

City of Petoskey

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2019

CONTENTS

Page

MANAGEMENT'S DISCUSSION AND ANALYSIS.....	i
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	3
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION.....	5
STATEMENT OF ACTIVITIES.....	7
GOVERNMENTAL FUND FINANCIAL STATEMENTS	
BALANCE SHEET - GOVERNMENTAL FUNDS.....	8
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION.....	9
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS.....	10
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES.....	11
PROPRIETARY FUND FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION - PROPRIETARY FUNDS	12
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS.....	14
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS.....	15
FIDUCIARY FUND FINANCIAL STATEMENTS	
STATEMENT OF FIDUCIARY NET POSITION.....	17
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION.....	18
NOTES TO FINANCIAL STATEMENTS.....	19

C O N T E N T S - Continued

Page

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND.....48

BUDGETARY COMPARISON SCHEDULE FOR THE RIGHT-OF-WAY FUND.....49

SCHEDULE OF CHANGES IN THE CITY MERS NET PENSION LIABILITY
AND RELATED RATIOS.....50

SCHEDULE OF CHANGES IN THE LIBRARY MERS NET PENSION LIABILITY AND RELATED
RATIOS.....51

SCHEDULE OF MERS EMPLOYER'S CONTRIBUTIONS.....52

COMBINING FINANCIAL STATEMENTS

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS.....54

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS.....55

CITY OF PETOSKEY BUILDING AUTHORITY

COMBINING COMPONENT UNIT BALANCE SHEET/STATEMENT
OF NET POSITION.....56

COMBINING COMPONENT UNIT STATEMENT OF REVENUES
AND EXPENDITURES/STATEMENT OF ACTIVITIES.....57

Management's Discussion and Analysis

December 31, 2019

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 \$2,752,911 or 3.4% in 2019 with the increase made up of the following:

- Governmental net position increased by \$1,281,496.
- Business-type net position increased by \$1,281,644.
- Component units net position increased by \$189,771.

Total revenues and transfers for the year are \$29.8 million and are made up of the following:

- Governmental activities \$12.2 million.
- Business-type activities \$15.4 million.
- Component units activities \$2.2 million.

Total expenses for the year are \$27.0 million and are made up of the following:

- Governmental activities \$10.9 million.
- Business-type activities \$14.1 million.
- Component units activities \$2.0 million.

The General Fund on a current financial resources basis experienced an increase of \$341,068 in fund balance resulting in a total fund balance at year-end of \$5,850,048.

Project Highlights

In 2019 the Michigan Department of Transportation (MDOT) reconstructed a portion of US-31 in Petoskey, which included shifting the highway away from the bluff along Lake Michigan. The project occurred over most of the year and required several traffic detours through the City. Due to this disruption, the City deferred any unrelated street, water, sewer and electric projects until the State's project was completed.

However, as part of MDOT's project the City performed four related projects that included; Water main and sewer main upgrades within a portion of US-31 and a reconfiguration of the Lewis Street intersection with US-31. The Lewis Street reconfiguration included work in the Arlington Park and adjoining parking lot that included landscaping, sidewalks and lighting. The last item was a new traffic signal at the intersection of MacDonald Drive and US-31.

The electric utility continued with upgrades to the underground system in various locations including; Bay View Association, Highland Drive, Regent Drive and Valley View. A shoreline protection project was also performed in Bayfront Park to protect an electric line from shoreline erosion.

Financial Statement Presentation - continued

In Parks and Recreation an all wood stair tower connecting Bayfront Park to Sunset Park was replaced with a steel structure and similar to the stair tower that connects Michigan Street to the Bear River Valley, located near the Mitchell Street Bridge.

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, deferred outflows and inflows 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
- 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.

Financial Statement Presentation - continued

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.

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. The City also has a fiduciary component unit for the Defined Contribution Pension Trust Fund that is shown as a separate column of the fiduciary financial statements. Separate financial statements for the component units are not required and none are issued.

Financial Analysis - continued

Summary of Net Position December 31,

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Assets						
Current and other assets	\$ 12,020,669	\$ 10,434,435	\$ 22,435,422	\$ 20,822,511	\$ 34,456,091	\$ 31,256,946
Capital assets	22,749,003	23,416,676	40,240,886	41,611,535	62,989,889	65,028,211
Total assets	34,769,672	33,851,111	62,676,308	62,434,046	97,445,980	96,285,157
Deferred outflows of resources	87,341	1,491,184	106,914	549,822	194,255	2,041,006
Total assets and deferred outflows of resources	34,857,013	35,342,295	62,783,222	62,983,868	97,640,235	98,326,163
Liabilities						
Current liabilities	356,232	501,464	1,315,008	1,684,691	1,671,240	2,186,155
Non-current liabilities	4,157,816	5,929,596	11,052,950	12,212,774	15,210,766	18,142,370
Total liabilities	4,514,048	6,431,060	12,367,958	13,897,465	16,882,006	20,328,525
Deferred inflows of resources	244,266	94,032	69,328	22,111	313,594	116,143
Net position						
Invested in capital assets, net of related debt	21,637,391	22,742,070	29,732,632	30,414,333	51,370,023	53,156,403
Restricted	4,777,503	3,609,951	3,167,779	3,139,139	7,945,282	6,749,090
Unrestricted	3,683,805	2,465,182	17,445,525	15,510,820	21,129,330	17,976,002
Total net position	30,098,699	28,817,203	50,345,936	49,064,292	80,444,635	77,881,495
Total liabilities, deferred inflows of resources and net position	\$ 34,857,013	\$ 35,342,295	\$ 62,783,222	\$ 62,983,868	\$ 97,640,235	\$ 98,326,163

Total net position of the City is \$80,444,635 which includes \$52,236,936 in capital assets net of debt. Capital assets are largely made up of electric, water, sewer and street systems assets.

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.

Financial Analysis - continued

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.

Increases in the actuarial estimated future pension liability 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,

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues:						
Charges for services	\$ 2,187,606	\$ 1,992,256	\$ 16,266,792	\$ 16,301,603	\$ 18,454,398	\$ 18,293,859
Operating grants and contributions	1,355,499	1,027,313	178,024	178,069	1,533,523	1,205,382
Capital grants and contributions	120,144	539,539	214,803	116,335	334,947	655,874
	<u>3,663,249</u>	<u>3,559,108</u>	<u>16,659,619</u>	<u>16,596,007</u>	<u>20,322,868</u>	<u>20,155,115</u>
General revenues:						
Property taxes	5,742,115	5,657,831	-	-	5,742,115	5,657,831
State shared revenue	555,391	535,035	-	-	555,391	535,035
Investment earnings	206,681	148,175	292,899	178,771	499,580	326,946
Unrealized gain (loss) on investments	3,059	(694)	39,244	(33,948)	42,303	(34,642)
	<u>6,507,246</u>	<u>6,340,347</u>	<u>332,143</u>	<u>144,823</u>	<u>6,839,389</u>	<u>6,485,170</u>
Total revenues	<u>10,170,495</u>	<u>9,899,455</u>	<u>16,991,762</u>	<u>16,740,830</u>	<u>27,162,257</u>	<u>26,640,285</u>
Expenses						
Program expenses						
Legislative	7,362	8,277	-	-	7,362	8,277
General government	1,805,658	1,627,625	-	-	1,805,658	1,627,625
Public safety	3,009,734	2,872,954	-	-	3,009,734	2,872,954
Public works	3,571,968	3,916,894	-	-	3,571,968	3,916,894
Health and social services	11,069	17,528	-	-	11,069	17,528
Recreation and cultural	2,097,676	1,937,687	-	-	2,097,676	1,937,687
Other	1,934	1,735	-	-	1,934	1,735
Interest on long-term debt	82,979	86,317	-	-	82,979	86,317
Unallocated depreciation	292,051	267,027	-	-	292,051	267,027
Water and sewer	-	-	4,537,309	4,461,681	4,537,309	4,461,681
Electric	-	-	9,544,377	9,883,552	9,544,377	9,883,552
Total expenses	<u>10,880,431</u>	<u>10,736,044</u>	<u>14,081,686</u>	<u>14,345,233</u>	<u>24,962,117</u>	<u>25,081,277</u>
Changes in net position before transfers	(709,936)	(836,589)	2,910,076	2,395,597	2,200,140	1,559,008
Transfers	<u>1,991,432</u>	<u>1,847,972</u>	<u>(1,628,432)</u>	<u>(1,567,272)</u>	<u>363,000</u>	<u>280,700</u>
Changes in net position	1,281,496	1,011,383	1,281,644	828,325	2,563,140	1,839,708
Net position - beginning of year	28,817,203	27,805,820	49,064,292	48,235,967	77,881,495	76,041,787
Net position - end of year	<u>\$ 30,098,699</u>	<u>\$ 28,817,203</u>	<u>\$ 50,345,936</u>	<u>\$ 49,064,292</u>	<u>\$ 80,444,635</u>	<u>\$ 77,881,495</u>

Financial Analysis - continued

Total revenues of \$10,170,495 for governmental activities during 2019 were \$271,040 more than the \$9,899,455 during 2018. The operating grants and contributions in Governmental Activities totaled \$1,355,499 for 2019, an increase of \$328,166 from 2018's \$1,027,313. Capital grants and contributions decreased by \$419,395 over 2018's \$539,539 to \$120,144 in 2019. Property tax totaled \$5,742,115 in 2019, up \$84,284 from 2018's total of \$5,657,831. The remaining change is due to an approximate increase of \$195,000 in charges for services, an increase of approximately \$20,000 in state revenue sharing, and an increase of approximately \$59,000 in investment earnings.

GASB 68 requires employers to report net position benefits as a liability in the statement of net position, which amounts to \$4,570,283 city wide (including Library) at year end 2019. Additional pension information required by GASB 68 may be found in Note M of the financial statements.

Charges for services in Business-type Activities totaled \$16,266,792 in 2019, a decrease of \$34,811 from \$16,301,603 in 2018. Water and Sewer Fund monthly billing charges increased during the year by a total of \$489,589, while the Electric Fund monthly billing charges decreased by \$393,786. Water usage realized a net decrease of approximately 58,386 cubic feet in 2019 compared to 2018, while sewer usage realized a net increase of approximately 16,876 cubic feet. The decrease in monthly billing charges to electric customers results from a decrease in use of 6,961,581 kWhs from the previous year.

