$ 1,780,828	\$ -
Restricted cash and cash equivalents	4,735,711	-	-	-	-	-
Restricted investments	-	1,432,034	-	-	-	-
Investments	500,000	6,502,116	-	198,226	-	153,281
	<u>\$ 14,095,949</u>	<u>\$ 13,290,359</u>	<u>\$ 2,614,824</u>	<u>\$ 198,226</u>	<u>\$ 1,780,828</u>	<u>\$ 153,281</u>

Deposits

Michigan law permits the City to deposit in the accounts of Federally insured banks, credit unions and savings and loans associations located in Michigan.

NOTES TO FINANCIAL STATEMENTS - Continued

Custodial Credit Risk

In the event of bank failure, the City's uninsured deposits may not be returned to it. As of December 31, 2017, \$17,797,369 of the City's deposits (including certificates of deposit) were exposed to custodial credit risk because they were uninsured and uncollateralized.

Investments

Michigan law permits the City to invest in the following vehicles (except pension trust funds, which have much greater flexibility):

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit, savings, deposit and money market accounts.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain obligations of the State of Michigan or its political subdivisions.
7. Certain mutual funds.
8. Certain investment pools.

Investments are recorded at fair market value and money market funds are recorded at amortized cost.

At December 31, 2017, the City's investments consisted of the following:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Standard and Poors Bond Ratings</u>
Certificates of Deposit	\$ 507,202	1.75	N/A
Federal Farm Credit Bank Bonds	1,231,965	3.51	AA+
Federal Home Loan Bank Bonds	1,695,392	3.82	AA+
Federal National Mortgage Associations Bonds	1,179,971	4.18	AA+
Government National Mortgage Association Bonds	16,770	2.79	N/A
Chippewa Valley Schools Bonds	659,152	3.33	AA-
Redford Redevelopment Authority Bonds	553,978	5.71	AA
Michigan Finance Authority Bonds	546,056	4.75	AA-
City of Lansing Bonds	412,024	1.33	AA-
Brandon School District Bonds	319,664	1.33	AA-
City of Wyandotte Bonds	258,713	8.76	AA
Allendale Public Schools Bonds	252,462	2.33	AA-
City of Sterling Heights Bonds	51,144	7.76	AA
MPPA Investment Pools	447,882	5.41	N/A
Money Market Mutual Funds	<u>5,509,491</u>	<u>-</u>	N/A
Total portfolio	<u>\$ 13,641,866</u>	<u>2.29</u>	

NOTES TO FINANCIAL STATEMENTS - Continued

Credit Risk and Custodial Credit Risk - Investments

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

The City's policy does not further limit its investment choices. The certificates of deposit are insured by the FDIC for up to \$250,000 at each bank. The City's investment in money market mutual funds is uncategorized as to credit risk. There is no regulatory oversight of the MPPA Investment Pool and no overall credit quality rating of the pool.

As of December 31, 2017, \$7,632,377 of the City's investments were uninsured and uncollateralized, and \$5,356,209 were collateralized by securities held by the pledging financial institutions.

Concentration of Credit Risk

The City places no limit on the amount it may invest in any one issuer. As of December 31, 2017, the City held no investments not guaranteed by the U.S. Government and not invested in diversified mutual funds or external investment pools that represented more than 5% of the City's investments.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The City recognized an unrealized loss on investments of \$22,260 for the year ended December 31, 2017.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE D - FAIR VALUE OF INVESTMENTS

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The City has the following recurring fair value measurements as of December 31, 2017:

Investments by Fair Value Level	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Debt securities				
Treasury bonds	\$ -	\$ 225,825	\$ -	\$ 225,825
Municipal bonds	-	3,053,193	-	3,053,193
U.S. Government Bonds	-	4,346,155	-	4,346,155
Money market funds	<u>-</u>	<u>5,509,491</u>	<u>-</u>	<u>5,509,491</u>
Total investments by fair market value	<u>\$ -</u>	<u>\$ 13,134,664</u>	<u>\$ -</u>	<u>\$ 13,134,664</u>

The City's investments in certificates of deposit, money market mutual funds and cash equivalents are not required to be classified by fair value.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis.

There have been no changes in the methodologies used at December 31, 2017.

U.S. government bonds, municipal bonds and corporate bonds: Valued at fair value using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Money Market Funds: Valued at amortized cost which approximates fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the City believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - PROPERTY TAXES

The City is permitted by charter to levy taxes, subject to State Headlee and Truth in Taxation provisions, up to \$10 per \$1,000 of taxable valuation for general governmental services and in unlimited amounts for the payment of principal and interest on general obligation long-term debt. The City is also permitted by charter to levy taxes up to \$5 per \$1,000 of taxable valuation for right-of-way related items. The City is permitted by State law to levy up to \$1 per \$1,000 of taxable valuation for the public library and \$2 per \$1,000 of taxable valuation for refuse collection. If approved by a majority of the voters, the City may increase the tax levied by an additional \$1 per \$1,000 of taxable valuation for the public library. The 2017 State taxable valuation of the City of Petoskey totaled \$482,095,456.

The tax rates for the year ended December 31, 2017 were as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>
General governmental services	7.5660 per \$1,000
Right-of-way	3.8962 per \$1,000
Library	0.8481 per \$1,000
Library (additional, approved by voters)	0.9409 per \$1,000
Refuse collection	0.4890 per \$1,000
Fire equipment	0.7459 per \$1,000

NOTE F - TAX ABATEMENTS

The City had the following tax abatements for the year ended December 31, 2017:

<u>Type</u>	<u>Tax Abated By</u>	<u>Property Owner</u>	<u>Gross Amount Abated</u>
Payment in Lieu of Taxes Public Act 346 of 1966, as amended	City of Petoskey	Petoskey Riverview Ltd Dividend Housing	\$ 26,887
		Sheridan Ltd Dividend Housing Assoc.	8,971
	City of Petoskey	Crestview Ltd Dividend Housing Assoc.	9,123
		City of Petoskey	Keystone Management Group
	Industrial Facilities Tax Exemption Public Act 198 of 1974	City of Petoskey	Demmer Corporation
City of Petoskey		Cygnus Inc.	1,202
			<u>\$ 39,058</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables within the primary government are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 217,346	\$ -
Right-of-Way Fund	85,000	-
Other Nonmajor Governmental Funds	2,742	-
Fiduciary Funds - Agency Funds	<u>-</u>	<u>305,088</u>
Total	<u>\$ 305,088</u>	<u>\$ 305,088</u>

The amounts of interfund receivables and payables between the primary government and the component units are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Library Component Unit	\$ 39,276	\$ -
Fiduciary Funds - Agency Funds	<u>-</u>	<u>39,276</u>
Total	<u>\$ 39,276</u>	<u>\$ 39,276</u>

The interfund balances are mainly for property taxes, material and inventory usage, building rent and equipment.

