

**City of Petoskey**

FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT

December 31, 2022

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## INDEPENDENT AUDITOR'S REPORT

Members of City Council and City Manager  
City of Petoskey

### *Opinions*

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, Michigan (the "City"), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City of Petoskey, Michigan's basic financial statements as listed in the table on contents.

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, as of December 31, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

#### *Accounting Changes*

As described in Note B to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 87, *Leases*, during the year ended December 31, 2022. Our opinion is not modified with respect to this matter.

### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplementary Information***

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

***Supplementary 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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Dennis, Gartland & Niergarth*

Certified Public Accountants  
Traverse City, Michigan

May 10, 2023

## **Management's Discussion and Analysis**

### **December 31, 2022**

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 \$1,117,633 or 1% in 2022 with the increase made up of the following:

- Governmental net position increased by \$1,120,249.
- Business-type net position decreased by (\$361,021).
- Component units net position increased by \$358,405.

Total revenues and transfers for the year are \$30.8 million and are made up of the following:

- Governmental activities \$12.7 million.
- Business-type activities \$15.1 million.
- Component units activities \$2.9 million.

Total expenses for the year are \$29.6 million and are made up of the following:

- Governmental activities \$11.6 million.
- Business-type activities \$15.5 million.
- Component units activities \$2.6 million.

The General Fund on a current financial resources basis experienced an increase of \$200,961 in fund balance resulting in a total fund balance at year-end of \$5,713,298.

#### **Project Highlights**

The City performed a complete reconstruction of East Lake Street along with portions of Ottawa, Summit, Clinton and Williams which included new asphalt, curb and gutter, storm water management, street lights and replacement of water and sewer mains.

The City resurfaced State Street from Kalamazoo to Howard including sidewalks and curb improvements as part of a mil and fill program.

The electric system received upgrades to the Petoskey substation capacitor banks and conversion from overhead to underground residential service on East Lake Street and portions of; Bay, Rose, Ottawa, Summit, Williams and Clinton Streets.

#### *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.

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

### Summary of Net Position December 31,

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
<b>Assets</b>						
Current and other	\$ 13,668,274	\$ 13,254,617	\$ 24,094,570	\$ 24,261,050	\$ 37,762,844	\$ 37,515,667
Capital assets	25,141,850	24,100,903	38,150,105	39,011,428	63,291,955	63,112,331
Total assets	38,810,124	37,355,520	62,244,675	63,272,478	101,054,799	100,627,998
Deferred outflow of resources	3,066,455	763,176	937,798	217,870	4,004,253	981,046
Total assets and deferred outflows of resources	41,876,579	38,118,696	63,182,473	63,490,348	105,059,052	101,609,044
<b>Liabilities</b>						
Current liabilities	1,266,563	989,095	1,613,734	1,419,801	2,880,297	2,408,896
Non-current liabilities	5,137,155	1,251,075	8,779,037	8,692,895	13,916,192	9,943,970
Total liabilities	6,403,718	2,240,170	10,392,771	10,112,696	16,796,489	12,352,866
Deferred inflows of resources	222,875	1,748,789	455,749	682,678	678,624	2,431,467
<b>Net position</b>						
Net investment in capital assets	24,904,686	23,743,927	29,933,280	29,666,345	54,837,966	53,410,272
Restricted	4,783,350	5,238,920	2,330,219	2,440,710	7,113,569	7,679,630
Unrestricted	5,561,950	5,146,890	20,070,454	20,587,919	25,632,404	25,734,809
Total net position	35,249,986	34,129,737	52,333,953	52,694,974	87,583,939	86,824,711
Total liabilities, deferred inflows of resources and net position	\$ 41,876,579	\$ 38,118,696	\$ 63,182,473	\$ 63,490,348	\$ 105,059,052	\$ 101,609,044

Total net position of the City is \$87,583,939 which includes \$54,837,966 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.

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.

Changes in Net Position  
December 31,

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 2,683,572	\$ 2,771,320	\$ 17,406,742	\$ 17,025,799	\$ 20,090,314	\$ 19,797,119
Operating grants and contributions	1,120,154	1,362,986	181,229	175,595	1,301,383	1,538,581
Capital grants and contributions	369,692	76,412	202,991	84,555	572,683	160,967
	<u>4,173,418</u>	<u>4,210,718</u>	<u>17,790,962</u>	<u>17,285,949</u>	<u>21,964,380</u>	<u>21,496,667</u>
General revenues:						
Property taxes	5,806,850	5,581,034	-	-	5,806,850	5,581,034
State shared revenue	720,678	623,961	-	-	720,678	623,961
Investment earnings	101,901	128,955	119,538	173,358	221,439	302,313
Unrealized gain (loss) on investments	(329,151)	(2,431)	(826,642)	(93,206)	(1,155,793)	(95,637)
	<u>6,300,278</u>	<u>6,331,519</u>	<u>(707,104)</u>	<u>80,152</u>	<u>5,593,174</u>	<u>6,411,671</u>
Total revenues	<u>10,473,696</u>	<u>10,542,237</u>	<u>17,083,858</u>	<u>17,366,101</u>	<u>27,557,554</u>	<u>27,908,338</u>
<b>Expenses</b>						
Program expenses						
Legislative	26,966	27,229	-	-	26,966	27,229
General government	1,546,243	1,890,194	-	-	1,546,243	1,890,194
Public safety	3,324,342	2,835,735	-	-	3,324,342	2,835,735
Public works	3,661,771	3,234,006	-	-	3,661,771	3,234,006
Health and social services	53,400	-	-	-	53,400	-
Recreation and culture	2,616,302	2,294,275	-	-	2,616,302	2,294,275
Other	1,908	1,646	-	-	1,908	1,646
Interest on long-term debt	61,143	70,155	-	-	61,143	70,155
Unallocated depreciation	338,172	320,378	-	-	338,172	320,378
Water and sewer	-	-	4,503,687	4,344,452	4,503,687	4,344,452
Electric	-	-	10,952,792	9,922,073	10,952,792	9,922,073
Total expenses	<u>11,630,247</u>	<u>10,673,618</u>	<u>15,456,479</u>	<u>14,266,525</u>	<u>27,086,726</u>	<u>24,940,143</u>
Changes in net position						
before transfers	(1,156,551)	(131,381)	1,627,379	3,099,576	470,828	2,968,195
Transfers	2,276,800	2,258,400	(1,988,400)	(1,999,600)	288,400	258,800
Changes in net position	<u>1,120,249</u>	<u>2,127,019</u>	<u>(361,021)</u>	<u>1,099,976</u>	<u>759,228</u>	<u>3,226,995</u>
Net position - beginning of year	34,129,737	32,002,718	52,694,974	51,594,998	86,824,711	83,597,716
Net position - end of year	<u>\$ 35,249,986</u>	<u>\$ 34,129,737</u>	<u>\$ 52,333,953</u>	<u>\$ 52,694,974</u>	<u>\$ 87,583,939</u>	<u>\$ 86,824,711</u>

Total revenues of \$10,473,696 for governmental activities during 2022 were \$68,541 less than the \$10,542,237 during 2021. The operating grants and contributions in Governmental Activities totaled \$1,120,154 for 2022, an decrease of \$242,832 from 2021's \$1,362,986. Capital grants and contributions increased by \$293,280 from 2021's \$76,412 to \$369,692 in 2022. Property tax totaled \$5,806,850 in 2022, up \$225,816 from 2021's total of \$5,581,034. The remaining change is due to an approximate increase of \$326,720 in investment losses.

Charges for services in Business-type Activities totaled \$17,406,742 in 2022, an increase of \$380,943 from \$17,025,799 in 2021. Water and Sewer Fund monthly billing charges increased during the year by a total of \$46,581, while the Electric Fund monthly billing charges decreased by \$151,754. Sewer usage realized a net decrease of approximately 28,000 cubic feet in 2022 compared to 2021, with the increase in revenue due to a rate increases. The decrease in monthly billing charges to electric customers results from a decrease in use of approximately 2,023,865 kWhs from the previous year.

Revenues from all sources total \$27,557,554, of which \$10,473,696 is from governmental activities and \$17,083,858 from business-type activities. Total revenues from governmental activities include \$5,806,850 in property taxes accounting for 56% of the funds and \$2,683,572, or 26% from charges for services. Total revenue for business-type activity receives the vast majority of revenues through charges for services totaling \$20,090,314 during 2022.

Expenses under the full accrual basis of accounting for governmental activities totaled \$11,630,247 which includes depreciation on such items as buildings and infrastructure amounting to \$1,813,464. Total expense does not include capital asset items such as street and sidewalk improvements. Public safety accounts for \$3,324,342 or 28% of expenses while public works totals \$3,661,771 or 31%. Expenses for general government were \$1,546,243 or 13% of expenses and for recreation and cultural were \$2,616,302, or 22% of expenses.

Expenses for business-type activities total \$15,456,479 which consists of \$10,952,792 or 71% from the electric system and \$4,503,687 or 29% from the water and sewer systems. Within the electric system \$7,442,218 or 68% of the expense is for purchased power. Total water and sewer system costs of \$4,503,687 are broken down between the two at \$1,801,475 or 40% water and \$2,702,212 or 60% sewer.

GASB 68 requires employers to report net position benefits as a liability in the Statement of Net Position, which amounts to \$6,426,051 city wide (including Library) at year end 2022. Additional pension information required by GASB 68 may be found in Note O of the financial statements.

### General Fund Budgetary Highlights

Total General Fund revenues of \$6,937,353 were more than total budgeted revenues of \$6,859,700 by \$77,653. Actual revenues increased from 2021 by approximately \$107,119.

Total General Fund expenditures of \$8,972,492 were \$160,108 lower than total budgeted expenditures of \$9,132,600. Total expenditures for 2022 were lower than the 2021 total of \$9,140,961 by \$168,469.

### Capital Assets and Debt Administration

#### Capital Assets

As of year-end the City of Petoskey had \$63,291,955 invested in capital assets as reflected in the following schedule:

December 31 (net of depreciation),

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
Land and land rights	\$ 4,070,713	\$ 4,070,713	\$ -	\$ -	\$ 4,070,713	\$ 4,070,713
Land improvements	2,911,919	2,728,627	-	-	2,911,919	2,728,627
Buildings	2,521,104	2,580,126	-	-	2,521,104	2,580,126
Equipment	3,779,262	4,007,189	-	-	3,779,262	4,007,189
Streets and sidewalks	11,858,852	10,714,248	-	-	11,858,852	10,714,248
Electric system	-	-	13,084,426	13,592,985	13,084,426	13,592,985
Water system	-	-	10,632,466	10,704,227	10,632,466	10,704,227
Sewer system	-	-	14,433,213	14,714,216	14,433,213	14,714,216
Total capital assets	\$ 25,141,850	\$ 24,100,903	\$ 38,150,105	\$ 39,011,428	\$ 63,291,955	\$ 63,112,331

## Capital Assets and Debt Administration

Major capital asset additions for 2022 include:

### Governmental Activities

Buildings	\$ 162,097
Infrastructure	2,053,118
Land improvements	303,764
Equipment	339,792

### Business-Type Activities

Electric system improvements	\$ 708,557
Water and Sewer system improvements	1,098,881

## Bond Debt

The City had \$7,951,170 of face value in outstanding bond debt at year-end which is distributed in the following debt schedule:

### Debt Schedule

December 31,

	<u>2022</u>	<u>2021</u>
<b>Governmental Activities</b>		
General obligation bonds:		
Municipal facilities - marina	<u>\$ 226,170</u>	<u>\$ 340,485</u>
<b>Business-Type Activities</b>		
Revenue bonds:		
Sewer system improvements	3,495,000	4,125,000
Water system improvements	<u>4,230,000</u>	<u>4,435,000</u>
	<u>7,725,000</u>	<u>8,560,000</u>
	<u><u>\$ 7,951,170</u></u>	<u><u>\$ 8,900,485</u></u>

## 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.

The City's realized an 18% decline in total taxable value from 2010 through 2012. Following 9 years, in 2021 the City has seen a 19% increase. In 2022 taxable values were \$587,531,579 which exceeded the previous high set in 2009. The City has not been able to take full advantage of the increases due to the State's low inflation rate multiplier for recent years. The 2022 inflation rate multiplier of 3.3% required a rollback of millage rates as will the 5% rate for 2023. Property values are continuing to rise 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, these increases in taxable value will still 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 allocations 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.