Revenues from all sources total \$27,162,257, of which \$10,170,495 is from governmental activities and \$16,991,762 from business-type activities. Total revenues from governmental activities include \$5,742,115 in property taxes accounting for 56% of the funds and \$2,187,606, or 22% from charges for services. Total revenue for business-type activity receives the vast majority of revenues through charges for services totaling \$16,266,792 during 2019.

Expenses under the full accrual basis of accounting for governmental activities totaled \$10,880,431 which includes depreciation on such items as buildings and infrastructure amounting to \$1,780,454. Total expense does not include capital asset items such as street and sidewalk improvements. Public safety accounts for \$3,009,734 or 28% of expenses while public works totals \$3,571,968 or 33%. Expenses for general government were \$1,805,658 or 17% of expenses and for recreation and cultural were \$2,097,676, or 19% of expenses.

Expenses for business-type activities total \$14,081,686 which consists of \$9,544,377 or 68% from the electric system and \$4,537,309 or 32% from the water and sewer systems. Within the electric system \$6,404,675 or 67% of the expense is for purchased power. Total water and sewer system costs of \$5,556,209 are broken down between the two at \$2,276,620 or 41% water and \$3,279,589 or 59% sewer.

General Fund Budgetary Highlights

Total General Fund revenues of \$6,805,200 were more than total budgeted revenues of \$6,510,200 by \$295,000 or 5%. Actual revenues increased from 2018 by \$543,432.

Total General Fund expenditures of \$8,415,064 were \$10,236 lower than total budgeted expenditures of \$8,425,300. Total expenditures for 2019 were higher than the 2018 total of \$7,648,509 by \$766,555 or 10%. The difference is due primarily to a 2019 increase in Public Safety of \$197,597, General Government of \$282,049, Recreation and Culture of \$142,053 and an increase in Capital Outlay of \$119,484 related to work complete for the Marina, Penn Park restrooms and City Hall brick work.

Capital Assets and Debt Administration

Capital Assets

As of year-end the City of Petoskey had \$62,989,889 invested in capital assets as reflected in the following schedule:

December 31 (net of depreciation),

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Land and land rights	\$ 4,042,213	\$ 4,042,213	\$ -	\$ -	\$ 4,042,213	\$ 4,042,213
Land improvements	2,389,519	2,495,657	-	-	2,389,519	2,495,657
Buildings	2,858,042	2,631,012	-	-	2,858,042	2,631,012
Equipment	3,025,013	3,093,658	-	-	3,025,013	3,093,658
Streets and sidewalks	10,434,216	11,154,136	-	-	10,434,216	11,154,136
Electric system	-	-	13,969,946	14,604,205	13,969,946	14,604,205
Water System	-	-	10,771,328	11,088,314	10,771,328	11,088,314
Sewer system	-	-	15,499,612	15,919,016	15,499,612	15,919,016
Total capital assets	<u>\$ 22,749,003</u>	<u>\$ 23,416,676</u>	<u>\$ 40,240,886</u>	<u>\$ 41,611,535</u>	<u>\$ 62,989,889</u>	<u>\$ 65,028,211</u>

Capital Assets and Debt Administration - continued

Major capital asset additions for 2019 include:

Governmental Activities

Buildings	\$432,685
Street reconstruction projects	65,202
Sidewalks	206,511
Equipment	428,572

Business-Type Activities

Electric system improvement	\$ 522,760
Water system improvements	622,160

Bond Debt

The City had \$10,897,065 of face value in outstanding bond debt at year-end which is distributed in the following debt schedule:

Debt Schedule

December 31,

	<u>2019</u>	<u>2018</u>
Governmental Activities		
General obligation bonds:		
Municipal facilities - marina	\$ 542,065	\$ 641,626
Business-Type Activities		
Revenue bonds:		
Sewer system improvements	3,645,000	4,025,000
Water system improvements	4,820,000	5,000,000
Sewer system improvements	1,890,000	2,005,000
Total	<u>10,355,000</u>	<u>11,030,000</u>
Total bond debt	<u>\$ 10,897,065</u>	<u>\$ 11,671,626</u>

Principal payments on bonds in the amount of \$99,561 for governmental activities and \$675,000 for business-type activities were made in 2019.

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 8.9% in the next five years and 2.8% in 2018 and 3.4% in 2019. The City has not been able to take full advantage of the increases due to the State's low inflation factor for recent years. However, the State's 2018 inflation rate of 2.1% did not require the City's millage rate to be rolled back, which resulted in a little larger increase in tax revenue than budgeted. However, the 2019 inflation factor of 2.4% required a rollback of millage rates. 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. Improvement in the State's economy has affected state revenue sharing as it is steadily increasing. State revenue sharing in the General Fund increased in 2019 by 3.8% or \$20,356 compared to a 2% decrease in 2018. Gas tax revenue in the Major and Local Street Funds increased by \$66,701 or 11% from the previous year and future years are expected to continue to increase as the State increased the gas tax on January 1, 2018 with rates to increase annually.

Utility charges for electric, water and sewer services tend to fluctuate based on weather conditions more so than any other factor. For 2019 the City saw increased usage in all three utility systems. The increase is due to the hotter the usual temperatures last summer, along with drier summer conditions. Revenues are correspondingly up due to the increase in usage along with revised rates. Utility rates were revised in 2019, which is the first revision since 2014. There are scheduled utility rate changes for all three utilities for each of the next four years.

Wholesale electric power purchases increased for several years, but continued efforts in purchasing long term power contracts, 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.



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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 component 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, 2019, 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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *x*, and the required supplementary information on pages 48 - 52, 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.

Other Information - 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

May 11, 2020

City of Petoskey

STATEMENT OF NET POSITION

December 31, 2019

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	TIFA	Library	Downtown Management Parking
ASSETS						
Current assets						
Cash and equivalents	\$ 10,727,030	\$ 7,323,951	\$ 18,050,981	\$ 763,292	\$ 974,945	\$ 694,231
Investments	578,407	6,964,787	7,543,194	198,166	-	-
Receivables						
Special assessments	29,946	-	29,946	-	-	-
Accounts receivable	5,895	2,088,308	2,094,203	78,227	387	26
Due from fiduciary funds	319,657	-	319,657	-	43,186	-
Due from other governments	154,685	-	154,685	-	-	-
Inventory	<u>205,049</u>	<u>1,353,667</u>	<u>1,558,716</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>12,020,669</u>	<u>17,730,713</u>	<u>29,751,382</u>	<u>1,039,685</u>	<u>1,018,518</u>	<u>694,257</u>
Non-current assets						
Restricted cash and investments						
Customer deposits	-	216,113	216,113	-	-	-
Sewage service covenants	-	770,923	770,923	-	-	-
Revenue bond covenants	-	2,780,374	2,780,374	-	-	-
MPPA energy restrictions	-	477,300	477,300	-	-	-
MPPA working capital advance	-	459,999	459,999	-	-	-
Capital assets	50,735,535	82,884,373	133,619,908	4,169,633	7,451,878	-
Less accumulated depreciation	<u>(27,986,532)</u>	<u>(42,643,487)</u>	<u>(70,630,019)</u>	<u>(1,824,302)</u>	<u>(3,721,765)</u>	<u>-</u>
Total non-current assets	<u>22,749,003</u>	<u>44,945,595</u>	<u>67,694,598</u>	<u>2,345,331</u>	<u>3,730,113</u>	<u>-</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred loss on debt refunding	2,155	97,459	99,614	8,128	47,918	-
Deferred outflows for pension obligation	<u>85,186</u>	<u>9,455</u>	<u>94,641</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred outflows of resources	<u>87,341</u>	<u>106,914</u>	<u>194,255</u>	<u>8,128</u>	<u>47,918</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 34,857,013</u>	<u>\$ 62,783,222</u>	<u>\$ 97,640,235</u>	<u>\$ 3,393,144</u>	<u>\$ 4,796,549</u>	<u>\$ 694,257</u>

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

City of Petoskey

STATEMENT OF NET POSITION- Continued

December 31, 2019

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	TIFA	Library	Downtown Management Parking
LIABILITIES						
Current liabilities						
Accounts payable	\$ 111,241	\$ 397,628	\$ 508,869	\$ -	\$ 5,866	\$ 10,802
Accrued expenses	142,580	56,562	199,142	17,249	30,850	6,443
Unearned revenue	-	-	-	-	38,798	-
Accrued interest	4,080	-	4,080	-	-	-
Payable from restricted assets						
Current portion of revenue bonds	-	690,000	690,000	-	-	-
Accrued interest	-	170,818	170,818	-	-	-
Bonds payable, due within one year	<u>98,331</u>	<u>-</u>	<u>98,331</u>	<u>156,669</u>	<u>210,000</u>	<u>-</u>
Total current liabilities	<u>356,232</u>	<u>1,315,008</u>	<u>1,671,240</u>	<u>173,918</u>	<u>285,514</u>	<u>17,245</u>
Noncurrent liabilities						
Payable from restricted assets						
Customer deposits	-	177,383	177,383	-	-	-
Long-term accrued expenses	37,918	-	37,918	-	-	-
Estimated liability for landfill post-closure care costs	85,000	-	85,000	-	-	-
Net pension obligation	3,561,527	959,854	4,521,381	-	48,902	-
Bonds payable, net	<u>473,371</u>	<u>9,915,713</u>	<u>10,389,084</u>	<u>1,903,130</u>	<u>1,999,724</u>	<u>-</u>
Total noncurrent liabilities	<u>4,157,816</u>	<u>11,052,950</u>	<u>15,210,766</u>	<u>1,903,130</u>	<u>2,048,626</u>	<u>-</u>
Total liabilities	<u>4,514,048</u>	<u>12,367,958</u>	<u>16,882,006</u>	<u>2,077,048</u>	<u>2,334,140</u>	<u>17,245</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows for pension obligation	<u>244,266</u>	<u>69,328</u>	<u>313,594</u>	<u>-</u>	<u>6,454</u>	<u>-</u>
NET POSITION						
Invested in capital assets, net of debt	21,637,391	29,732,632	51,370,023	293,660	1,568,310	-
Restricted						
Refuse collection	298,956	-	298,956	-	-	-
Marina	865,407	-	865,407	-	-	-
Streets and improvements	3,491,369	-	3,491,369	-	-	-
Downtown programs and services	121,771	-	121,771	-	-	-
Debt service	-	-	-	-	273,000	-
Sewage service covenants	-	770,923	770,923	-	-	-
Revenue bond indentures	-	1,919,556	1,919,556	-	-	-
MPPA energy expenses	-	477,300	477,300	-	-	-
TIFA expenses	-	-	-	1,022,436	-	-
Library	-	-	-	-	614,645	-
Unrestricted	<u>3,683,805</u>	<u>17,445,525</u>	<u>21,129,330</u>	<u>-</u>	<u>-</u>	<u>677,012</u>
Total net position	<u>30,098,699</u>	<u>50,345,936</u>	<u>80,444,635</u>	<u>1,316,096</u>	<u>2,455,955</u>	<u>677,012</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 34,857,013</u>	<u>\$ 62,783,222</u>	<u>\$97,640,235</u>	<u>\$3,393,144</u>	<u>\$ 4,796,549</u>	<u>\$ 694,257</u>