NOTE H - INTERFUND TRANSFERS

Operating transfers within the primary government are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,115,100	\$ 539,104
Major Street Fund	600,000	-
Right-of-Way Fund	-	1,650,000
Electric Fund	453,104	1,047,200
Water and Sewer Fund	-	947,300
Other Nonmajor Governmental Funds	1,482,400	352,100
Internal Service Fund	<u>-</u>	<u>114,900</u>
Total	<u>\$ 4,650,604</u>	<u>\$ 4,650,604</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Operating transfers between the primary government and the component units are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
TIFA Component Unit	\$ -	\$ 260,000
Other Nonmajor Component Units	-	19,800
General Fund	19,800	-
Other Nonmajor Governmental Funds	<u>260,000</u>	<u>-</u>
Total	<u>\$ 279,800</u>	<u>\$ 279,800</u>

The operating transfers are mainly for right-of-way, debt service and general City operations.

Enterprise fund payments in lieu of taxes, classified as transfers to the General Fund above, were as follows:

Electric Fund	\$ 227,300
Water and Sewer Fund	<u>355,700</u>
	<u>\$ 583,000</u>

NOTE I - CAPITAL ASSETS

Investment in capital assets changed as follows during the year ended December 31, 2017:

Governmental Activities

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending</u>
Capital assets not being depreciated				
Land	\$ 4,042,213	\$ -	\$ -	\$ 4,042,213
Capital assets being depreciated				
Land improvements	3,750,997	-	-	3,750,997
Buildings	5,663,764	-	-	5,663,764
Equipment	7,522,802	477,612	(245,728)	7,754,686
Infrastructure	<u>26,245,140</u>	<u>850,104</u>	<u>-</u>	<u>27,095,244</u>
Subtotal	<u>43,182,703</u>	<u>1,327,716</u>	<u>(245,728)</u>	<u>44,264,691</u>
Less accumulated depreciation				
Land improvements	(1,041,252)	(107,044)	-	(1,148,296)
Buildings	(3,074,823)	(176,599)	-	(3,251,422)
Equipment	(4,607,176)	(409,952)	245,728	(4,771,400)
Infrastructure	<u>(15,156,057)</u>	<u>(905,834)</u>	<u>-</u>	<u>(16,061,891)</u>
Subtotal	<u>(23,879,308)</u>	<u>(1,599,429)</u>	<u>245,728</u>	<u>(25,233,009)</u>
Net capital assets being depreciated	<u>19,303,395</u>	<u>(271,713)</u>	<u>-</u>	<u>19,031,682</u>
Governmental activities net capital assets	<u>\$ 23,345,608</u>	<u>\$ (271,713)</u>	<u>\$ -</u>	<u>\$ 23,073,895</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Business-Type Activities

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending</u>
Capital assets not being depreciated				
Land	\$ 896,856	\$ -	\$ -	\$ 896,856
Construction in progress	<u>-</u>	<u>625,399</u>	<u>-</u>	<u>625,399</u>
Subtotal	<u>896,856</u>	<u>625,399</u>	<u>-</u>	<u>1,522,255</u>
Capital assets being depreciated				
Land improvements	450,670	-	-	450,670
Buildings	23,772,592	2,285,461	-	26,058,053
Utility system improvements	48,619,334	850,808	-	49,470,142
Equipment	<u>794,700</u>	<u>-</u>	<u>-</u>	<u>794,700</u>
Subtotal	<u>73,637,296</u>	<u>3,136,269</u>	<u>-</u>	<u>76,773,565</u>
Less accumulated depreciation				
Land improvements	(73,023)	(10,432)	-	(83,455)
Buildings	(11,140,051)	(633,509)	-	(11,773,560)
Utility system improvements	(23,504,253)	(1,629,657)	-	(25,133,910)
Equipment	<u>(727,982)</u>	<u>(6,065)</u>	<u>-</u>	<u>(734,047)</u>
Subtotal	<u>(35,445,309)</u>	<u>(2,279,663)</u>	<u>-</u>	<u>(37,724,972)</u>
Net capital assets being depreciated	<u>38,191,987</u>	<u>856,606</u>	<u>-</u>	<u>39,048,593</u>
Business-type activities net capital assets	<u>\$ 39,088,843</u>	<u>\$ 1,482,005</u>	<u>\$ -</u>	<u>\$ 40,570,848</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities

General government	\$ 3,897
Public safety	130,161
Public works	1,142,059
Recreation and cultural	55,818
Unallocated	<u>267,494</u>
Total governmental activities	<u>\$ 1,599,429</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Business-type activities

Electric	\$ 1,143,999
Water and sewer	<u>1,135,664</u>
Total business-type activities	<u><u>\$ 2,279,663</u></u>

Component Units

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending</u>
Capital assets being depreciated				
Land improvements	\$ 2,819,360	\$ -	\$ -	\$ 2,819,360
Buildings	6,416,166	-	-	6,416,166
Equipment	<u>1,982,668</u>	<u>23,743</u>	-	<u>2,006,411</u>
Subtotal	<u>11,218,194</u>	<u>23,743</u>	-	<u>11,241,937</u>
Less accumulated depreciation				
Land improvements	(879,939)	(140,968)	-	(1,020,907)
Buildings	(2,346,986)	(182,372)	-	(2,529,358)
Equipment	<u>(1,359,090)</u>	<u>(65,449)</u>	-	<u>(1,424,539)</u>
Subtotal	<u>(4,586,015)</u>	<u>(388,789)</u>	-	<u>(4,974,804)</u>
Component units' net capital assets	<u><u>\$ 6,632,179</u></u>	<u><u>\$ (365,046)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,267,133</u></u>

Internal Service Fund

Internal service capital assets at December 31, 2017 are summarized as follows:

	<u>Internal Service</u>
Land	\$ -
Construction in progress	-
Land improvements	-
Buildings	11,011
Utility system improvements	-
Equipment	<u>6,820,106</u>
Total	6,831,117
Less accumulated depreciation	<u>(3,968,012)</u>
Net	<u><u>\$ 2,863,105</u></u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE J - LONG-TERM DEBT

The following is a summary of the City's long-term debt transactions for the year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Refunded/ Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
PRIMARY GOVERNMENT					
Governmental activities					
General obligation debt	\$ 800,000	\$ 730,323	\$ 801,229	\$ 729,094	\$ 87,468
Compensated absences	<u>19,539</u>	<u>10,042</u>	<u>-</u>	<u>29,581</u>	<u>-</u>
Total governmental activities	<u>\$ 819,539</u>	<u>\$ 740,365</u>	<u>\$ 801,229</u>	<u>\$ 758,675</u>	<u>\$ 87,468</u>
Business-type activities					
Revenue obligation debt	<u>\$ 7,455,000</u>	<u>\$ 5,000,000</u>	<u>\$ 930,000</u>	<u>\$ 11,525,000</u>	<u>\$ 495,000</u>
COMPONENT UNIT					
General obligation debt	<u>\$ 5,225,000</u>	<u>\$ 2,239,677</u>	<u>\$ 2,638,771</u>	<u>\$ 4,825,906</u>	<u>\$ 337,532</u>