In 2022 revenue sharing increased 15% from 2021 actual amounts and increased 19% from 2022 budgeted amounts. Transportation funds received were 7% more than 2021 actual amounts and 1% more than 2022 budgeted amounts. As travel returned to normal levels gas tax revenues grew and also returned to more normal levels. Revenues for 2023 are now expected to return to previously forecasted increased levels for both revenue sharing and gas tax.

Utility charges for electric, water and sewer services tend to fluctuate based on weather conditions more so than any other factor. In 2022 business returned back to normal after all covid restrictions had been lifted. Electric usage decreased by 2%, while water usage remained flat and sewer usage decreased by 7.5% compared to 2021 usage.

Electric Fund charges for services increased 5%, which marginally offset an increase in purchased power expenses which were 68% of total expenses in 2022 and usually average 65%. Water and Sewer Fund revenues increased by 1% though usage decreased as there was a rate increase in 2022. There are scheduled water and sewer utility rate changes for 2023 and no scheduled increases in electric rates.

### **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.

# City of Petoskey

## STATEMENT OF NET POSITION

December 31, 2022

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	TIFA	Library	Downtown Management Parking
<b>ASSETS</b>						
Current assets						
Cash and equivalents	\$ 12,716,461	\$ 9,374,441	\$ 22,090,902	\$ 713,654	\$1,244,438	\$ 1,458,246
Investments	-	6,760,864	6,760,864	162,610	-	-
Receivables						
Special assessments	47,217	-	47,217	-	-	-
Accounts receivable	12,642	2,232,527	2,245,169	86,320	534	96
Short-term lease	27,873	71,402	99,275	-	-	-
Due from fiduciary funds	296,432	-	296,432	-	38,617	-
Due from other governments	180,796	-	180,796	42,059	-	-
Inventory	226,610	1,570,544	1,797,154	-	-	-
Total current assets	<u>13,508,031</u>	<u>20,009,778</u>	<u>33,517,809</u>	<u>1,004,643</u>	<u>1,283,589</u>	<u>1,458,342</u>
Non-current assets						
Restricted cash and investments						
Sewage service covenants	-	770,923	770,923	-	-	-
Revenue bond covenants	-	1,970,352	1,970,352	-	-	-
MPPA energy restrictions	-	616,245	616,245	-	-	-
Receivable, long-term lease	160,243	267,273	427,516	-	-	-
MPPA working capital advance	-	459,999	459,999	-	-	-
Capital assets	56,874,468	88,143,144	145,017,612	4,387,323	7,272,970	-
Less accumulated depreciation	<u>(31,732,618)</u>	<u>(49,993,039)</u>	<u>(81,725,657)</u>	<u>(2,457,668)</u>	<u>3,993,620</u>	<u>-</u>
Total non-current assets	<u>25,302,093</u>	<u>42,234,897</u>	<u>67,536,990</u>	<u>1,929,655</u>	<u>3,279,350</u>	<u>-</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred loss on debt refunding	861	-	861	5,689	5,463	-
Deferred outflows for pension liability	<u>3,065,594</u>	<u>937,798</u>	<u>4,003,392</u>	<u>-</u>	<u>65,606</u>	<u>-</u>
Total deferred outflows of resources	<u>3,066,455</u>	<u>937,798</u>	<u>4,004,253</u>	<u>5,689</u>	<u>71,069</u>	<u>-</u>
Total assets and deferred outflows of resources	<u><u>\$ 41,876,579</u></u>	<u><u>\$ 63,182,473</u></u>	<u><u>\$105,059,052</u></u>	<u><u>\$ 2,939,987</u></u>	<u><u>\$4,634,008</u></u>	<u><u>\$ 1,458,342</u></u>

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

# City of Petoskey

## STATEMENT OF NET POSITION- Continued

December 31, 2022

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	TIFA	Library	Downtown Management Parking
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable	\$ 177,115	\$ 513,192	\$ 690,307	\$ 4,073	\$ 41,597	\$ 40,483
Accrued expenses	215,416	73,241	288,657	13,631	28,031	9,844
Unearned revenue	758,968	-	758,968	-	-	-
Accrued interest	1,979	-	1,979	-	-	-
Payable from restricted assets						
Current portion of revenue bonds	-	930,000	930,000	-	-	-
Accrued interest	-	97,301	97,301	-	-	-
Bonds payable, due within one year	113,085	-	113,085	201,915	265,000	-
Total current liabilities	<u>1,266,563</u>	<u>1,613,734</u>	<u>2,880,297</u>	<u>219,619</u>	<u>334,628</u>	<u>50,327</u>
Noncurrent liabilities						
Payable from restricted assets						
Customer deposits	-	233,215	233,215	-	-	-
Long-term accrued expenses	66,144	-	66,144	-	-	-
Net pension liability	4,946,071	1,385,514	6,331,585	-	94,463	-
Bonds payable, net	124,940	7,160,308	7,285,248	1,290,219	1,320,000	-
Total noncurrent liabilities	<u>5,137,155</u>	<u>8,779,037</u>	<u>13,916,192</u>	<u>1,290,219</u>	<u>1,414,463</u>	<u>-</u>
Total liabilities	<u>6,403,718</u>	<u>10,392,771</u>	<u>16,796,489</u>	<u>1,509,838</u>	<u>1,749,091</u>	<u>50,327</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred gain on debt refunding	-	126,517	126,517	-	-	-
Deferred inflows for pension liability	46,106	10,001	56,107	-	866	-
Deferred inflows of resources for leases	176,769	319,231	496,000	-	-	-
Total deferred inflows of resources	<u>222,875</u>	<u>455,749</u>	<u>678,624</u>	<u>-</u>	<u>866</u>	<u>-</u>
<b>NET POSITION</b>						
Net investment in capital assets	24,904,686	29,933,280	54,837,966	443,210	1,699,813	-
Restricted						
Refuse collection	379,999	-	379,999	-	-	-
Marina	1,106,737	-	1,106,737	-	-	-
Streets and improvements	3,052,572	-	3,052,572	-	-	-
Downtown programs and services	244,042	-	244,042	-	-	-
Debt service	-	-	-	-	273,000	-
Sewage service covenants	-	770,923	770,923	-	-	-
Revenue bond indentures	-	943,051	943,051	-	-	-
MPPA energy expenses	-	616,245	616,245	-	-	-
TIFA expenses	-	-	-	986,939	-	-
Library	-	-	-	-	911,238	-
Unrestricted	<u>5,561,950</u>	<u>20,070,454</u>	<u>25,632,404</u>	<u>-</u>	<u>-</u>	<u>1,408,015</u>
Total net position	<u>35,249,986</u>	<u>52,333,953</u>	<u>87,583,939</u>	<u>1,430,149</u>	<u>2,884,051</u>	<u>1,408,015</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 41,876,579</u>	<u>\$ 63,182,473</u>	<u>\$105,059,052</u>	<u>\$2,939,987</u>	<u>\$4,634,008</u>	<u>\$ 1,458,342</u>

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

**City of Petoskey**  
**STATEMENT OF ACTIVITIES**  
Year ended December 31, 2022

Functions/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position						
		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	
<b>Primary Government</b>											
<b>Governmental activities</b>											
Legislative	\$ 26,966	\$ -	\$ -	\$ -	\$ (26,966)	\$ -	\$ (26,966)	\$ -	\$ -	\$ -	
General government	1,546,243	151,557	-	-	(1,394,686)	-	(1,394,686)	-	-	-	
Public safety	3,324,342	56,579	60,434	17,192	(3,190,137)	-	(3,190,137)	-	-	-	
Public works	3,661,771	454,491	987,474	352,500	(1,867,306)	-	(1,867,306)	-	-	-	
Health and welfare	53,400	-	-	-	(53,400)	-	(53,400)	-	-	-	
Recreation and cultural	2,616,302	2,020,945	72,246	-	(523,111)	-	(523,111)	-	-	-	
Other	1,908	-	-	-	(1,908)	-	(1,908)	-	-	-	
Interest on long-term debt	61,143	-	-	-	(61,143)	-	(61,143)	-	-	-	
Unallocated depreciation	338,172	-	-	-	(338,172)	-	(338,172)	-	-	-	
<b>Total governmental activities</b>	<b>11,630,247</b>	<b>2,683,572</b>	<b>1,120,154</b>	<b>369,692</b>	<b>(7,456,829)</b>	<b>-</b>	<b>(7,456,829)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Business-type activities</b>											
Water and sewer	4,503,687	6,074,949	181,229	202,991	-	1,955,482	1,955,482	-	-	-	
Electric	10,952,792	11,331,793	-	-	-	379,001	379,001	-	-	-	
<b>Total business-type activities</b>	<b>15,456,479</b>	<b>17,406,742</b>	<b>181,229</b>	<b>202,991</b>	<b>-</b>	<b>2,334,483</b>	<b>2,334,483</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total primary government</b>	<b>\$ 27,086,726</b>	<b>\$ 20,090,314</b>	<b>\$ 1,301,383</b>	<b>\$ 572,683</b>	<b>(7,456,829)</b>	<b>2,334,483</b>	<b>(5,122,346)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Component Units</b>											
TIFA	\$ 362,710	\$ -	\$ 108,500	\$ -	-	-	-	(254,210)	-	-	
Library	1,612,365	174,779	588,197	-	-	-	-	-	(849,389)	-	
Downtown Management Parking	577,267	933,240	-	-	-	-	-	-	-	355,973	
<b>Total component units</b>	<b>\$ 2,552,342</b>	<b>\$ 1,108,019</b>	<b>\$ 696,697</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(254,210)</b>	<b>(849,389)</b>	<b>355,973</b>	
<b>General revenues</b>											
Property taxes					5,806,850	-	5,806,850	545,483	891,720	-	
State shared revenue					720,678	-	720,678	-	-	-	
Unrestricted interest and investment earnings					101,901	119,538	221,439	3,146	5,944	(2,763)	
Unrealized gain (loss) on investments					(329,151)	(826,642)	(1,155,793)	(31,626)	(17,473)	-	
Transfers					2,276,800	(1,988,400)	288,400	(265,000)	-	(23,400)	
<b>Total general revenues and transfers</b>					<b>8,577,078</b>	<b>(2,695,504)</b>	<b>5,881,574</b>	<b>252,003</b>	<b>880,191</b>	<b>(26,163)</b>	
<b>Change in net position</b>					<b>1,120,249</b>	<b>(361,021)</b>	<b>759,228</b>	<b>(2,207)</b>	<b>30,802</b>	<b>329,810</b>	
<b>Net position, beginning of year</b>					<b>34,129,737</b>	<b>52,694,974</b>	<b>86,824,711</b>	<b>1,432,356</b>	<b>2,853,249</b>	<b>1,078,205</b>	
<b>Net position, end of year</b>					<b>\$ 35,249,986</b>	<b>\$ 52,333,953</b>	<b>\$ 87,583,939</b>	<b>\$ 1,430,149</b>	<b>\$ 2,884,051</b>	<b>\$ 1,408,015</b>	