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

City of Petoskey

STATEMENT OF ACTIVITIES

Year ended December 31, 2019

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	\$ 7,362	\$ -	\$ -	\$ -	\$ (7,362)	\$ -	\$ (7,362)	\$ -	\$ -	\$ -	\$ -
General government	1,805,658	169,481	-	-	(1,636,177)	-	(1,636,177)	-	-	-	-
Public safety	3,009,734	26,226	59,739	19,178	(2,904,591)	-	(2,904,591)	-	-	-	-
Public works	3,571,968	505,841	937,006	100,966	(2,028,155)	-	(2,028,155)	-	-	-	-
Health and social services	11,069	-	-	-	(11,069)	-	(11,069)	-	-	-	-
Recreation and cultural	2,097,676	1,486,058	358,754	-	(252,864)	-	(252,864)	-	-	-	-
Other	1,934	-	-	-	(1,934)	-	(1,934)	-	-	-	-
Interest on long-term debt	82,979	-	-	-	(82,979)	-	(82,979)	-	-	-	-
Unallocated depreciation	292,051	-	-	-	(292,051)	-	(292,051)	-	-	-	-
Total governmental activities	10,880,431	2,187,606	1,355,499	120,144	(7,217,182)	-	(7,217,182)	-	-	-	-
Business-type activities											
Water and sewer	4,537,309	5,839,046	178,024	208,749	-	1,688,510	1,688,510	-	-	-	-
Electric	9,544,377	10,427,746	-	6,054	-	889,423	889,423	-	-	-	-
Total business-type activities	14,081,686	16,266,792	178,024	214,803	-	2,577,933	2,577,933	-	-	-	-
Total primary government	\$ 24,962,117	\$ 18,454,398	\$ 1,533,523	\$ 334,947	(7,217,182)	2,577,933	(4,639,249)	-	-	-	-
Component Units											
TIFA	\$ 23,951	\$ -	\$ -	\$ -	-	-	-	(23,951)	-	-	-
Library	1,314,058	166,618	482,338	-	-	-	-	-	(665,102)	-	-
Downtown Management Parking	708,967	689,856	-	-	-	-	-	-	-	-	(19,111)
Total component units	\$ 2,046,976	\$ 856,474	\$ 482,338	\$ -	-	-	-	(23,951)	(665,102)	(19,111)	-
General revenues											
Property taxes					5,742,115	-	5,742,115	407,969	822,386	-	-
State shared revenue					555,391	-	555,391	-	-	-	-
Unrestricted interest and investment earnings					206,681	292,899	499,580	10,686	13,580	4,021	-
Unrealized gain (loss) on investments					3,059	39,244	42,303	30	2,263	-	-
Transfers					1,991,432	(1,628,432)	363,000	(231,400)	-	-	(131,600)
Total general revenues and transfers					8,498,678	(1,296,289)	7,202,389	187,285	838,229	(127,579)	-
Change in net position					1,281,496	1,281,644	2,563,140	163,334	173,127	(146,690)	-
Net position, beginning of year					28,817,203	49,064,292	77,881,495	1,152,762	2,282,828	823,702	-
Net position, end of year					\$ 30,098,699	\$ 50,345,936	\$ 80,444,635	\$ 1,316,096	\$ 2,455,955	\$ 677,012	-

City of Petoskey

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2019

	General Fund	Right-of-Way Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and equivalents	\$ 5,242,716	\$ 568,828	\$ 3,485,472	\$ 9,297,016
Investments	578,407	-	-	578,407
Receivables				
Special assessments	-	-	29,946	29,946
Accounts receivable	4,080	14	1,280	5,374
Due from other funds	223,224	93,668	2,765	319,657
Due from other governments	15,000	-	139,685	154,685
Inventory	-	-	184,914	184,914
	<u>\$ 6,063,427</u>	<u>\$ 662,510</u>	<u>\$ 3,844,062</u>	<u>\$ 10,569,999</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 81,432	\$ -	\$ 17,885	\$ 99,317
Accrued expenditures	131,947	-	10,122	142,069
	<u>213,379</u>	<u>-</u>	<u>28,007</u>	<u>241,386</u>
FUND BALANCES				
Non-spendable				
Inventory	-	-	184,914	184,914
Restricted	1,164,363	662,510	2,950,630	4,777,503
Committed	-	-	680,511	680,511
Unassigned	4,685,685	-	-	4,685,685
	<u>5,850,048</u>	<u>662,510</u>	<u>3,816,055</u>	<u>10,328,613</u>
Total fund balances	<u>5,850,048</u>	<u>662,510</u>	<u>3,816,055</u>	<u>10,328,613</u>
Total liabilities and fund balances	<u>\$ 6,063,427</u>	<u>\$ 662,510</u>	<u>\$ 3,844,062</u>	<u>\$ 10,569,999</u>

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, 2019

Total Fund Balance - Governmental Funds \$ 10,328,613

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	43,819,553
Accumulated depreciation	(23,830,051)

Governmental funds report interest when due, whereas in the statement of net position, interest is accrued on outstanding bonds. (4,080)

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. (37,918)

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	(3,561,527)
Deferred outflows of resources for net pension obligation	85,186
Deferred inflows of resources for net pension obligation	(244,266)
Governmental bonds payable, net	(569,546)
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. 4,197,735

Net Position of Governmental Activities \$ 30,098,699

City of Petoskey

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

Year ended December 31, 2019

	General Fund	Right-of-Way Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 3,984,887	\$ 1,757,227	\$ -	\$ 5,742,114
Special assessments	-	-	101,352	101,352
Licenses and permits	25,090	-	-	25,090
Federal grants	19,178	-	-	19,178
State grants	900,901	-	1,037,972	1,938,873
Contributions from local units	72,983	-	-	72,983
Charges for services	1,486,058	-	-	1,486,058
Fines and forfeits	23,622	-	-	23,622
Interest and investment earnings	145,485	8,611	39,999	194,095
Other	146,996	-	81,694	228,690
	6,805,200	1,765,838	1,261,017	9,832,055
EXPENDITURES				
Current				
Legislative	7,362	-	-	7,362
General government	1,889,037	-	-	1,889,037
Public safety	3,289,421	-	-	3,289,421
Public works	621,694	-	1,574,549	2,196,243
Health and welfare	14,430	-	-	14,430
Recreational and cultural	2,044,910	-	-	2,044,910
Other	-	1,934	-	1,934
Capital outlay	548,210	-	287,127	835,337
Debt service				
Principal	-	-	260,000	260,000
Interest and fiscal charges	-	-	88,500	88,500
	8,415,064	1,934	2,210,176	10,627,174
REVENUES OVER (UNDER) EXPENDITURES	(1,609,864)	1,763,904	(949,159)	(795,119)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	2,324,200	-	1,967,300	4,291,500
Operating transfers out	(504,868)	(1,600,000)	(436,300)	(2,541,168)
Transfers from component units	131,600	-	231,400	363,000
	1,950,932	(1,600,000)	1,762,400	2,113,332
NET CHANGE IN FUND BALANCES	341,068	163,904	813,241	1,318,213
Fund balance, beginning of year	5,508,980	498,606	3,002,814	9,010,400
Fund balance, end of year	\$ 5,850,048	\$ 662,510	\$ 3,816,055	\$ 10,328,613

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, 2019

Net Change in Fund Balances - Total Governmental Funds \$ 1,318,213

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	889,592
Current year depreciation	(1,325,746)

Net change in the pension obligation and related deferred outflows and inflows of resources.	114,332
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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.

Principal payments	99,561
Amortization of bond premium and deferred loss on refunding	5,498

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.	23
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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.	(458)
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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.	180,481
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Change in Net Position of Governmental Activities	\$ 1,281,496
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City of Petoskey

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

December 31, 2019

	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	\$ 5,124,673	\$ 2,199,278	\$ 7,323,951	\$ 1,430,014
Investments	3,301,174	3,663,613	6,964,787	-
Accounts receivable	1,383,673	704,635	2,088,308	521
Inventory	1,098,399	255,268	1,353,667	20,135
Total current assets	10,907,919	6,822,794	17,730,713	1,450,670
Noncurrent assets				
Restricted cash and investments				
Customer deposits	166,983	49,130	216,113	-
Sewage service covenants	-	770,923	770,923	-
Revenue bond covenants	-	2,780,374	2,780,374	-
MPPA energy charges	477,300	-	477,300	-
MPPA working capital advance	459,999	-	459,999	-
Capital assets	34,908,365	47,976,008	82,884,373	6,915,981
Less accumulated depreciation	(20,938,419)	(21,705,068)	(42,643,487)	(4,156,480)
Total noncurrent assets	15,074,228	29,871,367	44,945,595	2,759,501
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on debt refunding	-	97,459	97,459	-
Deferred outflows for pension obligation	-	9,455	9,455	-
Total deferred outflows of resources	-	106,914	106,914	-
Total assets and deferred outflows of resources	\$ 25,982,147	\$ 36,801,075	\$ 62,783,222	\$ 4,210,171