Bonds payable at December 31, 2017 is composed of the following individual issues:

General Obligation (Governmental Activities)

\$1,000,000, 2010 City of Petoskey Building Authority Improvement bonds; \$750,000 refunded with \$730,323, 2017 City of Petoskey Building Authority Improvement bonds; remaining annual installments of \$110,000 to \$120,000 through December 2024; interest rate of 2.00% to 4.00%. Funds for repayment have been provided by the Marina Bond Debt Fund.	\$ 729,094
Unamortized premium	<u>41,493</u>
Total governmental activities general obligation bonds	<u>\$ 770,587</u>

Deferred Loss on Debt Refunding

Unaccreted loss on refunding - \$730,323, 2017 Building Authority Improvement Bonds	<u>\$ 3,015</u>
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NOTES TO FINANCIAL STATEMENTS - Continued

Revenue Obligation (Business-type Activities)

\$6,330,000, 2011 Water and Sewer refunding bonds; remaining annual installments of \$380,000 to \$580,000 through February 2026; interest rate of 5.00% to 5.00%.	\$ 4,410,000
Unamortized premium	186,733
\$2,755,000, 2011 Water and Sewer bonds; remaining annual installments of \$110,000 to \$200,000 through February 2031; interest rate of 3.00% to 5.00%.	2,115,000
Unamortized premium	53,023
\$5,000,000, 2017 Water and Sewer bonds; remaining annual installments of \$180,000 to \$365,000 through December 2037; interest rate of 3.00% to 3.25%.	5,000,000
Unamortized premium	<u>66,699</u>
Total business-type activities revenue obligation debt	<u><u>\$ 11,831,455</u></u>

Deferred Loss on Debt Refunding

Unaccreted loss on refunding - \$6,330,000, 2011 Water and Sewer Refunding Bonds	<u><u>\$ 125,304</u></u>
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General Obligation (Component Unit)

\$2,900,000, 2010 Building Authority TIFA Bear River Valley Improvement bonds; \$2,300,000 refunded with \$2,239,677, 2017 Building Authority TIFA Bear River Valley Improvement bonds; remaining annual installments of \$127,000 to \$225,000 through December 2029; interest rate of 2.00% to 4.00%.	\$ 2,235,907
Unamortized premium	134,234
\$4,300,000, 2003 Building Authority Library Improvement bonds; \$3,425,000 refunded with \$3,520,000, 2012 Building Authority Library Improvement bonds; remaining annual installments of \$190,000 to \$280,000 through October 2028; interest rate of 2.00% to 3.13%.	2,590,000
Unamortized net premium	<u>48,547</u>
Total component unit general obligation bonds	<u><u>\$ 5,008,688</u></u>

Deferred Loss on Debt Refunding

Unaccreted loss on refunding - \$3,520,000, 2012 Building Authority Library Improvement Bonds	<u><u>\$ 58,566</u></u>
Unaccreted loss on refunding - \$2,239,677, 2017 Building Authority TIFA Bear River Valley Improvement Bonds	<u><u>\$ 9,753</u></u>

NOTES TO FINANCIAL STATEMENTS - Continued

The annual requirements to amortize all general and revenue obligation bonds outstanding, as of December 31, 2017, are as follows:

Years Ending	Governmental Activities		Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 87,468	\$ 19,275	\$ 495,000	\$ 467,774	\$ 337,532	\$ 149,843
2019	99,561	17,405	675,000	425,038	370,439	140,663
2020	98,331	15,426	690,000	394,613	366,669	131,192
2021	103,249	12,894	800,000	361,213	376,751	120,749
2022	114,315	9,631	820,000	324,713	410,685	108,937
2023-2027	226,170	8,481	4,215,000	1,030,994	2,228,730	340,774
2028-2032	-	-	2,135,000	443,400	735,100	26,850
2033-2037	-	-	1,695,000	137,575	-	-
	<u>\$ 729,094</u>	<u>\$ 83,112</u>	<u>\$ 11,525,000</u>	<u>\$ 3,585,320</u>	<u>\$ 4,825,906</u>	<u>\$ 1,019,008</u>

Defeasance

During 2017, the City issued Limited Tax General Obligation bonds of \$2,970,000 (par value) with interest rates ranging from 2% to 4% to refund the City of Petoskey Building Authority Bonds, Series 2010 (Limited Tax General Obligation) bonds. The refunding resulted in a deferred loss of \$14,011. The 2010 bonds would have required future cash flows of \$3,952,081 versus \$3,657,594 for the 2017 refunding bonds.

NOTE K - RESTRICTED FUND BALANCES/RESTRICTED NET POSITION

Fund balances and net position are classified as follows:

	Governmental Funds	General Fund	Major Street Fund	Local Street Fund	Right-of-Way Fund	Other Non-Major Funds	Governmental Activities
Restricted for:							
Refuse collection		\$ 228,257	\$ -	\$ -	\$ -	\$ -	\$ 228,257
Marina		850,400	-	-	-	-	850,400
Streets and improvements		-	902,410	462,026	722,618	-	2,087,054
Downtown programs and services		-	-	-	-	122,631	122,631
		<u>\$ 1,078,657</u>	<u>\$ 902,410</u>	<u>\$ 462,026</u>	<u>\$ 722,618</u>	<u>\$ 122,631</u>	<u>\$ 3,288,342</u>

NOTES TO FINANCIAL STATEMENTS - Continued

<u>Enterprise Funds</u>	<u>Electric System Fund</u>	<u>Water and Sewer System Fund</u>	<u>Business-Type Activities</u>
Restricted for:			
Sewage service covenants	\$ -	\$ 770,923	\$ 770,923
Revenue bond indentures	-	4,032,088	4,032,088
MPPA energy expenses	<u>447,884</u>	<u>-</u>	<u>447,884</u>
	<u>\$ 447,884</u>	<u>\$ 4,803,011</u>	<u>\$ 5,250,895</u>

<u>Fiduciary Funds</u>	<u>Employees Retirement Trust Fund</u>
Restricted for:	
Employee pension benefits	<u>\$ 153,281</u>

Component Units

Restricted for Tax Increment Finance Authority ("TIFA") - The Tax Increment Finance Authority has \$1,193,132 restricted for use within the TIFA district.

The Library has \$173,000 restricted for debt service and \$644,428 restricted for Library operations.

NOTE L - EMPLOYEE RETIREMENT AND BENEFIT SYSTEM

Municipal Employees Retirement Systems

General Information about the Pension Plan

The City's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The City's plan covers the City and Library employees. The City participates in the Municipal Employees Retirement System ("MERS") of Michigan. MERS an agent multiple-employer, statewide public employees 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

Benefits Provided

Benefits provided include plans with multipliers ranging from 2.0% to 2.5%.