# City of Petoskey

## BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2022

	General Fund	Right-of-Way Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and equivalents	\$ 6,546,841	\$ 678,097	\$ 3,607,412	\$ 10,832,350
Receivables				
Special assessments	-	-	47,217	47,217
Accounts receivable	6,884	13	4,023	10,920
Lease receivable, short-term	27,873	-	-	27,873
Lease receivable, long-term	160,243	-	-	160,243
Due from other funds	210,495	84,111	1,826	296,432
Due from other governments	-	-	180,796	180,796
Inventory	-	-	216,791	216,791
	<u>\$ 6,952,336</u>	<u>\$ 762,221</u>	<u>\$ 4,058,065</u>	<u>\$ 11,772,622</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 116,306	\$ -	\$ 38,263	\$ 154,569
Accrued expenditures	186,995	-	28,241	215,236
Unearned revenue	758,968	-	-	758,968
	<u>1,062,269</u>	<u>-</u>	<u>66,504</u>	<u>1,128,773</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	-	-	39,072	39,072
Leases	176,769	-	-	176,769
	<u>176,769</u>	<u>-</u>	<u>39,072</u>	<u>215,841</u>
<b>FUND BALANCES</b>				
Non-spendable				
Inventory	-	-	216,791	216,791
Restricted	1,486,736	762,221	2,495,321	4,744,278
Committed	-	-	1,240,377	1,240,377
Unassigned	4,226,562	-	-	4,226,562
	<u>5,713,298</u>	<u>762,221</u>	<u>3,952,489</u>	<u>10,428,008</u>
Total fund balances	<u>5,713,298</u>	<u>762,221</u>	<u>3,952,489</u>	<u>10,428,008</u>
Total liabilities and fund balances	<u>\$ 6,952,336</u>	<u>\$ 762,221</u>	<u>\$ 4,058,065</u>	<u>\$ 11,772,622</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, 2022

**Total Fund Balance - Governmental Funds** \$ 10,428,008

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

Governmental funds report revenues when available whereas the governmental activities report revenues when earned.

Earned state revenue that is unavailable. 39,072

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 49,077,124  
Accumulated depreciation (27,514,985)

Governmental funds report interest when due, whereas in the statement of net position, interest is accrued on outstanding bonds. (1,979)

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. (66,144)

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

Net pension liability (4,946,071)  
Deferred outflows of resources for net pension liability 3,065,594  
Deferred inflows of resources for net pension liability (46,106)  
Deferred loss on debt refunding 861  
Governmental bonds payable, net (238,025)

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. 5,452,637

**Net Position of Governmental Activities** \$ 35,249,986

## City of Petoskey

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

Year ended December 31, 2022

	General Fund	Right-of-Way Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 3,917,403	\$ 1,889,447	\$ -	\$ 5,806,850
Special assessments	-	-	112,458	112,458
Licenses and permits	20,500	-	-	20,500
Federal grants	17,192	-	352,500	369,692
State grants	781,112	-	948,402	1,729,514
Contributions from local units	72,246	-	-	72,246
Charges for services	2,020,945	-	-	2,020,945
Fines and forfeits	54,681	-	-	54,681
Interest and investment earnings (losses)	(79,681)	4,321	(107,289)	(182,649)
Other	132,955	-	30,177	163,132
	<u>6,937,353</u>	<u>1,893,768</u>	<u>1,336,248</u>	<u>10,167,369</u>
Total revenues				
<b>EXPENDITURES</b>				
Current				
Legislative	26,966	-	-	26,966
General government	2,014,890	-	-	2,014,890
Public safety	3,525,700	-	-	3,525,700
Public works	700,440	-	1,536,024	2,236,464
Health and welfare	51,451	-	-	51,451
Recreational and cultural	2,490,612	-	-	2,490,612
Other	-	1,908	-	1,908
Capital outlay	162,433	-	2,076,584	2,239,017
Debt service				
Principal	-	-	320,000	320,000
Interest and fiscal charges	-	-	67,500	67,500
	<u>8,972,492</u>	<u>1,908</u>	<u>4,000,108</u>	<u>12,974,508</u>
Total expenditures				
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(2,035,139)</u>	<u>1,891,860</u>	<u>(2,663,860)</u>	<u>(2,807,139)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	2,436,700	-	2,474,000	4,910,700
Operating transfers out	(224,000)	(2,100,000)	(463,400)	(2,787,400)
Transfers from component units	23,400	-	265,000	288,400
	<u>2,236,100</u>	<u>(2,100,000)</u>	<u>2,275,600</u>	<u>2,411,700</u>
Total other financing sources (uses)				
<b>NET CHANGE IN FUND BALANCES</b>	200,961	(208,140)	(388,260)	(395,439)
<b>Fund balance, beginning of year</b>	<u>5,512,337</u>	<u>970,361</u>	<u>4,340,749</u>	<u>10,823,447</u>
<b>Fund balance, end of year</b>	<u>\$ 5,713,298</u>	<u>\$ 762,221</u>	<u>\$ 3,952,489</u>	<u>\$ 10,428,008</u>

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

## City of Petoskey

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

Year ended December 31, 2022

**Net Change in Fund Balances - Total Governmental Funds** \$ (395,439)

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

Governmental fund report unavailable revenue as a liability whereas the statement of activities recognizes revenue when earned.	39,072
Earned and available revenue.	39,072
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.	2,542,159
Expenditures for capital assets	2,542,159
Current year depreciation	(1,281,511)
Net change in the pension liability and related deferred outflows and inflows of resources.	(83,957)
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.	114,315
Principal payments	114,315
Amortization of bond premium and deferred loss on refunding	5,497
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.	860
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.	257
Landfill post closure costs removed as liability in the governmental wide statement of net position at the completion of the post closure plan	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 net revenue (expense) of the internal service funds is included in governmental activities in the statement of activities.	93,996

**Change in Net Position of Governmental Activities** \$ 1,120,249

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

## City of Petoskey

### STATEMENT OF NET POSITION - PROPRIETARY FUNDS

December 31, 2022

	Business-Type Activities - Enterprise Funds			Governmental
	Electric System	Water and Sewer System	Totals	Activities - Internal Service Fund
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>ASSETS</b>				
Current assets				
Cash and equivalents	\$ 4,985,055	\$ 4,389,386	\$ 9,374,441	\$ 1,884,111
Investments	3,353,150	3,407,714	6,760,864	-
Accounts receivable	1,554,879	677,648	2,232,527	1,722
Lease receivable	-	71,402	71,402	-
Inventory	1,255,389	315,155	1,570,544	9,819
Total current assets	11,148,473	8,861,305	20,009,778	1,895,652
Noncurrent assets				
Restricted cash and investments				
Sewage service covenants	-	770,923	770,923	-
Revenue bond covenants	-	1,970,352	1,970,352	-
MPPA energy charges	616,245	-	616,245	-
Lease receivable	-	267,273	267,273	-
MPPA working capital advance	459,999	-	459,999	-
Capital assets	37,243,720	50,899,424	88,143,144	7,797,344
Less accumulated depreciation	(24,159,294)	(25,833,745)	(49,993,039)	(4,217,632)
Total noncurrent assets	14,160,670	28,074,227	42,234,897	3,579,712
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows for pension liability	434,984	502,814	937,798	-
Total assets and deferred outflows of resources	\$ 25,744,127	\$ 37,438,346	\$ 63,182,473	\$ 5,475,364

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

## City of Petoskey

### STATEMENT OF NET POSITION - PROPRIETARY FUNDS - Continued

December 31, 2022

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Electric System	Water and Sewer System	Totals	
<b>LIABILITIES AND NET POSITION</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 438,247	\$ 74,945	\$ 513,192	\$ 22,547
Accrued expenses	51,618	21,623	73,241	180
Total current liabilities	489,865	96,568	586,433	22,727
<b>CURRENT LIABILITIES (payable from restricted assets)</b>				
Current portion of revenue bonds	-	930,000	930,000	-
Accrued interest	-	97,301	97,301	-
Total current liabilities (payable from restricted assets)	-	1,027,301	1,027,301	-
<b>NONCURRENT LIABILITIES</b>				
Payable from restricted assets				
Customer deposits	162,793	70,422	233,215	-
Net pension liability (asset)	550,226	835,288	1,385,514	-
Revenue bonds (net current portion and unamortized premiums)	-	7,160,308	7,160,308	-
Total noncurrent liabilities	713,019	8,066,018	8,779,037	-
Total liabilities	1,202,884	9,189,887	10,392,771	22,727
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred gain on debt refunding	-	126,517	126,517	
Deferred inflows for pension liability	5,918	4,083	10,001	-
Deferred inflows for leases	-	319,231	319,231	-
Total deferred inflows of resources	5,918	449,831	455,749	-
<b>NET POSITION</b>				
Net investment in capital assets	13,084,426	16,848,854	29,933,280	-
Restricted for sewage service covenants	-	770,923	770,923	-
Restricted for revenue bond indentures	-	943,051	943,051	-
Restricted for MPPA energy expenses	616,245	-	616,245	-
Unrestricted	10,834,654	9,235,800	20,070,454	5,452,637
Total net position	24,535,325	27,798,628	52,333,953	5,452,637
Total liabilities, deferred inflows, and net position	\$ 25,744,127	\$ 37,438,346	\$ 63,182,473	\$ 5,475,364