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

City of Petoskey

STATEMENT OF NET POSITION - PROPRIETARY FUNDS - Continued

December 31, 2019

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Electric</u>	<u>Water and</u>	<u>Totals</u>	<u>Activities -</u>
	<u>System</u>	<u>Sewer</u>		<u>Internal</u>
		<u>System</u>		<u>Service Fund</u>
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES				
Accounts payable	\$ 258,209	\$ 139,419	\$ 397,628	\$ 11,925
Accrued expenses	<u>39,808</u>	<u>16,754</u>	<u>56,562</u>	<u>511</u>
Total current liabilities	<u>298,017</u>	<u>156,173</u>	<u>454,190</u>	<u>12,436</u>
CURRENT LIABILITIES (payable from restricted assets)				
Current portion of revenue bonds	-	690,000	690,000	-
Accrued interest	<u>-</u>	<u>170,818</u>	<u>170,818</u>	<u>-</u>
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>860,818</u>	<u>860,818</u>	<u>-</u>
NONCURRENT LIABILITIES				
Payable from restricted assets				
Customer deposits	166,983	10,400	177,383	-
Net pension obligation	355,790	604,064	959,854	-
Revenue bonds (net current portion and unamortized premiums)	<u>-</u>	<u>9,915,713</u>	<u>9,915,713</u>	<u>-</u>
Total noncurrent liabilities	<u>522,773</u>	<u>10,530,177</u>	<u>11,052,950</u>	<u>-</u>
Total liabilities	<u>820,790</u>	<u>11,547,168</u>	<u>12,367,958</u>	<u>12,436</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows for pension obligation	<u>31,513</u>	<u>37,815</u>	<u>69,328</u>	<u>-</u>
NET POSITION				
Invested in capital assets, net of debt	13,969,946	15,762,686	29,732,632	-
Restricted for sewage service covenants	-	770,923	770,923	-
Restricted for revenue bond indentures	-	1,919,556	1,919,556	-
Restricted for MPPA energy expenses	477,300	-	477,300	-
Unrestricted	<u>10,682,598</u>	<u>6,762,927</u>	<u>17,445,525</u>	<u>4,197,735</u>
Total net position	<u>25,129,844</u>	<u>25,216,092</u>	<u>50,345,936</u>	<u>4,197,735</u>
Total liabilities, deferred inflows, and net position	<u>\$ 25,982,147</u>	<u>\$ 36,801,075</u>	<u>\$ 62,783,222</u>	<u>\$ 4,210,171</u>

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, 2019

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activities -
	<u>Electric System</u>	<u>Water and Sewer System</u>	<u>Totals</u>	<u>Internal Service Fund</u>
Operating revenue				
Charges for services	<u>\$ 10,058,580</u>	<u>\$ 5,839,046</u>	<u>\$ 15,897,626</u>	<u>\$ 1,230,947</u>
Operating expenses				
Purchased power	6,404,675	-	6,404,675	-
Personnel services	1,012,373	1,003,477	2,015,850	14,046
Contractual services	538,216	735,879	1,274,095	346,240
Supplies	7,548	8,334	15,882	137,828
Materials	186,443	432,152	618,595	-
Heat, light and power	825	505,897	506,722	-
Depreciation	1,139,749	1,358,550	2,498,299	454,707
Rent	<u>27,071</u>	<u>70,013</u>	<u>97,084</u>	<u>-</u>
Total operating expenses	<u>9,316,900</u>	<u>4,114,302</u>	<u>13,431,202</u>	<u>952,821</u>
OPERATING INCOME	<u>741,680</u>	<u>1,724,744</u>	<u>2,466,424</u>	<u>278,126</u>
Nonoperating revenues				
Unrestricted interest and investment earnings	133,444	159,455	292,899	12,587
Unrealized gain (loss) from investments	23,824	15,420	39,244	3,059
Rent	145,900	-	145,900	-
Sewage service covenant	-	178,024	178,024	-
Construction	47,289	37,100	84,389	-
Miscellaneous	<u>175,977</u>	<u>-</u>	<u>175,977</u>	<u>8,609</u>
Total nonoperating revenues	<u>526,434</u>	<u>389,999</u>	<u>916,433</u>	<u>24,255</u>
Nonoperating expenses				
Personnel services	19,560	-	19,560	-
Contractual services	132,728	-	132,728	-
Supplies	16,860	-	16,860	-
Materials	12,252	-	12,252	-
Heat, light and power	28,807	-	28,807	-
Interest	-	412,476	412,476	-
Depreciation	17,270	-	17,270	-
Other expenses	<u>-</u>	<u>10,531</u>	<u>10,531</u>	<u>-</u>
Total nonoperating expenses	<u>227,477</u>	<u>423,007</u>	<u>650,484</u>	<u>-</u>
Net nonoperating revenues (expenses)	<u>298,957</u>	<u>(33,008)</u>	<u>265,949</u>	<u>24,255</u>
INCOME BEFORE OPERATING TRANSFERS	<u>1,040,637</u>	<u>1,691,736</u>	<u>2,732,373</u>	<u>302,381</u>
Other financing uses				
Operating transfers in	387,568	-	387,568	-
Operating transfers out	<u>(997,100)</u>	<u>(1,018,900)</u>	<u>(2,016,000)</u>	<u>(121,900)</u>
Total transfers	<u>(609,532)</u>	<u>(1,018,900)</u>	<u>(1,628,432)</u>	<u>(121,900)</u>
Capital contributions	<u>6,054</u>	<u>171,649</u>	<u>177,703</u>	<u>-</u>
CHANGE IN NET POSITION	<u>437,159</u>	<u>844,485</u>	<u>1,281,644</u>	<u>180,481</u>
Net position, beginning of year	<u>24,692,685</u>	<u>24,371,607</u>	<u>49,064,292</u>	<u>4,017,254</u>
Net position, end of year	<u>\$ 25,129,844</u>	<u>\$ 25,216,092</u>	<u>\$ 50,345,936</u>	<u>\$ 4,197,735</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, 2019

	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	\$ 10,064,459	\$ 5,804,245	\$ 15,868,704	\$ 1,231,155
Cash payments to suppliers for goods and services	(7,217,633)	(1,991,028)	(9,208,661)	(479,736)
Cash payments to employees for services	(1,023,291)	(1,008,248)	(2,031,539)	(13,968)
Cash payments to other funds for services	(27,071)	(70,013)	(97,084)	-
	<u>1,796,464</u>	<u>2,734,956</u>	<u>4,531,420</u>	<u>737,451</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES				
Operating transfers in/(out) to other funds	(609,532)	(1,018,900)	(1,628,432)	(121,900)
Increase/(Decrease) in customer deposits	69,794	(500)	69,294	-
Net cash provided by rental, construction and miscellaneous nonoperating activities	189,337	176,724	366,061	-
	<u>(350,401)</u>	<u>(842,676)</u>	<u>(1,193,077)</u>	<u>(121,900)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(522,760)	(622,160)	(1,144,920)	(243,377)
Proceeds from sale of fixed assets	-	-	-	28,797
Principal paid on revenue bonds and contracts payable	-	(675,000)	(675,000)	-
Interest paid on revenue bonds and contracts payable	-	(425,038)	(425,038)	-
Capital contributed by customers	6,054	171,649	177,703	-
	<u>(516,706)</u>	<u>(1,550,549)</u>	<u>(2,067,255)</u>	<u>(214,580)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale (purchase) of investments, net	(322,589)	(282,119)	(604,708)	3,059
Interest received	133,445	159,457	292,902	12,587
	<u>(189,144)</u>	<u>(122,662)</u>	<u>(311,806)</u>	<u>15,646</u>
NET CHANGE IN CASH	740,213	219,069	959,282	416,617
Cash, beginning of year	<u>4,551,443</u>	<u>4,597,506</u>	<u>9,148,949</u>	<u>1,013,397</u>
Cash, end of year	<u>\$ 5,291,656</u>	<u>\$ 4,816,575</u>	<u>\$ 10,108,231</u>	<u>\$ 1,430,014</u>
Current assets	\$ 5,124,673	\$ 2,199,278	\$ 7,323,951	\$ 1,430,014
Restricted assets	<u>166,983</u>	<u>2,617,297</u>	<u>2,784,280</u>	<u>-</u>
Totals	<u>\$ 5,291,656</u>	<u>\$ 4,816,575</u>	<u>\$ 10,108,231</u>	<u>\$ 1,430,014</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, 2019

	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	\$ 741,680	\$ 1,724,744	\$ 2,466,424	\$ 278,126
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	1,157,019	1,358,550	2,515,569	454,707
(Increase) decrease in accounts receivable	5,879	(34,801)	(28,922)	208
(Increase) decrease in inventory	810	(5,233)	(4,423)	1,680
Increase in prepaid expenses	(23,980)	-	(23,980)	-
Increase (decrease) in accounts payable	(74,026)	(303,530)	(377,556)	2,651
Increase (decrease) in accrued expenses	3,177	2,252	5,429	79
Increase (decrease) in net pension obligation and related deferred outflows	<u>(14,095)</u>	<u>(7,026)</u>	<u>(21,121)</u>	<u>-</u>
Total adjustments	<u>1,054,784</u>	<u>1,010,212</u>	<u>2,064,996</u>	<u>459,325</u>
Net cash provided by operating activities	<u>\$ 1,796,464</u>	<u>\$ 2,734,956</u>	<u>\$ 4,531,420</u>	<u>\$ 737,451</u>

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

City of Petoskey

STATEMENT OF FIDUCIARY NET POSITION

December 31, 2019

	<u>Pension Trust Fund</u>	<u>Custodial Fund</u>
ASSETS		
Cash	\$ -	\$ 1,006,994
Investments	204,963	-
Receivables		
Taxes	<u>-</u>	<u>3,339,897</u>
 Total assets	 <u>\$ 204,963</u>	 <u>\$ 4,346,891</u>
 LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts payable	\$ -	\$ -
Due to other funds	-	319,657
Due to component unit	-	43,186
Due to other governmental units	<u>-</u>	<u>3,984,048</u>
 Total liabilities	 -	 4,346,891
 NET POSITION		
Held in trust for pension benefits and other purposes	<u>204,963</u>	<u>-</u>
 Total liabilities and net position	 <u>\$ 204,963</u>	 <u>\$ 4,346,891</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, 2019

	<u>Pension Trust Fund</u>	<u>Custodial Fund</u>
ADDITIONS TO NET POSITION		
Contributions		
Employer	<u>\$ 16,345</u>	<u>\$ -</u>
Net investment earnings		
Interest and unrealized gains (losses)	<u>32,903</u>	<u>-</u>
Property tax collections for other governments	<u>-</u>	<u>23,466,158</u>
Total additions	49,248	23,466,158
DEDUCTIONS FROM NET POSITION		
Distributions/transfers out	<u>-</u>	<u>23,466,158</u>
Total deductions	<u>-</u>	<u>23,466,158</u>
NET CHANGE IN NET POSITION	49,248	-
Net position, beginning of year	<u>155,715</u>	<u>-</u>
Net position, end of year	<u><u>\$ 204,963</u></u>	<u><u>\$ -</u></u>

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.