Vesting periods range for 6 to 10 years.

Normal retirement age is 60 with early retirement at 55 with 15 years of service, or 50 with 25 years of service.

NOTES TO FINANCIAL STATEMENTS - Continued

Final average compensation is calculated based on 3 years. Members contributions range from 0.0% to 3.0%.

Employees Covered by Benefit Terms

At the December 31, 2016 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	76
Inactive employees entitled to but not yet receiving benefits	11
Active employees	<u>69</u>
Total covered employees	<u><u>156</u></u>

Contributions

The employer 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 employer may establish contribution rates to be paid by its covered employees.

Employer contributions range from 8.74% to 21.50% based on annual payroll for open divisions.

Defined Contribution Plan

Employer contributions to the system are dependent on the plan elected by the participant. There were no employer contributions to the MERS defined contribution plan for 2017.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2017, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the December 31, 2016 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: 3.75% in the long-term, plus a percentage based on an age-related scale to reflect merit, longevity and promotional pay increases.

Investment rate of return: 7.75%, net of investment expense, including inflation

NOTES TO FINANCIAL STATEMENTS - Continued

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3.0% to 4.0%.

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	57.5 %	5.02 %
Global fixed income	20.0 %	2.18 %
Real assets	12.5 %	4.23 %
Diversifying strategies	10.0 %	6.56 %

Discount Rate

The discount rate used to measure the total pension liability is 8.00% for 2016. 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.

NOTES TO FINANCIAL STATEMENTS - Continued

Changes in Net Pension Liability - City

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2016	<u>\$27,660,328</u>	<u>\$18,871,451</u>	<u>\$ 8,788,877</u>
Changes for the Year			
Service Cost	502,133	-	502,133
Interest on Total Pension Liability	2,174,753	-	2,174,753
Change in benefits	(1,591,126)	-	(1,591,126)
Difference between expected and actual experience	(691,004)	-	(691,004)
Changes in assumptions	-	-	-
Employer Contributions	-	1,686,087	(1,686,087)
Employee Contributions	-	122,283	(122,283)
Net investment income	-	2,566,652	(2,566,652)
Benefit payments, including employee refunds	(1,498,913)	(1,498,913)	-
Administrative expense	-	(40,507)	40,507
Other changes	(17,001)	15,329	(32,330)
Net changes	<u>(1,121,158)</u>	<u>2,850,931</u>	<u>(3,972,089)</u>
Balances as of December 31, 2017	<u>\$26,539,170</u>	<u>\$21,722,382</u>	<u>\$ 4,816,788</u>

Changes in Net Pension Liability - Library

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at December 31, 2016	<u>\$ 426,926</u>	<u>\$ 291,273</u>	<u>\$ 135,653</u>
Changes for the Year			
Service Cost	7,336	-	7,336
Interest on Total Pension Liability	31,774	-	31,774
Change in benefits	(23,247)	-	(23,247)
Difference between expected and actual experience	(10,096)	-	(10,096)
Changes in assumptions	-	-	-
Employer Contributions	-	24,634	(24,634)
Employee Contributions	-	1,787	(1,787)
Net investment income	-	37,500	(37,500)
Benefit payments, including employee refunds	(21,900)	(21,900)	-
Administrative expense	-	(592)	592
Other changes	(23,046)	(15,330)	(7,716)
Net changes	<u>(39,179)</u>	<u>26,099</u>	<u>(65,278)</u>
Balances as of December 31, 2017	<u>\$ 387,747</u>	<u>\$ 317,372</u>	<u>\$ 70,375</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Sensitivity of Net Position Liability to Changes in the Discount Rate

The following presents the Net Pension Liability of the City, calculated using the discount rate of 8.00%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.00%) or 1% higher (9.00%) than the current rate.

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
City net pension liability	\$ 7,705,583	\$ 4,816,788	\$ 2,352,686
Library net pension liability	112,582	70,375	34,374

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the City recognized pension expense of \$(282,048). 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	\$ -	\$ 325,610
Differences in assumptions	657,332	-
Excess investment returns	-	481,934
Contributions subsequent to the measurement date	-	-
Total	<u>\$ 657,332</u>	<u>\$ 807,544</u>

For the year ended December 31, 2017, the Library recognized pension expense of \$(4,121). The Library 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	\$ -	\$ 5,026
Differences in assumptions	10,146	-
Excess investment returns	-	8,373
Contributions subsequent to the measurement date	-	-
Total	<u>\$ 10,146</u>	<u>\$ 13,399</u>

NOTES TO FINANCIAL STATEMENTS - 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>City</u>	<u>Library</u>
2018	\$ 275,405	\$ 3,754
2019	275,405	3,754
2020	(492,454)	(7,286)
2021	<u>(208,568)</u>	<u>(3,475)</u>
Total	<u>\$ (150,212)</u>	<u>\$ (3,253)</u>

NOTE M - DEFINED CONTRIBUTION RETIREMENT PLAN

The City provides pension benefits for management employees as designed by City Council through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Designated employees are eligible to participate from the date of employment. The City's contributions for each employee (and interest allocated to each employee's account) are fully vested immediately.

The City's contributions were calculated using the eligible base salary amount of \$110,000, as established by City Council and governed by Federal regulations. The City made the required 14.00% contribution for the year, which totaled \$15,710.

At December 31, 2017, the City had \$153,281 within the Employees Retirement Trust Fund.

NOTE N - DEFERRED COMPENSATION PLAN

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

In complying with the amended Section 457 requirements, these assets are for the exclusive benefit of participants and not subject to the claims of the City's general creditors. As such, they are not included in an agency fund of the City.

NOTE O - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

The City administers the City's Retiree Health Insurance Plan (the "Plan") as a single-employer defined benefit, Other Post Employment Benefit plan ("OPEB"). The Plan provides for continuation of medical insurance benefits for certain retirees and their spouses and can be amended by action of the City subject to the applicable collective bargaining and employment agreements. As of January 1, 2017, the City no longer funds any medical insurance benefits for employees retiring after December 31, 2016. The City is only responsible for employees that retired prior to January 1, 2017. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

The obligations of Plan members, employers and other entities are established by action of the City pursuant to the applicable collective bargaining and employment agreements. The required contribution rates of the employer and members varies depending on the applicable agreement. The City currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the City.

Annual OPEB Cost and Net OPEB Obligation

During 2017, the City early implemented GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, which supercedes GASB statement 45. As a result of its implementation, the beginning balance at January 1, 2017 was adjusted based on the actuarially determined methods using the entry age normal actuarial cost method pursuant to GASB statement 75 and a change in discount rate from 1.50% to 3.78%.