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, 2022

	<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>
<b>Operating revenue</b>				
Charges for services	<u>\$ 10,845,677</u>	<u>\$ 6,074,949</u>	<u>\$ 16,920,626</u>	<u>\$ 1,231,752</u>
<b>Operating expenses</b>				
Purchased power	7,442,218	-	7,442,218	-
Personnel services	1,288,370	1,008,344	2,296,714	16,142
Contractual services	479,547	1,116,787	1,596,334	260,377
Supplies	5,752	17,218	22,970	179,524
Materials	78,287	396,705	474,992	-
Heat, light and power	1,320	247,018	248,338	-
Depreciation	1,186,229	1,451,645	2,637,874	531,952
Rent	<u>28,044</u>	<u>55,557</u>	<u>83,601</u>	<u>-</u>
Total operating expenses	<u>10,509,767</u>	<u>4,293,274</u>	<u>14,803,041</u>	<u>987,995</u>
<b>OPERATING INCOME</b>	<u>335,910</u>	<u>1,781,675</u>	<u>2,117,585</u>	<u>243,757</u>
<b>Nonoperating revenues</b>				
Unrestricted interest and investment earnings	16,110	103,428	119,538	11,777
Unrealized gain (loss) from investments	(373,084)	(453,558)	(826,642)	(56,378)
Rent	120,900	-	120,900	-
Sewage service covenant	-	181,229	181,229	-
Construction	192,336	30,241	222,577	-
Federal grant	-	22,500	22,500	-
Miscellaneous	<u>172,880</u>	<u>-</u>	<u>172,880</u>	<u>29,740</u>
Total nonoperating revenues	<u>129,142</u>	<u>(116,160)</u>	<u>12,982</u>	<u>(14,861)</u>
<b>Nonoperating expenses</b>				
Personnel services	51,762	-	51,762	-
Contractual services	205,767	-	205,767	-
Supplies	22,186	-	22,186	-
Materials	95,454	-	95,454	-
Heat, light and power	36,970	-	36,970	-
Interest	-	246,050	246,050	-
Depreciation	30,886	-	30,886	-
Other expenses	<u>-</u>	<u>(35,637)</u>	<u>(35,637)</u>	<u>-</u>
Total nonoperating expenses	<u>443,025</u>	<u>210,413</u>	<u>653,438</u>	<u>-</u>
Net nonoperating revenues (expenses)	<u>(313,883)</u>	<u>(326,573)</u>	<u>(640,456)</u>	<u>(14,861)</u>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<u>22,027</u>	<u>1,455,102</u>	<u>1,477,129</u>	<u>228,896</u>
<b>Other financing uses</b>				
Operating transfers in	100,000	-	100,000	-
Operating transfers out	<u>(1,017,500)</u>	<u>(1,070,900)</u>	<u>(2,088,400)</u>	<u>(134,900)</u>
Total transfers	<u>(917,500)</u>	<u>(1,070,900)</u>	<u>(1,988,400)</u>	<u>(134,900)</u>
<b>Capital contributions</b>	<u>-</u>	<u>150,250</u>	<u>150,250</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	<u>(895,473)</u>	<u>534,452</u>	<u>(361,021)</u>	<u>93,996</u>
<b>Net position, beginning of year</b>	<u>25,430,798</u>	<u>27,264,176</u>	<u>52,694,974</u>	<u>5,358,641</u>
<b>Net position, end of year</b>	<u>\$ 24,535,325</u>	<u>\$ 27,798,628</u>	<u>\$ 52,333,953</u>	<u>\$ 5,452,637</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, 2022

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Electric System	Water and Sewer System	Totals	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 10,722,227	\$ 5,721,857	\$ 16,444,084	\$ 1,231,477
Cash payments to suppliers for goods and services	(7,979,874)	(1,798,279)	(9,778,153)	(495,592)
Cash payments to employees for services	(1,287,346)	(679,853)	(1,967,199)	(16,562)
Cash payments to other funds for services	(28,044)	(55,557)	(83,601)	-
	<u>1,426,963</u>	<u>3,188,168</u>	<u>4,615,131</u>	<u>719,323</u>
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Operating transfers in/(out) to other funds	(917,500)	(1,070,900)	(1,988,400)	(134,900)
Increase/(decrease) in customer deposits	8,767	8,308	17,075	-
Net cash provided (used) by rental, construction and miscellaneous nonoperating activities	(703,075)	217,181	(485,894)	-
	<u>(1,611,808)</u>	<u>(845,411)</u>	<u>(2,457,219)</u>	<u>(134,900)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets	(708,556)	(1,098,881)	(1,807,437)	(316,612)
Proceeds from sale of fixed assets	-	-	-	34,100
Principal paid on revenue bonds and contracts payable	(240,833)	(835,000)	(1,075,833)	-
Interest paid on revenue bonds and contracts payable	-	(256,488)	(256,488)	-
Capital contributed by customers	-	150,250	150,250	-
	<u>(949,389)</u>	<u>(2,040,119)</u>	<u>(2,989,508)</u>	<u>(282,512)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Sale (purchase) of investments, net	405,010	(285,792)	119,218	(56,378)
Interest received	16,110	103,428	119,538	11,777
	<u>421,120</u>	<u>(182,364)</u>	<u>238,756</u>	<u>(44,601)</u>
<b>NET CHANGE IN CASH</b>	(713,114)	120,274	(592,840)	257,310
Cash, beginning of year	<u>5,698,169</u>	<u>6,163,236</u>	<u>11,861,405</u>	<u>1,626,801</u>
Cash, end of year	<u>\$ 4,985,055</u>	<u>\$ 6,283,510</u>	<u>\$ 11,268,565</u>	<u>\$ 1,884,111</u>
<b>Financial Statement Presentation:</b>				
Current assets	\$ 4,985,055	\$ 4,389,386	\$ 9,374,441	\$ 1,884,111
Restricted assets	-	1,894,124	1,894,124	-
	<u>\$ 4,985,055</u>	<u>\$ 6,283,510</u>	<u>\$ 11,268,565</u>	<u>\$ 1,884,111</u>
<b>Noncash activity:</b>				
Leases receivable and deferred inflows of resources recorded upon GASB 87 leases implementation	\$ -	\$ 402,204	\$ 402,204	\$ -

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, 2022

	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	\$ 335,910	\$ 1,781,675	\$ 2,117,585	\$ 243,757
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	1,217,115	1,451,645	2,668,760	531,952
(Increase) decrease in accounts receivable	(123,450)	(14,417)	(137,867)	(276)
(Increase) decrease in lease receivable	-	(338,675)	(338,675)	-
(Increase) decrease in inventory	(146,451)	(51,183)	(197,634)	(270)
Increase in prepaid expenses	48,125	-	48,125	-
Increase (decrease) in accounts payable	94,690	30,632	125,322	(55,421)
Increase (decrease) in accrued expenses	(11,282)	(4,672)	(15,954)	(419)
Increase (decrease) in net pension liability and related deferred outflows	<u>12,306</u>	<u>333,163</u>	<u>345,469</u>	<u>-</u>
Total adjustments	<u>1,091,053</u>	<u>1,406,493</u>	<u>2,497,546</u>	<u>475,566</u>
Net cash provided by operating activities	<u>\$ 1,426,963</u>	<u>\$ 3,188,168</u>	<u>\$ 4,615,131</u>	<u>\$ 719,323</u>

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

# City of Petoskey

## STATEMENT OF FIDUCIARY NET POSITION

December 31, 2022

	<u>Pension Trust Fund</u>	<u>Custodial Fund</u>
<b>ASSETS</b>		
Cash	\$ -	\$ 1,316,766
Investments	253,208	-
Receivables		
Taxes	<u>-</u>	<u>3,734,438</u>
 Total assets	 <u>\$ 253,208</u>	 <u>\$ 5,051,204</u>
 <b>LIABILITIES AND NET POSITION</b>		
<b>LIABILITIES</b>		
Due to other funds	\$ -	\$ 296,432
Due to component unit	-	38,617
Due to other governmental units	<u>-</u>	<u>4,716,155</u>
 Total liabilities	 -	 5,051,204
 <b>NET POSITION</b>		
Held in trust for pension benefits and other purposes	<u>253,208</u>	<u>-</u>
 Total liabilities and net position	 <u>\$ 253,208</u>	 <u>\$ 5,051,204</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, 2022

	Pension Trust Fund	Custodial Fund
<b>ADDITIONS TO NET POSITION</b>		
Contributions		
Employer	\$ 10,640	\$ -
Net investment earnings		
Interest and unrealized gains (losses)	(60,683)	-
Property tax collections for other governments	-	26,782,710
Total additions	(50,043)	26,782,710
<b>DEDUCTIONS FROM NET POSITION</b>		
Distributions/transfers out	-	26,782,710
<b>NET CHANGE IN NET POSITION</b>	(50,043)	-
Net position, beginning of year	303,251	-
Net position, end of year	\$ 253,208	\$ -

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 - net investment in capital assets, 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 type 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.



## NOTES TO FINANCIAL STATEMENTS - Continued

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.

### ***Lease Receivable***

Lease receivable agreements with a non-cancelable terms exceeding 12 months are recorded as lease receivables in the government-wide and fund financial statements and are valued at the net present value, whereby interest is calculated based on the City's incremental borrowing rate.

### ***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.

NOTES TO FINANCIAL STATEMENTS - Continued

***Capital Assets***

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

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

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

***Long-Term Obligations***

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

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

***Compensated Absences (Personal, Vacation and Sick Time)***

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

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

***Deferred Inflows and Outflows of Resources***

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

Lease-related amounts are recognized at the inception of leases in which the City is the lessor. The deferred inflow of resources is recorded in an amount equal to the corresponding lease receivable plus certain additional amounts received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The inflow of resources is recognized using the straight-line method.

***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.

***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.

***Reclassifications***

Certain amounts for the year ended December 31, 2022 have been reclassified to conform with the current year presentation.

***Subsequent Events***

The City has evaluated subsequent events and transactions for potential recognition and disclosure through May 10, 2023, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE B - ACCOUNTING CHANGES**

The City adopted the Governmental Accounting Standards Board issued Statement No. 87 (“GASB 87”), *Leases*, for the year ended December 31, 2022. The standard established criteria for identifying, and requiring recognition of, certain lease assets and lease liabilities for leases that previously were classified as operating leases. For contracts that meet the definition of a lease under the standard, GASB 87 requires governmental entities to report lease assets and lease liabilities in the statement of net position. The addition of lease receivables is offset by the deferred inflows of resources at the implementation of the standard. Detail of balances at implementation are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
	<u>General Fund</u>	<u>Water and Sewer System Fund</u>
Lease receivable	\$ 213,342	\$ 402,204
Deferred inflow of resources	<u>(213,342)</u>	<u>(402,204)</u>
Impact on net position and fund balance	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**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, 2022, the following functions incurred total expenditures in excess of amounts appropriated for expenditures:

<u>Fund</u>	<u>Final Budget</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
Legislative, general government, and health and welfare	\$ 2,092,900	\$ 2,093,307	\$ 407
Public works	672,300	700,440	28,140

**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, 2022, 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	\$ 16,622,024	\$ 5,468,878	\$ 3,416,338	\$ -	\$ 1,316,766	\$ -
Restricted cash and cash equivalents	1,894,124	-	-	-	-	-
Restricted investments	-	1,463,396	-	-	-	-
Investments	<u>500,000</u>	<u>6,260,864</u>	<u>-</u>	<u>162,610</u>	<u>-</u>	<u>253,208</u>
	<u>\$ 19,016,148</u>	<u>\$ 13,193,138</u>	<u>\$ 3,416,338</u>	<u>\$ 162,610</u>	<u>\$ 1,316,766</u>	<u>\$ 253,208</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, 2022, \$30,277,237 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.