Fiduciary Component Unit

Pension Trust Fund - The City provides pension benefits for management employees as designated by City Council through a defined contribution plan. The City is legally obligated to make contributions to the pension plan.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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.

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.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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.

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 Custodial 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 Custodial 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:

NOTES TO FINANCIAL STATEMENTS - Continued

<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.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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.

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.

Subsequent Events

The City has evaluated subsequent events and transactions for potential recognition and disclosure through May 11, 2020, the date the financial statements were available to be issued.

Market Losses

The economy has experienced a significant downturn subsequent to year-end, resulting in market losses on investments. Management is not currently able to determine if these market losses will be other than temporary. Investment fair values could change by significant amounts in the near-term.

COVID- 19

The City believes it understands the risk associated with COVID-19. The City is in the process of implementing risk mitigation tactics as to the risk of the impact of COVID- 19 related to all aspects of the City’s business transactions with residents and vendors and human interaction within and outside of the City. The effect of potential interruption to operations is unknown at this time.

NOTE B - CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2019, the City implemented GASB Statement 84, *Fiduciary Activities*. GASB Statement 84 clarified the identification of fiduciary activities for accounting and financial reporting purposes. As a result of the implementation in the year ended December 31, 2019, the City's fund formerly titled Agency Fund is now titled Custodial Fund. Certain activity formerly accounted for in the Agency Fund is no longer considered fiduciary, and was transferred to the General Fund.

NOTE C - 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, 2019, the following functions incurred total expenditures in excess of amounts appropriated for expenditures:

Fund	Final Budget	Amount of Expenditures	Budget Variance
General Fund			
Public safety	3,235,500	3,289,421	53,921
Recreation and cultural	1,980,600	2,044,910	64,310

NOTE D - 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, 2019, 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	\$ 12,549,401	\$ 5,501,580	\$ 2,432,468	\$ -	\$ 1,006,994	\$ -
Restricted cash and cash equivalents	2,784,280	-	-	-	-	-
Restricted investments	-	1,460,430	-	-	-	-
Investments	<u>500,000</u>	<u>7,043,194</u>	<u>-</u>	<u>198,166</u>	<u>-</u>	<u>204,963</u>
	<u>\$ 15,833,681</u>	<u>\$ 14,005,204</u>	<u>\$ 2,432,468</u>	<u>\$ 198,166</u>	<u>\$ 1,006,994</u>	<u>\$ 204,963</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.

Custodial Credit Risk

In the event of bank failure, the City's uninsured deposits may not be returned to it. As of December 31, 2019, \$18,365,693 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, 2019, the City's investments consisted of the following:

NOTES TO FINANCIAL STATEMENTS - Continued

Investment Type	Fair Market Value	Weighted Average Maturity (Years)	Standard and Poors Bond Ratings
Certificates of Deposit	\$ 3,241,796	5.48	N/A
Federal Farm Credit Bank Bonds	999,865	1.45	AA+
Federal Home Loan Bank Bonds	1,774,384	3.50	AA+
Federal National Mortgage Associations Bonds	497,990	1.41	AA+
Government National Mortgage Association Bonds	1,709	0.79	N/A
Chippewa Valley Schools Bonds	658,241	1.33	AA
Redford Redevelopment Authority Bonds	560,740	3.71	AA
City of Wyandotte Bonds	189,281	6.76	AA
Allendale Public Schools Bonds	250,340	0.33	AA
City of Sterling Heights Bonds	50,145	5.76	AA
MPPA Investment Pools	216,114	2.50	N/A
MPPA Investment Pools - Treasury Bonds	261,186	2.50	N/A
Money Market Mutual Funds	5,706,542	-	N/A
Total portfolio	\$ 14,408,333	2.20	

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, 2019, \$7,724,490 of the City's investments were uninsured and uncollateralized, and \$5,501,580 were collateralized by securities held by the pledging financial institutions and \$500,000 was insured by the Securities Investor Protection Corporation.

Concentration of Credit Risk

The City places no limit on the amount it may invest in any one issuer. As of December 31, 2019, 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 gain on investments of \$42,303 for the year ended December 31, 2019.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - 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, 2019:

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	\$ -	\$ 261,186	\$ -	\$ 261,186
Municipal bonds	-	1,708,747	-	1,708,747
U.S. Government Bonds	-	3,490,062	-	3,490,062
Money market funds	<u>-</u>	<u>5,706,542</u>	<u>-</u>	<u>5,706,542</u>
Total investments by fair market value	<u>\$ -</u>	<u>\$ 11,166,537</u>	<u>\$ -</u>	<u>\$ 11,166,537</u>

The City's investments in certificates of deposit 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, 2019.

U.S. government bonds, treasury 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 F - 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 2019 State taxable valuation of the City of Petoskey totaled \$512,583,833.

The tax rates for the year ended December 31, 2019 were as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>
General governmental services	7.5327 per \$1,000
Right-of-way	3.8790 per \$1,000
Library	0.8443 per \$1,000
Library (additional, approved by voters)	0.9367 per \$1,000
Refuse collection	0.4890 per \$1,000
Fire equipment	0.7426 per \$1,000

NOTE G - TAX ABATEMENTS

The City had the following tax abatements for the year ended December 31, 2019:

<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	\$ 28,379
		Sheridan Ltd Dividend Housing Assoc.	9,728
	City of Petoskey	Crestview Ltd Dividend Housing Assoc.	9,790
		City of Petoskey	Keystone Management Group
	Industrial Facilities Tax Exemption Public Act 198 of 1974	City of Petoskey	Cygnus Inc.
			<u>\$ 39,426</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE H - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables within the primary government are as follows for the year ended December 31, 2019:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 223,224	\$ -
Right-of-Way Fund	93,668	-
Other Nonmajor Governmental Funds	2,765	-
Fiduciary Funds - Custodial Funds	<u>-</u>	<u>319,657</u>
Total	<u>\$ 319,657</u>	<u>\$ 319,657</u>

The amounts of interfund receivables and payables between the primary government and the component units are as follows for the year ended December 31, 2019:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Library Component Unit	\$ 43,186	\$ -
Fiduciary Funds - Custodial Funds	<u>-</u>	<u>43,186</u>
Total	<u>\$ 43,186</u>	<u>\$ 43,186</u>

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

NOTE I - INTERFUND TRANSFERS

Operating transfers within the primary government are as follows for the year ended December 31, 2019:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,324,200	\$ 504,868
Right-of-Way Fund	-	1,600,000
Electric Fund	387,568	997,100
Water and Sewer Fund	-	1,018,900
Other Nonmajor Governmental Funds	1,967,300	436,300
Internal Service Fund	<u>-</u>	<u>121,900</u>
Total	<u>\$ 4,679,068</u>	<u>\$ 4,679,068</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Operating transfers between the primary government and the component units are as follows for the year ended December 31, 2019:

	<u>Transfers In</u>	<u>Transfers Out</u>
TIFA Component Unit	\$ -	\$ 231,400
Downtown Management Parking Component Unit	-	131,600
General Fund	131,600	-
Other Nonmajor Governmental Funds	<u>231,400</u>	<u>-</u>
Total	<u>\$ 363,000</u>	<u>\$ 363,000</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 for the year ended December 31, 2019:

Electric Fund	\$ 218,000
Water and Sewer Fund	<u>368,800</u>
	<u>\$ 586,800</u>

NOTE J - CAPITAL ASSETS

Investment in capital assets changed as follows during the year ended December 31, 2019:

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	6,058,564	432,685	-	6,491,249
Equipment	8,065,702	428,572	(469,528)	8,024,746
Infrastructure	<u>28,154,617</u>	<u>271,713</u>	<u>-</u>	<u>28,426,330</u>
Subtotal	<u>46,029,880</u>	<u>1,132,970</u>	<u>(469,528)</u>	<u>46,693,322</u>
Less accumulated depreciation				
Land improvements	(1,255,340)	(106,138)	-	(1,361,478)
Buildings	(3,427,552)	(205,655)	-	(3,633,207)
Equipment	(4,972,044)	(477,028)	449,339	(4,999,733)
Infrastructure	<u>(17,000,481)</u>	<u>(991,633)</u>	<u>-</u>	<u>(17,992,114)</u>
Subtotal	<u>(26,655,417)</u>	<u>(1,780,454)</u>	<u>449,339</u>	<u>(27,986,532)</u>
Net capital assets being depreciated	<u>19,374,463</u>	<u>(647,484)</u>	<u>(20,189)</u>	<u>18,706,790</u>
Governmental activities net capital assets	<u>\$ 23,416,676</u>	<u>\$ (647,484)</u>	<u>\$ (20,189)</u>	<u>\$ 22,749,003</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
Capital assets being depreciated				
Land improvements	450,670	-	-	450,670
Buildings	27,962,105	11,253	-	27,973,358
Utility system improvements	51,635,122	1,133,667	-	52,768,789
Equipment	<u>794,700</u>	<u>-</u>	<u>-</u>	<u>794,700</u>
Subtotal	<u>80,842,597</u>	<u>1,144,920</u>	<u>-</u>	<u>81,987,517</u>
Less accumulated depreciation				
Land improvements	(93,887)	(10,432)	-	(104,319)
Buildings	(12,486,386)	(781,573)	-	(13,267,959)
Utility system improvements	(26,807,532)	(1,717,499)	-	(28,525,031)
Equipment	<u>(740,113)</u>	<u>(6,065)</u>	<u>-</u>	<u>(746,178)</u>
Subtotal	<u>(40,127,918)</u>	<u>(2,515,569)</u>	<u>-</u>	<u>(42,643,487)</u>
Net capital assets being depreciated	<u>40,714,679</u>	<u>(1,370,649)</u>	<u>-</u>	<u>39,344,030</u>
Business-type activities net capital assets	<u>\$ 41,611,535</u>	<u>\$ (1,370,649)</u>	<u>\$ -</u>	<u>\$ 40,240,886</u>