The following table shows the components of the City's beginning balance adjustment for implementation of GASB Statement 75, annual OPEB cost for the year, the amount actually contributed to the Plan, and the City's net OPEB obligation to the Retiree Health Plan at December 31, 2017:

NOTES TO FINANCIAL STATEMENTS - Continued

<u>Annual OPEB Cost and Net Obligation</u>	
Beginning balance at January 1, 2017	\$ 101,227
One-time adjustment for GASB 75 implementation	<u>(79,300)</u>
Adjusted balance at January 1, 2017	21,927
Annual required contribution ("ARC")	-
Interest on net OPEB obligation	829
Net OPEB contributions made during the fiscal year	<u>(22,756)</u>
Net OPEB obligation (benefit) for 2017	(21,927)
OPEB obligation through December 31, 2017	<u>21,927</u>
Net cumulative OPEB obligation at end of year	<u>\$ -</u>
Percentage of 2017 expense contributed	104 %

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

<u>Fiscal Years Ended</u> <u>December 31,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation (Benefit)</u>
2015	\$ (13,247)	32 %	\$ 134,421
2016	(9,744)	71 %	101,227
2017	(21,927)	104 %	-

The annual OPEB cost was negative due to a change in the plan in the year ending December 31, 2011 to allow coverage of eligible participants only through age 64, thereby decreasing the net OPEB obligation as participants reach age 64.

Allocation of Post Employment Benefits

The City's allocation of their OPEB cost (benefit) to the City's functions are as follows:

Government activities	
General government	\$ (5,808)
Public safety	(54,973)
Public works	<u>(40,446)</u>
Total OPEB expense	<u>\$ (101,227)</u>

NOTE P - COMMITMENTS AND CONTINGENCIES

Landfill Closure and Post-Closure Care Costs

An agreement with the State of Michigan requires that the City of Petoskey perform monitoring functions at a former landfill site for 30 years after closure. A liability is being recognized based on the estimated future post-closure costs that will be incurred over the remaining term of the agreement, which runs through August 2022. The estimated total current cost of the landfill post-closure care of \$85,000 is based on the amount that would be paid if the services to monitor the landfill were acquired as of December 31, 2017. However, the actual cost of post-closure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

Entitlement Commitments

Between 1979 and 2001, the Michigan Public Power Agency ("MPPA"), of which the City is a member, acquired ownership interests in the Detroit Edison Belle River Unit and other related assets, and the CT Project No. 1. The City's entitlement share of the Belle River Unit and CT Project No. 1 generating capacities are 4,137 (KW) and 4,392 (KW), respectively.

The entitlements specify minimum annual payments on a "take-or-pay" basis for the generation and transmission capabilities of the units as follows:

<u>Years ending December 31,</u>	<u>CT Project No. 1</u>
2018	\$ 229,582
2019	229,343
2020	229,701
2021	229,654
2022	229,200
2023 - 2027	<u>917,875</u>
Total	<u><u>\$ 2,065,355</u></u>

The Belle River Unit minimum annual payments ended in the year ended December 31, 2017.

There is a possibility of refunds or subsidy payments to the City due to past fuel overcharges. However, since the amounts are unknown at this time, there are no provisions made in the financial statements.

The City entered into an agreement with MPPA in August 2011, to purchase up to .8 mega-watt hours of power per hour at prices ranging from \$41 to \$68 per mega-watt hour from 2012 to 2023.

Revenue Bond Contingencies

The General Fund is contingently liable for the Water and Sewer System revenue bonds. The General Fund is obligated only if revenues of the Water and Sewer System Fund would be insufficient to meet its debt service requirements.

NOTE Q - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City has purchased commercial insurance for general liability and property, and participates in the Michigan Municipal League risk pool for claims relating to employee injuries/workers compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The City purchases commercial health care insurance from Blue Cross/Blue Shield of Michigan for all eligible and participating employees and retirees, and has no risk in excess of policy coverage.

The shared-risk pool in which the City participates operates a common risk-sharing management program for various municipalities throughout the State. Member premiums are used to purchase commercial insurance coverage and to pay member claims in excess of deductible amounts.

REQUIRED SUPPLEMENTARY INFORMATION

City of Petoskey

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year ended December 31, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
REVENUES					
Taxes	\$ 3,736,700	\$ 3,736,700	\$ 3,836,414	\$ -	\$ 99,714
Licenses and permits	14,700	14,700	21,988	-	7,288
Federal grants	5,000	5,000	24,120	-	19,120
State grants	508,400	508,400	558,210	-	49,810
Contributions from local units	57,500	57,500	54,227	-	(3,273)
Charges for services	1,159,200	1,159,200	1,184,812	-	25,612
Fines and forfeitures	23,300	23,300	17,705	-	(5,595)
Interest and investment earnings	72,000	72,000	68,291	-	(3,709)
Other	51,000	51,000	86,705	-	35,705
Total revenues	<u>5,627,800</u>	<u>5,627,800</u>	<u>5,852,472</u>	<u>-</u>	<u>224,672</u>
EXPENDITURES					
Legislative, general government, and health and welfare	1,741,300	1,741,300	1,647,005	-	94,295
Public safety	3,065,700	3,065,700	3,065,414	-	286
Public works	626,200	626,200	585,541	-	40,659
Recreation and cultural	1,733,500	1,733,500	1,685,402	-	48,098
Capital outlay	87,000	87,000	91,265	-	(4,265)
Total expenditures	<u>7,253,700</u>	<u>7,253,700</u>	<u>7,074,627</u>	<u>-</u>	<u>179,073</u>
REVENUES UNDER EXPENDITURES	<u>(1,625,900)</u>	<u>(1,625,900)</u>	<u>(1,222,155)</u>	<u>-</u>	<u>403,745</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	2,115,100	2,115,100	2,115,100	-	-
Operating transfers out	(514,500)	(514,500)	(539,104)	-	(24,604)
Transfers from component units	25,800	25,800	19,800	-	(6,000)
Total other financing sources	<u>1,626,400</u>	<u>1,626,400</u>	<u>1,595,796</u>	<u>-</u>	<u>(30,604)</u>
NET CHANGE IN FUND BALANCES	500	500	373,641	-	373,141
Fund balance, beginning of year	<u>4,855,308</u>	<u>4,855,308</u>	<u>4,855,308</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 4,855,808</u>	<u>\$ 4,855,808</u>	<u>\$ 5,228,949</u>	<u>\$ -</u>	<u>\$ 373,141</u>