NOTES TO FINANCIAL STATEMENTS - Continued

Listed below are the City's investments subject to credit risk at December 31, 2022. The credit ratings are established by Standard and Poor's.

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Credit Ratings</u>
Certificates of deposit	\$ 2,802,769	
Municipal bonds	372,177	A+
Municipal bonds	1,392,228	AA
Municipal bonds	201,175	AA-
Municipal bonds	631,794	AA1
Treasury bonds - MPPA Investment Pools	308,316	N/A
US government bonds	1,697,870	AA+
US government bonds - MPPA Investment Pools	306,483	N/A
Money market mutual funds	5,481,226	
Stock mutual funds	110,008	
Bond mutual funds	142,300	
Component units:		
Municipal bonds	<u>162,610</u>	A
Total portfolio	<u><u>\$ 13,608,956</u></u>	

*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, 2022, \$6,770,625 of the City's investments were uninsured and uncollateralized, \$5,800,971 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, 2022, 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.

NOTES TO FINANCIAL STATEMENTS - Continued

The City recognized an unrealized loss on investments of \$1,236,254 for the year ended December 31, 2022.

Maturity dates for investments held as of December 31, 2022 are as follows:

Investment Type	1 - 5 years	6 - 10 years	> 10 years	Total
Certificates of deposit	\$ 890,337	\$ 1,717,437	\$ 194,995	\$ 2,802,769
Municipal bonds	472,206	413,579	1,711,589	2,597,374
Treasury bonds	308,316	-	-	308,316
US government bonds	793,168	355,480	855,705	2,004,353
	\$ 2,464,027	\$ 2,486,496	\$ 2,762,289	7,712,812
Mutual funds				5,753,844
Total				\$ 13,466,656

**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, 2022:

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				
Municipal bonds	\$ -	\$ 2,597,374	\$ -	\$ 2,597,374
Treasury bonds	-	308,316	-	308,316
U.S. government bonds	-	2,004,353	-	2,004,353
Mutual funds	-	5,753,844	-	5,753,844
Total investments by fair market value	\$ -	\$ 10,663,887	\$ -	\$ 10,663,887

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



## NOTES TO FINANCIAL STATEMENTS - Continued

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, 2022.

*U.S. government bonds, treasury bonds and municipal 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.

### 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 2022 State taxable valuation of the City of Petoskey totaled \$587,531,579.

The tax rates for the year ended December 31, 2022 were as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>
General governmental services	7.2306 per \$1,000
Right-of-way	3.7233 per \$1,000
Library	0.8103 per \$1,000
Library (additional, approved by voters)	0.8991 per \$1,000
Refuse collection	0.4890 per \$1,000

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE G - TAX ABATEMENTS**

The City had the following tax abatements for the year ended December 31, 2022:

Type	Tax Abated By	Property Owner	Gross Amount Abated
Payment in Lieu of Taxes Public Act 346 of 1966, as amended	City of Petoskey	Petoskey Riverview Ltd Dividend Housing	\$ 27,619
	City of Petoskey	Harbor Village	23,820
	City of Petoskey	Keystone Management Group	<u>(7,423)</u>
			<u>\$ 44,016</u>

**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, 2022:

	Interfund Receivables	Interfund Payables
General Fund	\$ 210,495	\$ -
Right-of-Way Fund	84,111	-
Other Nonmajor Governmental Funds	1,826	-
Fiduciary Funds - Custodial Funds	<u>-</u>	<u>296,432</u>
Total	<u>\$ 296,432</u>	<u>\$ 296,432</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, 2022:

	Interfund Receivables	Interfund Payables
Library Component Unit	\$ 38,617	\$ -
Fiduciary Funds - Custodial Funds	<u>-</u>	<u>38,617</u>
Total	<u>\$ 38,617</u>	<u>\$ 38,617</u>

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

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE I - INTERFUND TRANSFERS**

Operating transfers within the primary government are as follows for the year ended December 31, 2022:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,436,700	\$ 224,000
Right-of-Way Fund	-	2,100,000
Electric Fund	100,000	1,017,500
Water and Sewer Fund	-	1,070,900
Other Nonmajor Governmental Funds	2,474,000	463,400
Internal Service Fund	<u>-</u>	<u>134,900</u>
Total	<u>\$ 5,010,700</u>	<u>\$ 5,010,700</u>

Operating transfers between the primary government and the component units are as follows for the year ended December 31, 2022:

	<u>Transfers In</u>	<u>Transfers Out</u>
TIFA Component Unit	\$ -	\$ 265,000
Downtown Management Parking Component Unit	-	23,400
General Fund	23,400	-
Other Nonmajor Governmental Funds	<u>265,000</u>	<u>-</u>
Total	<u>\$ 288,400</u>	<u>\$ 288,400</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, 2022:

Electric Fund	\$ 194,500
Water and Sewer Fund	<u>371,500</u>
	<u>\$ 566,000</u>

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE J - LEASES RECEIVABLE**

The City, as a lessor, has entered into ground lease agreements for a section of its owned land for the purpose of constructing and operating cell towers. The City leases four cell towers with monthly rentals of \$1,012 to \$3,410, under lease agreements expiring in 2025 to 2027. Known annual rental increases are included in the measurement of leases receivable, whereas rental increases based upon the consumer price index are excluded in the measurement of leases receivable. The total amount of inflows of resources recognized during the year ended December 31, 2022 included lease revenue of \$119,546 and interest revenue of \$18,441. Lease revenue is included in charges for services on the statement of activities.

The future payments and deferred inflows of resources under the lease agreements are as follows:

Years Ending December 31,	Lease Receivable			Deferred Inflow of Resources	Total Revenue
	Principal	Interest Revenue	Total	Lease Revenue	
2023	\$ 99,275	\$ 15,692	\$ 114,967	\$ 119,546	\$ 135,238
2024	115,576	12,211	127,787	119,546	131,757
2025	115,828	8,347	124,175	106,558	114,905
2026	101,828	4,892	106,720	82,010	86,902
2027	<u>94,284</u>	<u>1,417</u>	<u>95,701</u>	<u>68,340</u>	<u>69,757</u>
Total	<u>\$ 526,791</u>	<u>\$ 42,559</u>	<u>\$ 569,350</u>	<u>\$ 496,000</u>	<u>\$ 538,559</u>

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE K - CAPITAL ASSETS**

Investment in capital assets changed as follows during the year ended December 31, 2022:

**Governmental Activities**

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending</u>
Capital assets not being depreciated				
Land	\$ 4,070,713	\$ -	\$ -	\$ 4,070,713
Capital assets being depreciated				
Land improvements	4,277,051	303,764	-	4,580,815
Buildings	6,642,601	162,097	-	6,804,698
Equipment	8,742,273	339,792	(163,707)	8,918,358
Infrastructure	<u>30,446,766</u>	<u>2,053,118</u>	<u>-</u>	<u>32,499,884</u>
Subtotal	<u>50,108,691</u>	<u>2,858,771</u>	<u>(163,707)</u>	<u>52,803,755</u>
Less accumulated depreciation				
Land improvements	(1,548,424)	(120,472)	-	(1,668,896)
Buildings	(4,062,475)	(221,119)	-	(4,283,594)
Equipment	(4,735,084)	(563,359)	159,347	(5,139,096)
Infrastructure	<u>(19,732,518)</u>	<u>(908,514)</u>	<u>-</u>	<u>(20,641,032)</u>
Subtotal	<u>(30,078,501)</u>	<u>(1,813,464)</u>	<u>159,347</u>	<u>(31,732,618)</u>
Net capital assets being depreciated	<u>20,030,190</u>	<u>1,045,307</u>	<u>(4,360)</u>	<u>21,071,137</u>
Governmental activities net capital assets	<u>\$ 24,100,903</u>	<u>\$ 1,045,307</u>	<u>\$ (4,360)</u>	<u>\$ 25,141,850</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	\$ 1,799,507	\$ -	\$ -	\$ 1,799,507
Capital assets being depreciated				
Land improvements	260,795	-	-	260,795
Buildings	28,062,715	-	-	28,062,715
Utility system improvements	55,878,412	1,807,437	-	57,685,849
Equipment	334,278	-	-	334,278
Subtotal	<u>84,536,200</u>	<u>1,807,437</u>	-	<u>86,343,637</u>
Less accumulated depreciation				
Land improvements	(125,183)	(10,432)	-	(135,615)
Buildings	(14,785,078)	(744,365)	-	(15,529,443)
Utility system improvements	(32,112,702)	(1,913,963)	-	(34,026,665)
Equipment	(301,316)	-	-	(301,316)
Subtotal	<u>(47,324,279)</u>	<u>(2,668,760)</u>	-	<u>(49,993,039)</u>
Net capital assets being depreciated	<u>37,211,921</u>	<u>(861,323)</u>	-	<u>36,350,598</u>
Business-type activities net capital assets	<u>\$ 39,011,428</u>	<u>\$ (861,323)</u>	<u>\$ -</u>	<u>\$ 38,150,105</u>

Depreciation expense was charged to programs of the primary government as follows for the year ended December 31, 2022:

**Governmental activities**

General government	\$ 3,079
Public safety	180,926
Public works	1,220,402
Recreation and cultural	70,885
Unallocated	<u>338,172</u>
Total governmental activities	<u>\$ 1,813,464</u>

**Business-type activities**

Electric	\$ 1,217,115
Water and sewer	<u>1,451,645</u>
Total business-type activities	<u>\$ 2,668,760</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	\$ 3,491,092	\$ -	\$ -	\$ 3,491,092
Buildings	6,416,166	-	-	6,416,166
Equipment	<u>1,774,126</u>	<u>82,289</u>	<u>(103,380)</u>	<u>1,753,035</u>
Subtotal	<u>11,681,384</u>	<u>82,289</u>	<u>(103,380)</u>	<u>11,660,293</u>
Less accumulated depreciation				
Land improvements	(1,633,361)	(168,412)	-	(1,801,773)
Buildings	(3,258,845)	(182,372)	-	(3,441,217)
Equipment	<u>(1,161,626)</u>	<u>(46,672)</u>	<u>-</u>	<u>(1,208,298)</u>
Subtotal	<u>(6,053,832)</u>	<u>(397,456)</u>	<u>-</u>	<u>(6,451,288)</u>
Component units' net capital assets	<u>\$ 5,627,552</u>	<u>\$ (315,167)</u>	<u>\$ (103,380)</u>	<u>\$ 5,209,005</u>

**NOTE L - LONG-TERM DEBT**

The following is a summary of the City's long-term debt transactions for the year ended December 31, 2022:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental activities</b>					
General obligation debt	\$ 340,485	\$ -	\$ 114,315	\$ 226,170	\$ 113,085
Compensated absences	<u>66,401</u>	<u>-</u>	<u>257</u>	<u>66,144</u>	<u>-</u>
<b>Total governmental activities</b>	<u>\$ 406,886</u>	<u>\$ -</u>	<u>\$ 114,572</u>	<u>\$ 292,314</u>	<u>\$ 113,085</u>
<b>Business-type activities</b>					
Revenue obligation debt	<u>\$ 8,560,000</u>	<u>\$ -</u>	<u>\$ 835,000</u>	<u>\$ 7,725,000</u>	<u>\$ 930,000</u>
<b>COMPONENT UNITS</b>					
General obligation debt	<u>\$ 3,424,515</u>	<u>\$ -</u>	<u>\$ 425,685</u>	<u>\$ 2,998,830</u>	<u>\$ 466,915</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Bonds payable at December 31, 2022 is composed of the following individual items:

**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 \$113,085 to \$114,315 through April 2024; interest rate of 3.00% to 4.00%. Funds for repayment have been provided by the Marina Bond Debt Fund.	\$ 226,170
Unamortized premium	<u>11,855</u>
Total governmental activities general obligation bonds	<u><u>\$ 238,025</u></u>

**Deferred Loss on Debt Refunding**

Unaccreted loss on refunding - \$730,323, 2017 Building Authority Improvement Bonds.	<u><u>\$ 861</u></u>
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**Revenue Obligation (Business-type Activities)**

\$6,330,000, 2011 Water and Sewer refunding bonds and \$2,755,000, 2011 Water and Sewer bonds; \$4,430,000 refunded with \$4,125,000, 2021 Water and Sewer refunding bonds, remaining annual installments of \$125,000 to \$720,000 through February 2031; interest rate of 3.00%.	\$ 3,495,000
Unamortized premium	315,284
\$5,000,000, 2017 Water and Sewer bonds; remaining annual installments of \$205,000 to \$365,000 through December 2037; interest rate of 3.00% to 3.25%.	4,230,000
Unamortized premium	<u>50,024</u>
Total business-type activities revenue obligation debt	<u><u>\$ 8,090,308</u></u>

**Deferred Gain on Debt Refunding**

Unaccreted gain on refunding - \$4,125,000, 2021 Water and Sewer refunding bonds	<u><u>\$ 126,517</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 \$185,000 to \$230,000 through April 2029; interest rate of 3.00% to 4.00%.	\$ 1,413,830
Unamortized premium	78,304
\$4,300,000, 2003 Building Authority Library Improvement bonds; \$3,425,000 refunded with \$3,520,000, 2012 Building Authority Library Improvement bonds; \$1,755,000 refunded with \$1,805,000, 2021 Building Authority Library Improvement refunding bonds, remaining annual installments of \$220,000 to \$285,000 through October 2028; interest rate of 1.139%.	<u>1,585,000</u>
Total component unit general obligation bonds	<u><u>\$ 3,077,134</u></u>

**Deferred Loss on Debt Refunding**

Unaccrued loss on refunding - \$1,805,000, 2021 Building Authority Library Improvement refunding bonds	<u><u>\$ 5,463</u></u>
Unaccrued loss on refunding - \$2,239,677, 2017 Building Authority TIFA Bear River Valley Improvement Bonds	<u><u>\$ 5,689</u></u>

The annual requirements to amortize all general and revenue obligation bonds outstanding, as of December 31, 2022, are as follows:

Years Ending	Governmental Activities		Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 113,085	\$ 6,220	\$ 930,000	\$ 219,576	\$ 466,915	\$ 69,558
2024	113,085	2,262	935,000	191,601	461,915	59,472
2025	-	-	935,000	163,551	440,000	48,774
2026	-	-	935,000	135,501	430,000	38,468
2027	-	-	370,000	115,926	470,000	28,278
2028-2032	-	-	1,925,000	403,455	730,000	21,232
2033-2037	-	-	1,695,000	137,577	-	-
	<u>\$ 226,170</u>	<u>\$ 8,482</u>	<u>\$ 7,725,000</u>	<u>\$ 1,367,187</u>	<u>\$ 2,998,830</u>	<u>\$ 265,782</u>

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE M - LAND CONTRACT PAYABLE**

The City entered into a land contract during the year ended December 31, 2020 within the Electric System Fund. The value of land acquired through the contract totaled \$724,580. The City paid \$242,913 at initiation of the contract, leaving a total contract payable balance of \$481,667 at December 31, 2020. The terms of the contract called for the balance of the contract to be paid in equal annual installments during fiscal years ended December 31, 2021 and 2022. Thus, the remaining contract payable balance at December 31, 2022 totaled \$0. No interest was charged.

**NOTE N - RESTRICTED FUND BALANCES/RESTRICTED NET POSITION**

Fund balances and net position are classified as follows for the year ended December 31, 2022:

<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	\$ 379,999	\$ -	\$ -	\$ 379,999
Marina	1,106,737	-	-	1,106,737
Streets and improvements	-	762,221	2,251,279	3,052,572
Downtown programs and services	-	-	<u>244,042</u>	<u>244,042</u>
	<u>\$ 1,486,736</u>	<u>\$ 762,221</u>	<u>\$ 2,495,321</u>	<u>\$ 4,783,350</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	-	943,051	943,051	
MPPA energy expenses	<u>616,245</u>	-	<u>616,245</u>	
	<u>\$ 616,245</u>	<u>\$ 1,713,974</u>	<u>\$ 2,330,219</u>	
<u>Fiduciary Funds</u>	<u>Employees Retirement Trust Fund</u>			
Restricted for:				
Employee pension benefits	<u>\$ 253,208</u>			

**Component Units**

Restricted for Tax Increment Finance Authority ("TIFA") - The Tax Increment Finance Authority has \$986,939 restricted for use within the TIFA district.

The Library has \$273,000 restricted for debt service and \$911,238 restricted for Library operations.

**NOTE O - EMPLOYEE RETIREMENT AND BENEFIT SYSTEM**

**Municipal Employees Retirement Systems**

***Defined Benefit Plan***

***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](http://www.mersofmich.com).

***Benefits Provided***

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

Vesting periods range from 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 4.5%.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Employees Covered by Benefit Terms***

At the December 31, 2021 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	81
Inactive employees entitled to but not yet receiving benefits	14
Active employees	<u>56</u>
Total covered employees	<u><u>151</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 11.10% to 20.48% based on annual payroll for open divisions.

### ***Net Pension Liability***

The employer's Net Pension Liability was measured as of December 31, 2022, 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, 2021 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: 3.00% 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: 7.00%, net of investment expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.75% long-term wage inflation assumption would be consistent with a price inflation of 2.50%.

NOTES TO FINANCIAL STATEMENTS - Continued

Mortality rates used were based on the PubG-2010 and fully generational MP-2019 mortality tables.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2014-2018.

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	60.0 %	3.15 %
Global fixed income	20.0 %	0.25 %
Private investments	20.0 %	1.45 %

***Discount Rate***

The discount rate used to measure the total pension liability is 7.60% for 2020. 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)
<b>Balances at January 1, 2022</b>	<u>\$31,882,823</u>	<u>\$30,919,856</u>	<u>\$ 962,967</u>
<b>Changes for the Year</b>			
Service cost	443,446	-	443,446
Interest on Total Pension Liability	2,367,669	-	2,367,669
Change in benefits	-	-	-
Difference between expected and actual experience	29,580	-	29,580
Changes in assumptions	1,211,577	-	1,211,577
Employer contributions	-	1,804,548	(1,804,548)
Employee contributions	-	126,009	(126,009)
Net investment income	-	(3,175,036)	3,175,036
Benefit payments, including employee refunds	(1,850,265)	(1,850,265)	-
Administrative expense	-	(57,498)	57,498
Other changes	<u>(10,716)</u>	<u>(25,085)</u>	<u>14,369</u>
<b>Net changes</b>	<u>2,191,291</u>	<u>(3,177,327)</u>	<u>5,368,618</u>
<b>Balances as of December 31, 2022</b>	<u>\$34,074,114</u>	<u>\$27,742,529</u>	<u>\$ 6,331,585</u>

**Changes in Net Pension Liability - Library**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
<b>Balances at January 1, 2022</b>	<u>\$ 449,416</u>	<u>\$ 435,842</u>	<u>\$ 13,574</u>
<b>Changes for the Year</b>			
Service cost	6,616	-	6,616
Interest on Total Pension Liability	35,324	-	35,324
Change in benefits	-	-	-
Difference between expected and actual experience	441	-	441
Changes in assumptions	18,076	-	18,076
Employer contributions	-	26,923	(26,923)
Employee contributions	-	1,880	(1,880)
Net investment income	-	(47,369)	47,369
Benefit payments, including employee refunds	(27,605)	(27,605)	-
Administrative expense	-	(858)	858
Other changes	<u>26,094</u>	<u>25,086</u>	<u>1,008</u>
<b>Net changes</b>	<u>58,946</u>	<u>(21,943)</u>	<u>80,889</u>
<b>Balances as of December 31, 2022</b>	<u>\$ 508,362</u>	<u>\$ 413,899</u>	<u>\$ 94,463</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 7.60%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1% point lower (6.60%) or 1% higher (8.60%) than the current rate.

	1% Decrease 6.60%	Current Discount Rate 7.60%	1% Increase 8.60%
City net pension liability	\$10,224,123	\$ 6,331,585	\$ 3,048,636
Library net pension liability	152,537	94,463	45,484

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

For the year ended December 31, 2022, the City recognized pension expense of \$1,912,183. 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	\$ -	\$ 56,107
Differences in assumptions	1,487,105	-
Excess (deficit) investment returns	2,516,287	-
Contributions subsequent to the measurement date	-	-
Total	<u>\$ 4,003,392</u>	<u>\$ 56,107</u>

For the year ended December 31, 2022, the Library recognized pension expense of \$28,528. 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	\$ -	\$ 866
Differences in assumptions	20,611	-
Excess (deficit) investment returns	44,995	-
Contributions subsequent to the measurement date	-	-
Total	<u>\$ 65,606</u>	<u>\$ 866</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>
2023	\$ 947,544	\$ 14,137
2024	885,302	13,208
2025	1,037,055	15,472
2026	<u>1,077,384</u>	<u>21,923</u>
Total	<u>\$ 3,947,285</u>	<u>\$ 64,740</u>

***Defined Contribution Plans***

***Retirement***

The City’s defined contribution plan provides certain retirement, death, and disability benefits to plan members and beneficiaries. The City’s plan covers nonunion employees and Department of Public Works unionized employees. The City participates in the Michigan Municipal Employees’ Retirement System (“MERS”), an agent multiple-employer, State-wide 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 include financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

As of December 31, 2022, the City contributes up to 5% and matches up to an additional 5% for a total contribution rate of 10% for nonunion employees. The nonunion employees have the option to contribute 5% of earnings.

As of December 31, 2022, the City contributes up to 5% and matches up to an additional 5% for a total contribution rate of 10% for Department of Public Works unionized employees. The Department of Public Works unionized employees have the option to contribute 5% of earnings.

The plan currently covers 22 employees in total. During fiscal year ended December 31, 2022, the employees contributed \$22,010 and the City contributed \$79,510 to the plan.

***Health Care Savings Program***

The City also participates in the Municipal Employee’s Retirement System of Michigan (MERS) healthcare savings program for all unionized Public Safety Officers as implemented on August 1, 2021. In the healthcare savings program, benefits depend solely on the amounts contributed to the plan plus investment earnings. Employees participate from the date of employment. As established by City Council resolution, employees contribute 3% of their gross earnings to the program. The current year contributions were calculated based on covered payroll of \$1,672,082, resulting in employee contributions totaling \$50,162.