Depreciation expense was charged to programs of the primary government as follows for the year ended December 31, 2019:

Governmental activities

General government	\$ 2,681
Public safety	139,423
Public works	1,288,941
Recreation and cultural	57,358
Unallocated	<u>292,051</u>
Total governmental activities	<u>\$ 1,780,454</u>

Business-type activities

Electric	\$ 1,157,019
Water and sewer	<u>1,358,550</u>
Total business-type activities	<u>\$ 2,515,569</u>

NOTES TO FINANCIAL STATEMENTS - Continued

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	\$ 454,043	\$ -	\$ 3,273,403
Buildings	6,416,166	-	-	6,416,166
Equipment	<u>2,002,093</u>	<u>52,729</u>	<u>(122,880)</u>	<u>1,931,942</u>
Subtotal	<u>11,237,619</u>	<u>506,772</u>	<u>(122,880)</u>	<u>11,621,511</u>
Less accumulated depreciation				
Land improvements	(1,161,875)	(140,968)	-	(1,302,843)
Buildings	(2,711,730)	(182,372)	-	(2,894,102)
Equipment	<u>(1,431,745)</u>	<u>(40,257)</u>	<u>122,880</u>	<u>(1,349,122)</u>
Subtotal	<u>(5,305,350)</u>	<u>(363,597)</u>	<u>122,880</u>	<u>(5,546,067)</u>
Component units' net capital assets	<u>\$ 5,932,269</u>	<u>\$ 143,175</u>	<u>\$ -</u>	<u>\$ 6,075,444</u>

NOTE K - LONG-TERM DEBT

The following is a summary of the City's long-term debt transactions for the year ended December 31, 2019:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
PRIMARY GOVERNMENT					
Governmental activities					
General obligation debt	\$ 641,626	\$ -	\$ 99,561	\$ 542,065	\$ 98,331
Compensated absences	<u>37,460</u>	<u>458</u>	<u>-</u>	<u>37,918</u>	<u>-</u>
Total governmental activities	<u>\$ 679,086</u>	<u>\$ 458</u>	<u>\$ 99,561</u>	<u>\$ 579,983</u>	<u>\$ 98,331</u>
Business-type activities					
Revenue obligation debt	<u>\$ 11,030,000</u>	<u>\$ -</u>	<u>\$ 675,000</u>	<u>\$ 10,355,000</u>	<u>\$ 690,000</u>
COMPONENT UNIT					
General obligation debt	<u>\$ 4,488,374</u>	<u>\$ -</u>	<u>\$ 370,439</u>	<u>\$ 4,117,935</u>	<u>\$ 366,669</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Bonds payable at December 31, 2019 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 \$98,331 to \$114,315 through April 2024; interest rate of 2.00% to 4.00%. Funds for repayment have been provided by the Marina Bond Debt Fund.	\$ 542,065
Unamortized premium	<u>29,637</u>
Total governmental activities general obligation bonds	<u><u>\$ 571,702</u></u>

Deferred Loss on Debt Refunding

Unaccreted loss on refunding - \$730,323, 2017 Building Authority Improvement Bonds.	<u><u>\$ 2,155</u></u>
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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 4.13% to 5.00%.	\$ 3,645,000
Unamortized premium	145,237
\$2,755,000, 2011 Water and Sewer bonds; remaining annual installments of \$120,000 to \$200,000 through February 2031; interest rate of 4.13% to 5.00%.	1,890,000
Unamortized premium	45,448
\$5,000,000, 2017 Water and Sewer bonds; remaining annual installments of \$190,000 to \$365,000 through December 2037; interest rate of 3.00% to 3.25%.	4,820,000
Unamortized premium	<u>60,028</u>
Total business-type activities revenue obligation debt	<u><u>\$ 10,605,713</u></u>

Deferred Loss on Debt Refunding

Unaccreted loss on refunding - \$6,330,000, 2011 Water and Sewer Refunding Bonds	<u><u>\$ 97,459</u></u>
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NOTES TO FINANCIAL STATEMENTS - Continued

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 \$156,669 to \$230,000 through December 2029; interest rate of 2.00% to 4.00%.	\$ 1,947,935
Unamortized premium	111,866
\$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 \$205,000 to \$285,000 through October 2028; interest rate of 2.70% to 3.13%.	2,170,000
Unamortized net premium	<u>39,721</u>
Total component unit general obligation bonds	<u><u>\$ 4,269,522</u></u>

Deferred Loss on Debt Refunding

Unaccreted loss on refunding - \$3,520,000, 2012 Building Authority Library Improvement Bonds	<u><u>\$ 47,918</u></u>
Unaccreted loss on refunding - \$2,239,677, 2017 Building Authority TIFA Bear River Valley Improvement Bonds	<u><u>\$ 8,128</u></u>

The annual requirements to amortize all general and revenue obligation bonds outstanding, as of December 31, 2019, are as follows:

Years Ending	Governmental Activities		Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 98,331	\$ 15,426	\$ 690,000	\$ 394,662	\$ 366,669	\$ 131,192
2021	103,249	12,894	800,000	361,262	376,751	120,749
2022	114,315	9,631	820,000	324,712	410,685	108,937
2023	113,085	6,220	930,000	285,112	451,915	96,673
2024	113,085	2,262	945,000	242,537	451,915	82,856
2025-2029	-	-	3,215,000	730,362	2,060,000	188,094
2030-2034	-	-	1,900,000	302,593	-	-
2035-2037	-	-	1,055,000	51,375	-	-
	<u>\$ 542,065</u>	<u>\$ 46,433</u>	<u>\$ 10,355,000</u>	<u>\$ 2,692,615</u>	<u>\$ 4,117,935</u>	<u>\$ 728,501</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE L - RESTRICTED FUND BALANCES/RESTRICTED NET POSITION

Fund balances and net position are classified as follows for the year ended December 31, 2019:

<u>Governmental Funds</u>	<u>General Fund</u>	<u>Right-of-Way Fund</u>	<u>Other Non-Major Funds</u>	<u>Governmental Activities</u>
Restricted for:				
Refuse collection	\$ 298,956	\$ -	\$ -	\$ 298,956
Marina	865,407	-	-	865,407
Streets and improvements	-	662,510	2,828,859	3,491,369
Downtown programs and services	-	-	121,771	121,771
	<u>\$ 1,164,363</u>	<u>\$ 662,510</u>	<u>\$ 2,950,630</u>	<u>\$ 4,777,503</u>

<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	-	1,919,556	1,919,556
MPPA energy expenses	477,300	-	477,300
	<u>\$ 477,300</u>	<u>\$ 2,690,479</u>	<u>\$ 3,167,779</u>

<u>Fiduciary Funds</u>	<u>Employees Retirement Trust Fund</u>
Restricted for:	
Employee pension benefits	<u>\$ 204,963</u>

Component Units

Restricted for Tax Increment Finance Authority ("TIFA") - The Tax Increment Finance Authority has \$1,022,436 restricted for use within the TIFA district.

The Library has \$273,000 restricted for debt service and \$614,645 restricted for Library operations.

NOTE M - 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.

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, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	79
Inactive employees entitled to but not yet receiving benefits	11
Active employees	<u>65</u>
Total covered employees	<u><u>155</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 10.84% to 22.92% based on annual payroll for open divisions.

NOTES TO FINANCIAL STATEMENTS - Continued

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 2019.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2019, 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, 2018 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

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 2008-2013.

NOTES TO FINANCIAL STATEMENTS - Continued

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	55.5 %	4.08 %
Global fixed income	18.5 %	0.70 %
Real assets	13.5 %	1.31 %
Diversifying strategies	12.5 %	0.94 %

Discount Rate

The discount rate used to measure the total pension liability is 8.00% for 2018. 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, 2018	<u>\$27,743,851</u>	<u>\$21,043,245</u>	<u>\$ 6,700,606</u>
Changes for the Year			
Service cost	465,716	-	465,716
Interest on Total Pension Liability	2,168,265	-	2,168,265
Change in benefits	-	-	-
Difference between expected and actual experience	(304,611)	-	(304,611)
Changes in assumptions	-	-	-
Employer contributions	-	1,653,453	(1,653,453)
Employee contributions	-	120,480	(120,480)
Net investment income	-	2,877,141	(2,877,141)
Benefit payments, including employee refunds	(1,707,560)	(1,707,560)	-
Administrative expense	-	(49,509)	49,509
Other changes	78,091	(14,879)	92,970
Net changes	<u>699,901</u>	<u>2,879,126</u>	<u>(2,179,225)</u>
Balances as of December 31, 2019	<u>\$28,443,752</u>	<u>\$23,922,371</u>	<u>\$ 4,521,381</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, 2018	<u>\$ 280,241</u>	<u>\$ 212,558</u>	<u>\$ 67,683</u>
Changes for the Year			
Service cost	5,037	-	5,037
Interest on Total Pension Liability	23,451	-	23,451
Change in benefits	-	-	-
Difference between expected and actual experience	(3,295)	-	(3,295)
Changes in assumptions	-	-	-
Employer contributions	-	17,883	(17,883)
Employee contributions	-	1,303	(1,303)
Net investment income	-	31,118	(31,118)
Benefit payments, including employee refunds	(18,469)	(18,469)	-
Administrative expense	-	(535)	535
Other changes	20,674	14,879	5,795
Net changes	<u>27,398</u>	<u>46,179</u>	<u>(18,781)</u>
Balances as of December 31, 2019	<u>\$ 307,639</u>	<u>\$ 258,737</u>	<u>\$ 48,902</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Sensitivity of Net Position Liability to Changes in the Discount Rate

The following presents the Net Pension Liability, 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% 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	\$ 7,544,747	\$ 4,521,381	\$ 1,938,747
Library net pension liability	81,602	48,902	20,969

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

For the year ended December 31, 2019, the City recognized pension expense of \$1,509,038. 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	\$ -	\$ 312,424
Differences in assumptions	-	-
Excess investment returns	94,641	1,170
Contributions subsequent to the measurement date	-	-
Total	<u>\$ 94,641</u>	<u>\$ 313,594</u>

For the year ended December 31, 2019, the Library recognized pension expense of \$16,321. 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	\$ -	\$ 4,240
Differences in assumptions	-	-
Excess (deficit) investment returns	-	2,214
Contributions subsequent to the measurement date	-	-
Total	<u>\$ -</u>	<u>\$ 6,454</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>Years Ending</u>	<u>City</u>	<u>Library</u>
2020	\$ (239,605)	\$ (2,592)
2021	45,013	487
2022	210,496	2,277
2023	<u>(234,857)</u>	<u>(6,626)</u>
Total	<u>\$ (218,953)</u>	<u>\$ (6,454)</u>

NOTE N - DEFINED CONTRIBUTION RETIREMENT PLAN

The City provides pension benefits for management employees as designated 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 \$16,345.