City of Petoskey

BUDGETARY COMPARISON SCHEDULE FOR THE MAJOR STREET FUND

Year ended December 31, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
REVENUES					
State grants	\$ 531,000	\$ 531,000	\$ 588,109	\$ -	\$ 57,109
Interest and other	<u>300</u>	<u>300</u>	<u>2,759</u>	<u>-</u>	<u>2,459</u>
Total revenues	<u>531,300</u>	<u>531,300</u>	<u>590,868</u>	<u>-</u>	<u>59,568</u>
EXPENDITURES					
Public works					
Routine maintenance	240,200	240,200	132,728	-	107,472
Winter maintenance	304,300	304,300	285,709	-	18,591
Traffic services	31,300	31,300	27,652	-	3,648
Capital outlay	<u>870,000</u>	<u>870,000</u>	<u>679,066</u>	<u>-</u>	<u>190,934</u>
Total expenditures	<u>1,445,800</u>	<u>1,445,800</u>	<u>1,125,155</u>	<u>-</u>	<u>320,645</u>
REVENUES UNDER EXPENDITURES	(914,500)	(914,500)	(534,287)	-	380,213
OTHER FINANCING SOURCES					
Operating transfers in	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(314,500)	(314,500)	65,713	-	380,213
Fund balance, beginning of year	<u>836,697</u>	<u>836,697</u>	<u>836,697</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 522,197</u></u>	<u><u>\$ 522,197</u></u>	<u><u>\$ 902,410</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 380,213</u></u>

City of Petoskey

BUDGETARY COMPARISON SCHEDULE FOR THE LOCAL STREET FUND

Year ended December 31, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
REVENUES					
State grants	\$ 185,000	\$ 185,000	\$ 184,533	\$ -	\$ (467)
Interest	<u>500</u>	<u>500</u>	<u>1,084</u>	<u>-</u>	<u>584</u>
Total revenues	<u>185,500</u>	<u>185,500</u>	<u>185,617</u>	<u>-</u>	<u>117</u>
EXPENDITURES					
Public works					
Routine maintenance	141,500	141,500	77,634	-	63,866
Winter maintenance	162,000	162,000	176,019	-	(14,019)
Traffic services	10,600	10,600	9,374	-	1,226
Administration	-	-	4,800	-	(4,800)
Capital outlay	<u>-</u>	<u>-</u>	<u>403</u>	<u>-</u>	<u>(403)</u>
Total expenditures	<u>314,100</u>	<u>314,100</u>	<u>268,230</u>	<u>-</u>	<u>45,870</u>
NET CHANGE IN FUND BALANCE	(128,600)	(128,600)	(82,613)	-	45,987
Fund balance, beginning of year	<u>544,639</u>	<u>544,639</u>	<u>544,639</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 416,039</u></u>	<u><u>\$ 416,039</u></u>	<u><u>\$ 462,026</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 45,987</u></u>

City of Petoskey

BUDGETARY COMPARISON SCHEDULE FOR THE RIGHT-OF-WAY FUND

Year ended December 31, 2017

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual Total</u>
REVENUES					
Property taxes	\$ 1,649,100	\$ 1,649,100	\$ 1,668,576	\$ -	\$ 19,476
Interest	<u>5,200</u>	<u>5,200</u>	<u>6,983</u>	<u>-</u>	<u>1,783</u>
Total revenue	1,654,300	1,654,300	1,675,559	-	21,259
EXPENDITURES					
Other					
Contracted services	<u>2,000</u>	<u>2,000</u>	<u>1,757</u>	<u>-</u>	<u>243</u>
REVENUES OVER EXPENDITURES	1,652,300	1,652,300	1,673,802	-	21,502
OTHER FINANCING USES					
Operating transfers out	<u>(1,650,000)</u>	<u>(1,650,000)</u>	<u>(1,650,000)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	2,300	2,300	23,802	-	21,502
Fund balance, beginning of year	<u>698,816</u>	<u>698,816</u>	<u>698,816</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 701,116</u>	<u>\$ 701,116</u>	<u>\$ 722,618</u>	<u>\$ -</u>	<u>\$ 21,502</u>

City of Petoskey

SCHEDULE OF CHANGES IN THE MERS NET PENSION LIABILITY AND RELATED RATIOS

Years ended December 31,

	2017			2016		
	City	Library	Total	City	Library	Total
Total Pension Liability						
Service Cost	\$ 502,133	\$ 7,336	\$ 509,469	\$ 507,633	\$ 7,835	\$ 515,468
Interest	2,174,753	31,774	2,206,527	2,017,084	31,133	2,048,217
Changes of Benefit Terms	(1,591,126)	(23,247)	(1,614,373)	(7,593)	(117)	(7,710)
Difference Between Expected and Actual Experience	(691,004)	(10,096)	(701,100)	384,444	5,934	390,378
Changes of Assumption	-	-	-	1,314,664	20,291	1,334,955
Benefit Payments Including Employee Refunds	(1,498,913)	(21,900)	(1,520,813)	(1,365,973)	(21,083)	(1,387,056)
Other	(17,001)	(23,046)	(40,047)	(126,712)	57,045	(69,667)
Net Change in Total Pension Liability	(1,121,158)	(39,179)	(1,160,337)	2,723,547	101,038	2,824,585
Total Pension Liability Beginning	<u>27,660,328</u>	<u>426,926</u>	<u>28,087,254</u>	<u>24,936,781</u>	<u>325,888</u>	<u>25,262,669</u>
Total Pension Liability Ending	<u><u>\$26,539,170</u></u>	<u><u>\$ 387,747</u></u>	<u><u>\$26,926,917</u></u>	<u><u>\$27,660,328</u></u>	<u><u>\$ 426,926</u></u>	<u><u>\$28,087,254</u></u>
Plan Fiduciary Net Position						
Contributions - Employer	\$ 1,686,087	\$ 24,634	\$ 1,710,721	\$ 700,936	\$ 10,819	\$ 711,755
Contributions - Employee	122,283	1,787	124,070	120,075	1,853	121,928
Net Investment Income	2,566,652	37,500	2,604,152	1,971,865	30,435	2,002,300
Benefit Payments Including Employee Refunds	(1,498,913)	(21,900)	(1,520,813)	(1,365,973)	(21,083)	(1,387,056)
Administrative Expense	(40,507)	(592)	(41,099)	(38,931)	(601)	(39,532)
Other Changes	15,329	(15,330)	(1)	(40,832)	40,832	-
Net Change in Plan Fiduciary Net Position	2,850,931	26,099	2,877,030	1,347,140	62,255	1,409,395
Plan Fiduciary Net Position Beginning	<u>18,871,451</u>	<u>291,273</u>	<u>19,162,724</u>	<u>17,524,311</u>	<u>229,018</u>	<u>17,753,329</u>
Plan Fiduciary Net Position Ending	<u><u>\$21,722,382</u></u>	<u><u>\$ 317,372</u></u>	<u><u>\$22,039,754</u></u>	<u><u>\$18,871,451</u></u>	<u><u>\$ 291,273</u></u>	<u><u>\$19,162,724</u></u>
Employer Net Pension Liability	<u><u>\$ 4,816,788</u></u>	<u><u>\$ 70,375</u></u>	<u><u>\$ 4,887,163</u></u>	<u><u>\$ 8,788,877</u></u>	<u><u>\$ 135,653</u></u>	<u><u>\$ 8,924,530</u></u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82 %	82 %	82 %	68 %	68 %	68 %
Covered Employee Payroll	<u><u>\$ 3,994,976</u></u>	<u><u>\$ 303,359</u></u>	<u><u>\$ 4,298,335</u></u>	<u><u>\$ 3,978,932</u></u>	<u><u>\$ 280,175</u></u>	<u><u>\$ 4,259,107</u></u>
Employer's Net Pension Liability as a Percentage of Covered Employee Payroll	121 %	23 %	114 %	221 %	48 %	210 %