**NOTE P - 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 \$76,000, as established by City Council and governed by Federal regulations. The City made the required 14.00% contribution for the year, which totaled \$10,640.

At December 31, 2022, the City had \$253,208 within the Employees Retirement Trust Fund.

**NOTE Q - 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 R - COMMITMENTS AND CONTINGENCIES**

***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.

NOTES TO FINANCIAL STATEMENTS - Continued

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>
2023	229,296
2024	229,415
2025	229,534
2026	<u>229,630</u>
Total	<u>\$ 917,875</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.

***Grant Contingencies***

The City is contingently liable for adjustments that may result from the program audits conducted by grantors. There are no known adjustments pending or audits in progress.

**NOTE S - RISKS AND CONTINGENCIES**

***Insurance***

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.

***COVID-19***

On March 10, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a pandemic. The City believes it understands the risk associated with COVID-19. The City has implemented risk mitigation tactics related to their operations within and outside of the City in response to the risks caused by COVID-19. The extent to which the pandemic impacts operations will depend on future developments, which are highly uncertain at this time, and cannot be predicted.

**REQUIRED SUPPLEMENTARY INFORMATION**

# City of Petoskey

## BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year ended December 31, 2022

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
<b>REVENUES</b>					
Taxes	\$ 3,854,200	\$ 3,854,200	\$ 3,917,403	\$ -	\$ 63,203
Licenses and permits	24,300	24,300	20,500	-	(3,800)
Federal grants	311,200	10,000	17,192	(301,200)	7,192
State grants	1,271,500	629,500	781,112	(642,000)	151,612
Contributions from local units	374,500	64,500	72,246	(310,000)	7,746
Charges for services	1,749,500	2,030,500	2,020,945	281,000	(9,555)
Fines and forfeitures	37,600	37,600	54,681	-	17,081
Interest and investment earnings	95,000	95,000	(79,681)	-	(174,681)
Other	114,100	114,100	132,955	-	18,855
Total revenues	<u>7,831,900</u>	<u>6,859,700</u>	<u>6,937,353</u>	<u>(972,200)</u>	<u>77,653</u>
<b>EXPENDITURES</b>					
Legislative, general government, and health and welfare	2,092,900	2,092,900	2,093,307	-	(407)
Public safety	3,571,600	3,621,600	3,525,700	(50,000)	95,900
Public works	672,300	672,300	700,440	-	(28,140)
Recreation and cultural	2,225,200	2,519,600	2,490,612	(294,400)	28,988
Capital outlay	1,185,700	226,200	162,433	959,500	63,767
Total expenditures	<u>9,747,700</u>	<u>9,132,600</u>	<u>8,972,492</u>	<u>615,100</u>	<u>160,108</u>
<b>REVENUES UNDER EXPENDITURES</b>	<u>(1,915,800)</u>	<u>(2,272,900)</u>	<u>(2,035,139)</u>	<u>(357,100)</u>	<u>237,761</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	2,436,700	2,436,700	2,436,700	-	-
Operating transfers out	(224,000)	(224,000)	(224,000)	-	-
Transfers from component units	23,400	23,400	23,400	-	-
Total other financing sources	<u>2,236,100</u>	<u>2,236,100</u>	<u>2,236,100</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	320,300	(36,800)	200,961	(357,100)	237,761
<b>Fund balance, beginning of year</b>	<u>5,512,337</u>	<u>5,512,337</u>	<u>5,512,337</u>	<u>-</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 5,832,637</u>	<u>\$ 5,475,537</u>	<u>\$ 5,713,298</u>	<u>\$ (357,100)</u>	<u>\$ 237,761</u>

## City of Petoskey

### BUDGETARY COMPARISON SCHEDULE FOR THE RIGHT-OF-WAY FUND

Year ended December 31, 2022

	<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>
<b>REVENUES</b>					
Property taxes	\$ 1,861,000	\$ 1,861,000	\$ 1,889,447	\$ -	\$ 28,447
Interest	<u>2,100</u>	<u>2,100</u>	<u>4,321</u>	<u>-</u>	<u>2,221</u>
Total revenue	1,863,100	1,863,100	1,893,768	-	30,668
<b>EXPENDITURES</b>					
Other					
Contracted services	<u>2,000</u>	<u>2,000</u>	<u>1,908</u>	<u>-</u>	<u>92</u>
<b>REVENUES OVER EXPENDITURES</b>	1,861,100	1,861,100	1,891,860	-	30,760
<b>OTHER FINANCING USES</b>					
Operating transfers out	<u>(2,100,000)</u>	<u>(2,100,000)</u>	<u>(2,100,000)</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(238,900)	(238,900)	(208,140)	-	30,760
<b>Fund balance, beginning of year</b>	<u>970,361</u>	<u>970,361</u>	<u>970,361</u>	<u>-</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 731,461</u>	<u>\$ 731,461</u>	<u>\$ 762,221</u>	<u>\$ -</u>	<u>\$ 30,760</u>

## City of Petoskey

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

Years ended December 31,

	2022	2021	2020	2019	2018	2017	2016	2015
<b>Total Pension Liability</b>								
Service cost	\$ 443,446	\$ 453,740	\$ 447,361	\$ 465,716	\$ 467,813	\$ 502,133	\$ 507,633	\$ 482,076
Interest	2,367,669	2,266,762	2,107,613	2,168,625	2,087,596	2,174,753	2,017,084	1,933,518
Changes of benefit terms	-	-	(4,337)	-	-	(1,591,126)	(7,593)	-
Difference between expected and actual experience	29,580	(310,575)	307,927	(304,611)	177,290	(691,004)	384,444	-
Changes of assumption	1,211,577	707,643	894,972	-	-	-	1,314,664	-
Benefit payments including employee refunds	(1,850,265)	(1,822,760)	(1,744,858)	(1,707,560)	(1,593,200)	(1,498,913)	(1,365,973)	(1,267,600)
Other	(10,716)	46,746	88,837	78,091	65,182	(17,001)	(126,712)	(40,561)
Net Change in Total Pension Liability	2,191,291	1,341,556	2,097,515	700,261	1,204,681	(1,121,158)	2,723,547	1,107,433
Total Pension Liability Beginning	31,882,823	30,541,267	28,443,752	27,743,851	26,539,170	27,660,328	24,936,781	23,829,348
Total Pension Liability Ending	<u>\$ 34,074,114</u>	<u>\$31,882,823</u>	<u>\$30,541,267</u>	<u>\$ 28,444,112</u>	<u>\$27,743,851</u>	<u>\$26,539,170</u>	<u>\$27,660,328</u>	<u>\$24,936,781</u>
<b>Plan Fiduciary Net Position</b>								
Contributions - employer	\$ 1,804,548	\$ 1,839,298	\$ 1,732,500	\$ 1,653,453	\$ 1,621,597	\$ 1,686,087	\$ 700,936	\$ 691,061
Contributions - employee	126,009	127,371	127,246	120,480	118,342	122,283	120,075	121,724
Net investment income	(3,175,036)	3,837,794	3,073,588	2,877,141	(879,908)	2,566,652	1,971,865	(271,928)
Benefit payments including employee refunds	(1,850,265)	(1,822,760)	(1,744,858)	(1,707,560)	(1,593,200)	(1,498,913)	(1,365,973)	(1,267,600)
Administrative expense	(57,498)	(44,121)	(48,012)	(49,509)	(42,942)	(40,507)	(38,931)	(39,863)
Other changes	(25,085)	(27,363)	(53,198)	(14,879)	96,974	15,329	(40,832)	-
Net Change in Plan Fiduciary Net Position	(3,177,327)	3,910,219	3,087,266	2,879,126	(679,137)	2,850,931	1,347,140	(766,606)
Plan Fiduciary Net Position Beginning	30,919,856	27,009,637	23,922,371	21,043,245	21,722,382	18,871,451	17,524,311	18,290,917
Plan Fiduciary Net Position Ending	<u>\$ 27,742,529</u>	<u>\$30,919,856</u>	<u>\$27,009,637</u>	<u>\$ 23,922,371</u>	<u>\$21,043,245</u>	<u>\$21,722,382</u>	<u>\$18,871,451</u>	<u>\$17,524,311</u>
Employer Net Pension Liability	<u>\$ 6,331,585</u>	<u>\$ 962,967</u>	<u>\$ 3,531,630</u>	<u>\$ 4,521,741</u>	<u>\$ 6,700,606</u>	<u>\$ 4,816,788</u>	<u>\$ 8,788,877</u>	<u>\$ 7,412,470</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	81 %	97 %	88 %	84 %	76 %	82 %	68 %	70 %
Covered Employee Payroll	<u>\$ 3,763,232</u>	<u>\$ 3,958,333</u>	<u>\$ 3,942,872</u>	<u>\$ 3,938,399</u>	<u>\$ 3,920,256</u>	<u>\$ 3,994,976</u>	<u>\$ 3,978,932</u>	<u>\$ 4,078,153</u>
Employer's Net Pension Liability as a Percentage of Covered Employee Payroll	168 %	24 %	90 %	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,

	2022	2021	2020	2019	2018	2017	2016	2015
<b>Total Pension Liability</b>								
Service cost	\$ 6,616	\$ 6,396	\$ 5,846	\$ 5,037	\$ 4,725	\$ 7,336	\$ 7,835	\$ 6,300
Interest	35,324	31,952	27,544	23,451	21,087	31,774	31,133	25,268
Changes of benefit terms	-	-	(57)	-	-	(23,247)	(117)	-
Difference between expected and actual experience	441	(4,378)	4,024	(3,295)	1,791	(10,096)	5,934	-
Changes of assumption	18,076	9,975	11,696	-	-	-	20,291	-
Benefit payments including employee refunds	(27,605)	(25,694)	(22,803)	(18,469)	(16,093)	(21,900)	(21,083)	(16,566)
Other	26,094	32,036	65,240	20,674	(119,016)	(23,046)	57,045	(530)
Net Change in Total Pension Liability	58,946	50,287	91,490	27,398	(107,506)	(39,179)	101,038	14,472
Total Pension Liability Beginning	449,416	399,129	307,639	280,241	387,747	426,926	325,888	311,416
Total Pension Liability Ending	<u>\$ 508,362</u>	<u>\$ 449,416</u>	<u>\$ 399,129</u>	<u>\$ 307,639</u>	<u>\$ 280,241</u>	<u>\$ 387,747</u>	<u>\$ 426,926</u>	<u>\$ 325,888</u>
<b>Plan Fiduciary Net Position</b>								
Contributions - employer	\$ 26,923	\$ 25,927	\$ 22,641	\$ 17,883	\$ 16,380	\$ 24,634	\$ 10,819	\$ 9,031
Contributions - employee	1,880	1,795	1,663	1,303	1,195	1,787	1,853	1,591
Net investment income	(47,369)	54,097	40,167	31,118	(8,888)	37,500	30,435	(3,554)
Benefit payments including employee refunds	(27,605)	(25,694)	(22,803)	(18,469)	(16,093)	(21,900)	(21,083)	(16,566)
Administrative expense	(858)	(622)	(627)	(535)	(434)	(592)	(601)	(520)
Other changes	25,086	27,363	53,198	14,879	(96,974)	(15,330)	40,832	-
Net Change in Plan Fiduciary Net Position	(21,943)	82,866	94,239	46,179	(104,814)	26,099	62,255	(10,018)
Plan Fiduciary Net Position Beginning	435,842	352,976	258,737	212,558	317,372	291,273	229,018	239,036
Plan Fiduciary Net Position Ending	<u>\$ 413,899</u>	<u>\$ 435,842</u>	<u>\$ 352,976</u>	<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>\$ 94,463</u>	<u>\$ 13,574</u>	<u>\$ 46,153</u>	<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	81 %	97 %	88 %	84 %	76 %	82 %	68 %	70 %
Covered Employee Payroll	<u>\$ 332,716</u>	<u>\$ 329,498</u>	<u>\$ 310,529</u>	<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	28 %	4 %	15 %	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:					
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 %
2020	732,500	1,732,500	(1,000,000)	3,942,872	44 %
2021	839,298	1,839,298	(1,000,000)	3,858,333	46 %
2022	804,548	1,804,548	(1,000,000)	3,763,232	48 %
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 %
2020	22,641	22,641	-	310,529	7 %
2021	27,363	27,363	-	329,498	8 %
2022	26,923	26,923	-	332,716	8 %