At December 31, 2019, the City had \$204,963 within the Employees Retirement Trust Fund.

NOTE O - 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 a custodial fund of the City.

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, 2019. 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>
2020	\$ 229,701
2021	229,654
2022	229,200
2023	229,296
2024	229,415
2025 - 2027	<u>459,163</u>
Total	<u>\$ 1,606,429</u>

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, 2019

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
REVENUES					
Taxes	\$ 3,939,300	\$ 3,939,300	\$ 3,984,887	\$ -	\$ 45,587
Licenses and permits	17,900	17,900	25,090	-	7,190
Federal grants	1,600	19,600	19,178	18,000	(422)
State grants	543,000	834,000	900,901	291,000	66,901
Contributions from local units	75,000	75,000	72,983	-	(2,017)
Charges for services	1,312,200	1,412,200	1,486,058	100,000	73,858
Fines and forfeitures	9,400	9,400	23,622	-	14,222
Interest and investment earnings	80,000	80,000	145,485	-	65,485
Other	122,800	122,800	146,996	-	24,196
Total revenues	6,101,200	6,510,200	6,805,200	409,000	295,000
EXPENDITURES					
Legislative, general government, and health and welfare	1,937,700	1,937,700	1,910,829	-	26,871
Public safety	3,185,500	3,235,500	3,289,421	(50,000)	(53,921)
Public works	632,100	632,100	621,694	-	10,406
Recreation and cultural	1,530,600	1,980,600	2,044,910	(450,000)	(64,310)
Capital outlay	639,400	639,400	548,210	-	91,190
Total expenditures	7,925,300	8,425,300	8,415,064	(500,000)	10,236
REVENUES UNDER EXPENDITURES	(1,824,100)	(1,915,100)	(1,609,864)	(91,000)	305,236
OTHER FINANCING SOURCES (USES)					
Operating transfers in	2,213,700	2,324,200	2,324,200	110,500	-
Operating transfers out	(504,900)	(504,900)	(504,868)	-	32
Transfers from component units	131,600	131,600	131,600	-	-
Total other financing sources	1,840,400	1,950,900	1,950,932	110,500	32
NET CHANGE IN FUND BALANCES	16,300	35,800	341,068	19,500	305,268
Fund balance, beginning of year	5,508,980	5,508,980	5,508,980	-	-
Fund balance, end of year	\$ 5,525,280	\$ 5,544,780	\$ 5,850,048	\$ 19,500	\$ 305,268

City of Petoskey

BUDGETARY COMPARISON SCHEDULE FOR THE RIGHT-OF-WAY FUND

Year ended December 31, 2019

	<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	\$ 1,738,200	\$ 1,738,200	\$ 1,757,227	\$ -	\$ 19,027
Interest	<u>5,000</u>	<u>5,000</u>	<u>8,611</u>	<u>-</u>	<u>3,611</u>
Total revenue	1,743,200	1,743,200	1,765,838	-	22,638
EXPENDITURES					
Other					
Contracted services	<u>2,000</u>	<u>2,000</u>	<u>1,934</u>	<u>-</u>	<u>66</u>
REVENUES OVER EXPENDITURES	1,741,200	1,741,200	1,763,904	-	22,704
OTHER FINANCING USES					
Operating transfers out	<u>(1,600,000)</u>	<u>(1,600,000)</u>	<u>(1,600,000)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	141,200	141,200	163,904	-	22,704
Fund balance, beginning of year	<u>498,606</u>	<u>498,606</u>	<u>498,606</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 639,806</u>	<u>\$ 639,806</u>	<u>\$ 662,510</u>	<u>\$ -</u>	<u>\$ 22,704</u>

City of Petoskey

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

Years ended December 31,

	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 465,716	\$ 467,813	\$ 502,133	\$ 507,633	\$ 482,076
Interest	2,168,265	2,087,596	2,174,753	2,017,084	1,933,518
Changes of benefit terms	-	-	(1,591,126)	(7,593)	-
Difference between expected and actual experience	(304,611)	177,290	(691,004)	384,444	-
Changes of assumption	-	-	-	1,314,664	-
Benefit payments including employee refunds	(1,707,560)	(1,593,200)	(1,498,913)	(1,365,973)	(1,267,600)
Other	78,091	65,182	(17,001)	(126,712)	(40,561)
Net Change in Total Pension Liability	699,901	1,204,681	(1,121,158)	2,723,547	1,107,433
Total Pension Liability Beginning	27,743,851	26,539,170	27,660,328	24,936,781	23,829,348
Total Pension Liability Ending	\$ 28,443,752	\$27,743,851	\$26,539,170	\$27,660,328	\$24,936,781
Plan Fiduciary Net Position					
Contributions - employer	1,653,453	\$ 1,621,597	\$ 1,686,087	\$ 700,936	\$ 691,061
Contributions - employee	120,480	118,342	122,283	120,075	121,724
Net investment income	2,877,141	(879,908)	2,566,652	1,971,865	(271,928)
Benefit payments including employee refunds	(1,707,560)	(1,593,200)	(1,498,913)	(1,365,973)	(1,267,600)
Administrative expense	(49,509)	(42,942)	(40,507)	(38,931)	(39,863)
Other changes	(14,879)	96,974	15,329	(40,832)	-
Net Change in Plan Fiduciary Net Position	2,879,126	(679,137)	2,850,931	1,347,140	(766,606)
Plan Fiduciary Net Position Beginning	21,043,245	21,722,382	18,871,451	17,524,311	18,290,917
Plan Fiduciary Net Position Ending	\$ 23,922,371	\$21,043,245	\$21,722,382	\$18,871,451	\$17,524,311
Employer Net Pension Liability	\$ 4,521,381	\$ 6,700,606	\$ 4,816,788	\$ 8,788,877	\$ 7,412,470
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	84 %	76 %	82 %	68 %	70 %
Covered Employee Payroll	\$ 3,938,399	\$ 3,920,256	\$ 3,994,976	\$ 3,978,932	\$ 4,078,153
Employer's Net Pension Liability as a Percentage of Covered Employee Payroll	115 %	171 %	121 %	221 %	182 %

City of Petoskey

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

Years ended December 31,

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability					
Service cost	\$ 5,037	\$ 4,725	\$ 7,336	\$ 7,835	\$ 6,300
Interest	23,451	21,087	31,774	31,133	25,268
Changes of benefit terms	-	-	(23,247)	(117)	-
Difference between expected and actual experience	(3,295)	1,791	(10,096)	5,934	-
Changes of assumption	-	-	-	20,291	-
Benefit payments including employee refunds	(18,469)	(16,093)	(21,900)	(21,083)	(16,566)
Other	<u>20,674</u>	<u>(119,016)</u>	<u>(23,046)</u>	<u>57,045</u>	<u>(530)</u>
Net Change in Total Pension Liability	27,398	(107,506)	(39,179)	101,038	14,472
Total Pension Liability Beginning	<u>280,241</u>	<u>387,747</u>	<u>426,926</u>	<u>325,888</u>	<u>311,416</u>
Total Pension Liability Ending	<u>\$ 307,639</u>	<u>\$ 280,241</u>	<u>\$ 387,747</u>	<u>\$ 426,926</u>	<u>\$ 325,888</u>
Plan Fiduciary Net Position					
Contributions - employer	17,883	\$ 16,380	\$ 24,634	\$ 10,819	\$ 9,031
Contributions - employee	1,303	1,195	1,787	1,853	1,591
Net investment income	31,118	(8,888)	37,500	30,435	(3,554)
Benefit payments including employee refunds	(18,469)	(16,093)	(21,900)	(21,083)	(16,566)
Administrative expense	(535)	(434)	(592)	(601)	(520)
Other changes	<u>14,879</u>	<u>(96,974)</u>	<u>(15,330)</u>	<u>40,832</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	46,179	(104,814)	26,099	62,255	(10,018)
Plan Fiduciary Net Position Beginning	<u>212,558</u>	<u>317,372</u>	<u>291,273</u>	<u>229,018</u>	<u>239,036</u>
Plan Fiduciary Net Position Ending	<u>\$ 258,737</u>	<u>\$ 212,558</u>	<u>\$ 317,372</u>	<u>\$ 291,273</u>	<u>\$ 229,018</u>
Employer Net Pension Liability	<u>\$ 48,902</u>	<u>\$ 67,683</u>	<u>\$ 70,375</u>	<u>\$ 135,653</u>	<u>\$ 96,870</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	84 %	76 %	82 %	68 %	70 %
Covered Employee Payroll	<u>\$ 295,550</u>	<u>\$ 318,874</u>	<u>\$ 303,359</u>	<u>\$ 280,175</u>	<u>\$ 333,666</u>
Employer's Net Pension Liability as a Percentage of Covered Employee Payroll	17 %	21 %	23 %	48 %	29 %

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:					
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	16 %
2014	651,998	638,958	13,040	4,235,000	15 %
2015	691,061	691,061	-	4,075,153	17 %
2016	700,936	700,936	-	3,978,932	18 %
2017	686,087	1,686,087	(1,000,000)	3,994,976	42 %
2018	631,597	1,631,597	(1,000,000)	3,920,256	42 %
2019	653,453	1,653,453	(1,000,000)	3,938,399	42 %
Library:					
2015	9,031	9,031	-	333,666	3 %
2016	10,819	10,819	-	280,175	4 %
2017	24,634	24,634	-	303,359	8 %
2018	6,380	6,380	-	318,874	2 %
2019	17,883	17,883	-	295,550	6 %