City of Petoskey

SCHEDULE OF CHANGES IN THE MERS NET PENSION LIABILITY AND RELATED RATIOS

Years ended December 31,

	2015		
	City	Library	Total
Total Pension Liability			
Service Cost	\$ 482,076	\$ 6,300	\$ 488,376
Interest	1,933,518	25,268	1,958,786
Changes of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	-	-	-
Changes of Assumption	-	-	-
Benefit Payments Including Employee Refunds	(1,267,600)	(16,566)	(1,284,166)
Other	(40,561)	(530)	(41,091)
Net Change in Total Pension Liability	1,107,433	14,472	1,121,905
Total Pension Liability Beginning	<u>23,829,348</u>	<u>311,416</u>	<u>24,140,764</u>
Total Pension Liability Ending	<u>\$24,936,781</u>	<u>\$ 325,888</u>	<u>\$25,262,669</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 691,061	\$ 9,031	\$ 700,092
Contributions - Employee	121,724	1,591	123,315
Net Investment Income	(271,928)	(3,554)	(275,482)
Benefit Payments Including Employee Refunds	(1,267,600)	(16,566)	(1,284,166)
Administrative Expense	(39,863)	(520)	(40,383)
Other Changes	-	-	-
Net Change in Plan Fiduciary Net Position	(766,606)	(10,018)	(776,624)
Plan Fiduciary Net Position Beginning	<u>18,290,917</u>	<u>239,036</u>	<u>18,529,953</u>
Plan Fiduciary Net Position Ending	<u>\$17,524,311</u>	<u>\$ 229,018</u>	<u>\$17,753,329</u>
Employer Net Pension Liability	<u>\$ 7,412,470</u>	<u>\$ 96,870</u>	<u>\$ 7,509,340</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	70 %	70 %	70 %
Covered Employee Payroll	<u>\$ 4,078,153</u>	<u>\$ 333,666</u>	<u>\$ 4,411,819</u>
Employer's Net Pension Liability as a Percentage of Covered Employee Payroll	182 %	29 %	170 %

City of Petoskey

SCHEDULE OF MERS EMPLOYER'S CONTRIBUTIONS

Years ended December 31,

	Actuarial Determined Contributions	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
City:					
2008	\$ 627,876	\$ 571,367	\$ 56,509	\$ 3,902,000	15 %
2009	601,850	541,665	60,185	4,066,000	13 %
2010	657,488	591,739	65,749	4,014,000	15 %
2011	669,786	596,110	73,676	3,888,000	15 %
2012	650,292	637,286	13,006	4,032,000	16 %
2013	697,426	683,477	13,949	4,408,000	14 %
2014	651,998	638,958	13,040	4,235,000	14 %
2015	691,061	691,061	-	4,078,000	17 %
2016	700,936	700,936	-	3,979,000	17 %
2017	686,087	1,686,087	(1,000,000)	3,994,976	42 %
Library					
2015	9,031	9,031	-	334,000	3 %
2016	10,819	10,819	-	280,000	4 %
2017	24,634	24,634	-	303,359	8 %

Notes to Schedule

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	23 years
Asset valuation method	5 year smoothed
Inflation	2.5%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	Varies depending on plan adoption
Mortality	50% female/50% male RP-2014 Annuity Mortality Table

City of Petoskey

SCHEDULE OF FUNDING PROGRESS OTHER POST EMPLOYMENT BENEFIT PLAN

December 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2015	\$ -	\$ 75,626	\$ 75,626	- %	\$ 4,411,819	2 %
12/31/2016	-	75,626	75,626	- %	4,259,107	2 %
12/31/2017	-	-	-	100.0 %	4,259,107	- %

COMBINING FINANCIAL STATEMENTS

City of Petoskey

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2017

	Special Revenue Funds			Debt Service Funds			Total Non-Major Funds
	General Street	Downtown Management	Total Special Revenue	Building Authority Marina Bond Debt	Building Authority Bear River Valley Bond Debt	Total Debt Service	
ASSETS							
Current assets							
Cash	\$ 750,977	\$ 110,380	\$ 861,357	\$ 25,324	\$ 58,402	\$ 83,726	\$ 945,083
Receivables							
Special assessments	-	20,506	20,506	-	-	-	20,506
Accounts receivable	2,892	60	2,952	18	46	64	3,016
Due from other funds	-	2,742	2,742	-	-	-	2,742
Inventory, at cost	161,095	-	161,095	-	-	-	161,095
	<u>\$ 914,964</u>	<u>\$ 133,688</u>	<u>\$ 1,048,652</u>	<u>\$ 25,342</u>	<u>\$ 58,448</u>	<u>\$ 83,790</u>	<u>\$ 1,132,442</u>
Total assets							
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable	\$ 45,290	\$ 11,057	\$ 56,347	\$ 250	\$ 252	\$ 502	\$ 56,849
Accrued expenditures	2,336	-	2,336	-	-	-	2,336
	<u>47,626</u>	<u>11,057</u>	<u>58,683</u>	<u>250</u>	<u>252</u>	<u>502</u>	<u>59,185</u>
Total liabilities							
FUND BALANCES							
Non-spendable							
Inventory	161,095	-	161,095	-	-	-	161,095
Restricted							
Special revenue	-	122,631	122,631	-	-	-	122,631
Committed	706,243	-	706,243	25,092	58,196	83,288	789,531
	<u>867,338</u>	<u>122,631</u>	<u>989,969</u>	<u>25,092</u>	<u>58,196</u>	<u>83,288</u>	<u>1,073,257</u>
Total fund balances							
Total liabilities and fund balances	<u>\$ 914,964</u>	<u>\$ 133,688</u>	<u>\$ 1,048,652</u>	<u>\$ 25,342</u>	<u>\$ 58,448</u>	<u>\$ 83,790</u>	<u>\$ 1,132,442</u>