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

COMBINING FINANCIAL STATEMENTS

City of Petoskey

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2019

	Special Revenue Funds					Debt Service Funds			
	Major Street	Local Street	General Street	Downtown Management	Total Special Revenue	Building Authority Marina Bond Debt	Building Authority Bear River Valley Bond Debt	Total Debt Service	Total Non-Major Funds
ASSETS									
Current assets									
Cash	\$1,348,119	\$ 800,569	\$1,095,156	\$ 93,453	\$3,337,297	\$ 27,987	\$ 120,188	\$ 148,175	\$ 3,485,472
Receivables									
Special assessments	-	-	-	29,946	29,946	-	-	-	29,946
Accounts receivable	600	299	254	-	1,153	64	63	127	1,280
Due from other funds	-	-	-	2,765	2,765	-	-	-	2,765
Due from other governments	108,969	30,716	-	-	139,685	-	-	-	139,685
Inventory, at cost	-	-	184,914	-	184,914	-	-	-	184,914
Total assets	<u>\$1,457,688</u>	<u>\$ 831,584</u>	<u>\$1,280,324</u>	<u>\$ 126,164</u>	<u>\$3,695,760</u>	<u>\$ 28,051</u>	<u>\$ 120,251</u>	<u>\$ 148,302</u>	<u>\$ 3,844,062</u>
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable	\$ 6,605	\$ 126	\$ 6,261	\$ 4,393	\$ 17,385	\$ 250	\$ 250	\$ 500	\$ 17,885
Accrued expenditures	3,994	2,596	3,532	-	10,122	-	-	-	10,122
Total liabilities	<u>10,599</u>	<u>2,722</u>	<u>9,793</u>	<u>4,393</u>	<u>27,507</u>	<u>250</u>	<u>250</u>	<u>500</u>	<u>28,007</u>
FUND BALANCES									
Non-spendable									
Inventory	-	-	184,914	-	184,914	-	-	-	184,914
Restricted									
Special revenue	-	-	-	121,771	121,771	-	-	-	121,771
Streets and improvements	1,447,089	828,862	552,908	-	2,828,859	-	-	-	2,828,859
Committed	-	-	532,709	-	532,709	27,801	120,001	147,802	680,511
Total fund balances	<u>1,447,089</u>	<u>828,862</u>	<u>1,270,531</u>	<u>121,771</u>	<u>3,668,253</u>	<u>27,801</u>	<u>120,001</u>	<u>147,802</u>	<u>3,816,055</u>
Total liabilities and fund balances	<u>\$1,457,688</u>	<u>\$ 831,584</u>	<u>\$1,280,324</u>	<u>\$ 126,164</u>	<u>\$3,695,760</u>	<u>\$ 28,051</u>	<u>\$ 120,251</u>	<u>\$ 148,302</u>	<u>\$ 3,844,062</u>

City of Petoskey

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

Year ended December 31, 2019

	Special Revenue Funds					Debt Service Funds			Total Other Non-Major Funds
	Major Street	Local Street	General Street	Downtown Management	Total	Building Authority Marina Bond Debt	Building Authority Bear River Valley Bond Debt	Total	
REVENUES									
State grants	\$ 689,706	\$ 247,300	\$ 100,966	\$ -	\$ 1,037,972	\$ -	\$ -	\$ -	\$ 1,037,972
Special assessments	-	-	-	101,352	101,352	-	-	-	101,352
Interest and investment earnings	17,830	8,949	7,840	1,941	36,560	1,575	1,864	3,439	39,999
Other	36,828	3,191	-	41,675	81,694	-	-	-	81,694
Total revenues	<u>744,364</u>	<u>259,440</u>	<u>108,806</u>	<u>144,968</u>	<u>1,257,578</u>	<u>1,575</u>	<u>1,864</u>	<u>3,439</u>	<u>1,261,017</u>
EXPENDITURES									
Current									
Public works	539,653	268,401	640,581	125,914	1,574,549	-	-	-	1,574,549
Capital outlay	80,616	-	206,511	-	287,127	-	-	-	287,127
Principal	-	-	-	-	-	99,561	160,439	260,000	260,000
Interest	-	-	-	-	-	17,655	70,845	88,500	88,500
Total expenditures	<u>620,269</u>	<u>268,401</u>	<u>847,092</u>	<u>125,914</u>	<u>1,861,676</u>	<u>117,216</u>	<u>231,284</u>	<u>348,500</u>	<u>2,210,176</u>
REVENUES UNDER EXPENDITURES	<u>124,095</u>	<u>(8,961)</u>	<u>(738,286)</u>	<u>19,054</u>	<u>(604,098)</u>	<u>(115,641)</u>	<u>(229,420)</u>	<u>(345,061)</u>	<u>(949,159)</u>
OTHER FINANCING SOURCES (USES)									
Operating transfers in	-	200,000	1,650,000	-	1,850,000	117,300	-	117,300	1,967,300
Operating transfers out	-	-	(436,300)	-	(436,300)	-	-	-	(436,300)
Transfers from component units	-	-	-	-	-	-	231,400	231,400	231,400
Total other financing sources	<u>-</u>	<u>200,000</u>	<u>1,213,700</u>	<u>-</u>	<u>1,413,700</u>	<u>117,300</u>	<u>231,400</u>	<u>348,700</u>	<u>1,762,400</u>
NET CHANGE IN FUND BALANCE	124,095	191,039	475,414	19,054	809,602	1,659	1,980	3,639	813,241
Fund balance, beginning of year	<u>1,322,994</u>	<u>637,823</u>	<u>795,117</u>	<u>102,717</u>	<u>2,858,651</u>	<u>26,142</u>	<u>118,021</u>	<u>144,163</u>	<u>3,002,814</u>
Fund balance, end of year	<u><u>\$ 1,447,089</u></u>	<u><u>\$ 828,862</u></u>	<u><u>\$ 1,270,531</u></u>	<u><u>\$ 121,771</u></u>	<u><u>\$3,668,253</u></u>	<u><u>\$ 27,801</u></u>	<u><u>\$ 120,001</u></u>	<u><u>\$ 147,802</u></u>	<u><u>\$ 3,816,055</u></u>

City of Petoskey

COMBINING COMPONENT UNIT BALANCE SHEET/STATEMENT OF NET POSITION

December 31, 2019

	Debt Service Funds			Reconciliation of Fund Balance Sheets to Statement of Net Position			Statement of Net Position
	2017 Marina Bonds	2017 Bear River Valley Bonds	Library Improvement Bonds	Governmental Financing Leases	Governmental Bonds Payable	Accrued Interest	
ASSETS							
Current assets							
Cash	\$ 27,987	\$ 120,188	\$ -	\$ -	\$ -	\$ -	\$ 148,175
Accounts receivable	64	63	-	-	-	-	127
Interest receivable	-	-	-	37,088	-	-	37,088
Lease contract receivable, current	-	-	-	465,000	-	-	465,000
Total current assets	28,051	120,251	-	502,088	-	-	650,390
Non-current assets							
Deferred charges - bond premium and discounts	-	-	-	-	336,420	-	336,420
Lease contract receivable	-	-	-	4,561,670	-	-	4,561,670
DEFERRED OUTFLOWS OF RESOURCES							
Deferred loss on debt refunding	-	-	-	-	58,201	-	58,201
Total assets and deferred outflows of resources	<u>\$ 28,051</u>	<u>\$ 120,251</u>	<u>\$ -</u>	<u>\$ 5,063,758</u>	<u>\$ 394,621</u>	<u>\$ -</u>	<u>\$ 5,606,681</u>
LIABILITIES AND FUND BALANCES/NET POSITION							
LIABILITIES							
Current liabilities							
Accrued interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,088	\$ 37,088
Accounts payable	250	250	-	-	-	-	500
Bonds payable, current	-	-	-	-	465,000	-	465,000
Total current liabilities	250	250	-	-	465,000	37,088	502,588
Non-current liabilities							
Bonds payable, net	-	-	-	-	4,561,670	-	4,561,670
Total liabilities	250	250	-	-	5,026,670	37,088	5,064,258
FUND BALANCE/NET POSITION							
Committed	<u>27,801</u>	<u>120,001</u>	<u>-</u>	<u>5,063,758</u>	<u>(4,632,049)</u>	<u>(37,088)</u>	<u>542,423</u>
Total liabilities and fund balances	<u>\$ 28,051</u>	<u>\$ 120,251</u>	<u>\$ -</u>	<u>\$ 5,063,758</u>	<u>\$ 394,621</u>	<u>\$ -</u>	<u>\$ 5,606,681</u>

City of Petoskey

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

Year ended December 31, 2019

	Debt Service Funds			Reconciliation of Fund Statements of Revenues and Expenditures to the Statement of Activities			Statement of Activities
	Marina Bonds	Bear River Valley Bonds	Library Improvement Bonds	Governmental Financing Lease	Debt Service	Interest Expense	
Program revenues							
Lease income	\$ 117,300	\$ 231,400	\$ 278,494	\$ (476,352)	\$ -	\$ -	\$ 150,842
Expenditures/expenses							
Debt service	99,561	160,439	210,000	-	(470,000)	-	-
Interest and fees	17,655	70,845	68,494	-	(15,599)	(2,582)	138,813
Total expenditures/expenses	<u>117,216</u>	<u>231,284</u>	<u>278,494</u>	<u>-</u>	<u>(485,599)</u>	<u>(2,582)</u>	<u>138,813</u>
Net revenue	84	116	-	(476,352)	485,599	2,582	12,029
General revenues							
Interest and investment earnings	<u>1,575</u>	<u>1,864</u>	-	-	-	-	<u>3,439</u>
Revenues over (under) expenditures/ change in net position	1,659	1,980	-	(476,352)	485,599	2,582	15,468
Fund balance/net position, beginning of year	<u>26,142</u>	<u>118,021</u>	-	<u>5,540,110</u>	<u>(5,117,648)</u>	<u>(39,670)</u>	<u>526,955</u>
Fund balance/net position, end of year	<u><u>\$ 27,801</u></u>	<u><u>\$ 120,001</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,063,758</u></u>	<u><u>\$ (4,632,049)</u></u>	<u><u>\$ (37,088)</u></u>	<u><u>\$ 542,423</u></u>