City of Petoskey

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS

Year ended December 31, 2017

	Special Revenue Funds			Debt Service Funds			Total Other Non-Major Funds
	General Street	Downtown Management	Total	Building Authority Marina Bond Debt	Building Authority Bear River Valley Bond Debt	Total	
REVENUES							
State grants	\$ 88,922	\$ -	\$ 88,922	\$ -	\$ -	\$ -	\$ 88,922
Special assessments	-	90,128	90,128	-	-	-	90,128
Interest and investment earnings	1,718	1,975	3,693	68	169	237	3,930
Other	<u>6,056</u>	<u>36,427</u>	<u>42,483</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,483</u>
Total revenues	<u>96,696</u>	<u>128,530</u>	<u>225,226</u>	<u>68</u>	<u>169</u>	<u>237</u>	<u>225,463</u>
EXPENDITURES							
Current							
Public works	1,020,324	141,662	1,161,986	-	-	-	1,161,986
Capital outlay	171,038	7,500	178,538	-	-	-	178,538
Principal	-	-	-	51,230	153,771	205,001	205,001
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,761</u>	<u>81,117</u>	<u>115,878</u>	<u>115,878</u>
Total expenditures	<u>1,191,362</u>	<u>149,162</u>	<u>1,340,524</u>	<u>85,991</u>	<u>234,888</u>	<u>320,879</u>	<u>1,661,403</u>
REVENUES UNDER EXPENDITURES	<u>(1,094,666)</u>	<u>(20,632)</u>	<u>(1,115,298)</u>	<u>(85,923)</u>	<u>(234,719)</u>	<u>(320,642)</u>	<u>(1,435,940)</u>
OTHER FINANCING SOURCES (USES)							
Operating transfers in	1,396,400	-	1,396,400	86,000	-	86,000	1,482,400
Operating transfers out	(352,100)	-	(352,100)	-	-	-	(352,100)
Transfers from component units	-	-	-	-	260,000	260,000	260,000
Bond proceeds	-	-	-	777,743	-	777,743	777,743
Escrow agent transfer	<u>-</u>	<u>-</u>	<u>-</u>	<u>(765,710)</u>	<u>-</u>	<u>(765,710)</u>	<u>(765,710)</u>
Total other financing sources	<u>1,044,300</u>	<u>-</u>	<u>1,044,300</u>	<u>98,033</u>	<u>260,000</u>	<u>358,033</u>	<u>1,402,333</u>
NET CHANGE IN FUND BALANCE	(50,366)	(20,632)	(70,998)	12,110	25,281	37,391	(33,607)
Fund balance, beginning of year	<u>917,704</u>	<u>143,263</u>	<u>1,060,967</u>	<u>12,982</u>	<u>32,915</u>	<u>45,897</u>	<u>1,106,864</u>
Fund balance, end of year	<u><u>\$ 867,338</u></u>	<u><u>\$ 122,631</u></u>	<u><u>\$ 989,969</u></u>	<u><u>\$ 25,092</u></u>	<u><u>\$ 58,196</u></u>	<u><u>\$ 83,288</u></u>	<u><u>\$ 1,073,257</u></u>

City of Petoskey
BUILDING AUTHORITY
COMBINING COMPONENT UNIT BALANCE SHEET/STATEMENT
OF NET POSITION
December 31, 2017

	Debt Service Funds			Reconciliation of Fund Balance Sheets to Statement of Net Position			
	2017			Governmental Financing Leases	Governmental Bonds Payable	Accrued Interest	Statement of Net Position
	2017 Marina Bonds	Bear River Valley Bonds	Library Improvement Bonds				
ASSETS							
Current assets							
Cash	\$ 25,324	\$ 58,402	\$ -	\$ -	\$ -	\$ -	\$ 83,726
Accounts receivable	18	46	-	-	-	-	64
Interest receivable	-	-	-	42,818	-	-	42,818
Lease contract receivable, current	-	-	-	425,000	-	-	425,000
Total current assets	25,342	58,448	-	467,818	-	-	551,608
Non-current assets							
Deferred charges - bond premium and discounts	-	-	-	-	78,365	-	78,365
Lease contract receivable	-	-	-	5,282,944	-	-	5,282,944
DEFERRED OUTFLOWS OF RESOURCES							
Deferred loss on debt refunding	-	-	-	-	71,333	-	71,333
Total assets and deferred outflows of resources	<u>\$ 25,342</u>	<u>\$ 58,448</u>	<u>\$ -</u>	<u>\$ 5,750,762</u>	<u>\$ 149,698</u>	<u>\$ -</u>	<u>\$ 5,984,250</u>
LIABILITIES AND FUND BALANCES/NET POSITION							
LIABILITIES							
Current liabilities							
Accrued interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,818	\$ 42,818
Accounts payable	250	252	-	-	-	-	502
Bonds payable, current	-	-	-	-	425,000	-	425,000
Total current liabilities	250	252	-	-	425,000	42,818	468,320
Non-current liabilities							
Bonds payable, net	-	-	-	-	5,282,944	-	5,282,944
Total liabilities	250	252	-	-	5,707,944	42,818	5,751,264
FUND BALANCE/NET POSITION							
Committed	25,092	58,196	-	5,750,762	(5,558,246)	(42,818)	232,986
Total liabilities and fund balances	<u>\$ 25,342</u>	<u>\$ 58,448</u>	<u>\$ -</u>	<u>\$ 5,750,762</u>	<u>\$ 149,698</u>	<u>\$ -</u>	<u>\$ 5,984,250</u>

City of Petoskey

BUILDING AUTHORITY

COMBINING COMPONENT UNIT STATEMENT OF REVENUES AND EXPENDITURES/STATEMENT OF ACTIVITIES

Year ended December 31, 2017

	Debt Service Funds			Reconciliation of Fund Statements of Revenues and Expenditures to the Statement of Activities			
	Marina Bonds	Bear River Valley Bonds	Library Improvement Bonds	Governmental Financing Lease	Debt Service	Interest Expense	Statement of Activities
Program revenues							
Lease income	\$ 86,000	\$ 260,000	\$ 265,531	\$ (299,900)	\$ -	\$ -	\$ 311,631
Expenditures/expenses							
Debt service	51,230	153,771	185,000	-	(390,001)	-	-
Interest and fees	34,761	81,117	80,531	-	(17,090)	(12,893)	166,426
Total expenditures/expenses	<u>85,991</u>	<u>234,888</u>	<u>265,531</u>	<u>-</u>	<u>(407,091)</u>	<u>(12,893)</u>	<u>166,426</u>
Net revenue	9	25,112	-	(299,900)	407,091	12,893	145,205
General revenues							
Interest and investment earnings	68	169	-	-	-	-	237
Revenues over (under) expenditures/ change in net position	77	25,281	-	(299,900)	407,091	12,893	145,442
Other financing sources (uses)							
Bond proceeds	777,743	-	-	-	(777,743)	-	-
Escrow agent transfers	(765,710)	-	-	-	765,710	-	-
Total other financing sources (uses)	<u>12,033</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,033)</u>	<u>-</u>	<u>-</u>
Net change in fund balance/net assets	12,110	25,281	-	(299,900)	395,058	12,893	145,442
Fund balance/net position, beginning of year	<u>12,982</u>	<u>32,915</u>	<u>-</u>	<u>6,050,662</u>	<u>(5,953,304)</u>	<u>(55,711)</u>	<u>87,544</u>
Fund balance/net position, end of year	<u><u>\$ 25,092</u></u>	<u><u>\$ 58,196</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,750,762</u></u>	<u><u>\$ (5,558,246)</u></u>	<u><u>\$ (42,818)</u></u>	<u><u>\$ 232,986</u></u>