#### Notes to Schedule

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	13 and 17 years
Asset valuation method	5 year smoothed
Inflation	2.5%
Salary increases	3.00%
Investment rate of return	7.00%
Retirement age	Varies depending on plan adoption
Mortality	PubG-2010 Mortality Table and fully generational MP-2019 Mortality tables

#### Changes in actuarial methods and assumptions:

Investment rate of return was reduced from 7.35% to 7.00% in the year ended December 31, 2021 actuarial valuation.

**COMBINING FINANCIAL STATEMENTS**

## City of Petoskey

### COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

	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
<b>ASSETS</b>									
Current assets									
Cash	\$ 1,088,372	\$ 1,054,599	\$ 1,110,807	\$ 202,693	\$ 3,456,471	\$ 28,229	\$ 122,712	\$ 150,941	\$ 3,607,412
Receivables									
Special assessments	-	-	-	47,217	47,217	-	-	-	47,217
Accounts receivable	1,158	1,228	1,426	-	3,812	120	91	211	4,023
Due from other funds	-	-	-	1,826	1,826	-	-	-	1,826
Due from other governments	141,057	39,739	-	-	180,796	-	-	-	180,796
Inventory, at cost	-	-	216,791	-	216,791	-	-	-	216,791
	<u>-</u>	<u>-</u>	<u>216,791</u>	<u>-</u>	<u>216,791</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>216,791</u>
Total assets	<u>\$ 1,230,587</u>	<u>\$ 1,095,566</u>	<u>\$ 1,329,024</u>	<u>\$ 251,736</u>	<u>\$ 3,906,913</u>	<u>\$ 28,349</u>	<u>\$ 122,803</u>	<u>\$ 151,152</u>	<u>\$ 4,058,065</u>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>LIABILITIES</b>									
Accounts payable	\$ 12,781	\$ 2,167	\$ 15,621	\$ 7,694	\$ 38,263	\$ -	\$ -	\$ -	\$ 38,263
Accrued expenditures	<u>11,124</u>	<u>9,730</u>	<u>7,387</u>	<u>-</u>	<u>28,241</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,241</u>
Total liabilities	<u>23,905</u>	<u>11,897</u>	<u>23,008</u>	<u>7,694</u>	<u>66,504</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,504</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>									
Unavailable revenue	<u>39,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,072</u>
<b>FUND BALANCES</b>									
Non-spendable									
Inventory	-	-	216,791	-	216,791	-	-	-	216,791
Restricted									
Special revenue	-	-	-	244,042	244,042	-	-	-	244,042
Streets and improvements	1,167,610	1,083,669	-	-	2,251,279	-	-	-	2,251,279
Committed	<u>-</u>	<u>-</u>	<u>1,089,225</u>	<u>-</u>	<u>1,089,225</u>	<u>28,349</u>	<u>122,803</u>	<u>151,152</u>	<u>1,240,377</u>
Total fund balances	<u>1,167,610</u>	<u>1,083,669</u>	<u>1,306,016</u>	<u>244,042</u>	<u>3,801,337</u>	<u>28,349</u>	<u>122,803</u>	<u>151,152</u>	<u>3,952,489</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,230,587</u>	<u>\$ 1,095,566</u>	<u>\$ 1,329,024</u>	<u>\$ 251,736</u>	<u>\$ 3,906,913</u>	<u>\$ 28,349</u>	<u>\$ 122,803</u>	<u>\$ 151,152</u>	<u>\$ 4,058,065</u>

## City of Petoskey

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

Year ended December 31, 2022

	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	
<b>REVENUES</b>									
Federal grants	\$ 303,750	\$ -	\$ 48,750	\$ -	\$ 352,500	\$ -	\$ -	\$ -	\$ 352,500
State grants	703,269	245,133	-	-	948,402	-	-	-	948,402
Special assessments	-	-	-	112,458	112,458	-	-	-	112,458
Interest and investment earnings	(30,026)	(31,844)	(36,004)	(4,061)	(101,935)	(2,985)	(2,369)	(5,354)	(107,289)
Other	4	5	-	30,168	30,177	-	-	-	30,177
Total revenues	<u>976,997</u>	<u>213,294</u>	<u>12,746</u>	<u>138,565</u>	<u>1,341,602</u>	<u>(2,985)</u>	<u>(2,369)</u>	<u>(5,354)</u>	<u>1,336,248</u>
<b>EXPENDITURES</b>									
Current									
Public works	496,326	297,182	634,504	108,012	1,536,024	-	-	-	1,536,024
Capital outlay	647,047	981,345	446,405	1,787	2,076,584	-	-	-	2,076,584
Principal	-	-	-	-	-	114,315	205,685	320,000	320,000
Interest	-	-	-	-	-	9,755	57,745	67,500	67,500
Total expenditures	<u>1,143,373</u>	<u>1,278,527</u>	<u>1,080,909</u>	<u>109,799</u>	<u>3,612,608</u>	<u>124,070</u>	<u>263,430</u>	<u>387,500</u>	<u>4,000,108</u>
<b>REVENUES UNDER EXPENDITURES</b>	<u>(166,376)</u>	<u>(1,065,233)</u>	<u>(1,068,163)</u>	<u>28,766</u>	<u>(2,271,006)</u>	<u>(127,055)</u>	<u>(265,799)</u>	<u>(392,854)</u>	<u>(2,663,860)</u>
<b>OTHER FINANCING SOURCES (USES)</b>									
Operating transfers in	-	1,100,000	1,250,000	-	2,350,000	124,000	-	124,000	2,474,000
Operating transfers out	-	-	(463,400)	-	(463,400)	-	-	-	(463,400)
Transfers from component units	-	-	-	-	-	-	265,000	265,000	265,000
Total other financing sources	<u>-</u>	<u>1,100,000</u>	<u>786,600</u>	<u>-</u>	<u>1,886,600</u>	<u>124,000</u>	<u>265,000</u>	<u>389,000</u>	<u>2,275,600</u>
<b>NET CHANGE IN FUND BALANCE</b>	(166,376)	34,767	(281,563)	28,766	(384,406)	(3,055)	(799)	(3,854)	(388,260)
<b>Fund balance, beginning of year</b>	<u>1,333,986</u>	<u>1,048,902</u>	<u>1,587,579</u>	<u>215,276</u>	<u>4,185,743</u>	<u>31,404</u>	<u>123,602</u>	<u>155,006</u>	<u>4,340,749</u>
<b>Fund balance, end of year</b>	<u>\$ 1,167,610</u>	<u>\$ 1,083,669</u>	<u>\$ 1,306,016</u>	<u>\$ 244,042</u>	<u>\$ 3,801,337</u>	<u>\$ 28,349</u>	<u>\$ 122,803</u>	<u>\$ 151,152</u>	<u>\$ 3,952,489</u>

# City of Petoskey

## COMBINING COMPONENT UNIT BALANCE SHEET/STATEMENT OF NET POSITION

December 31, 2022

	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	
<b>ASSETS</b>							
Current assets							
Cash	\$ 28,229	\$ 122,712	\$ -	\$ -	\$ -	\$ -	\$ 150,941
Accounts receivable	120	91	-	-	-	-	211
Interest receivable	-	-	-	20,126	-	-	20,126
Lease contract receivable, current	-	-	-	580,000	-	-	580,000
Total current assets	28,349	122,803	-	600,126	-	-	751,278
Non-current assets							
Deferred charges - bond premium and discounts	-	-	-	-	(90,159)	-	(90,159)
Lease contract receivable	-	-	-	2,645,000	-	-	2,645,000
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Deferred loss on debt refunding	-	-	-	-	12,013	-	12,013
Total assets and deferred outflows of resources	<u>\$ 28,349</u>	<u>\$ 122,803</u>	<u>\$ -</u>	<u>\$ 3,245,126</u>	<u>\$ (78,146)</u>	<u>\$ -</u>	<u>\$ 3,318,132</u>
<b>LIABILITIES AND FUND BALANCES/NET POSITION</b>							
<b>LIABILITIES</b>							
Current liabilities							
Accrued interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,126	\$ 20,126
Bonds payable, current	-	-	-	-	580,000	-	580,000
Total current liabilities	-	-	-	-	580,000	20,126	600,126
Non-current liabilities							
Bonds payable, net	-	-	-	-	2,645,000	-	2,645,000
Total liabilities	-	-	-	-	3,225,000	20,126	3,245,126
<b>FUND BALANCE/NET POSITION</b>							
Committed	28,349	122,803	-	3,245,126	(3,303,146)	(20,126)	73,006
Total liabilities and fund balances	<u>\$ 28,349</u>	<u>\$ 122,803</u>	<u>\$ -</u>	<u>\$ 3,245,126</u>	<u>\$ (78,146)</u>	<u>\$ -</u>	<u>\$ 3,318,132</u>

## City of Petoskey

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

Year ended December 31, 2022

	Debt Service Funds			Reconciliation of Fund Statements of Revenues and Expenditures to the Statement of Activities			
	Marina Bonds	Bear River Valley Bonds	Library Improvement Bonds	Governmental Financing Lease	Debt Service	Interest Expense	Statement of Activities
Program revenues							
Lease income	\$ 124,000	\$ 265,000	\$ 242,672	\$ (544,083)	\$ -	\$ -	\$ 87,589
Expenditures/expenses							
Debt service	114,315	205,685	220,000	-	(540,000)	-	-
Interest and fees	9,755	57,745	22,672	-	(14,960)	(4,083)	71,129
Total expenditures/expenses	<u>124,070</u>	<u>263,430</u>	<u>242,672</u>	<u>-</u>	<u>(554,960)</u>	<u>(4,083)</u>	<u>71,129</u>
Net revenue	(70)	1,570	-	(544,083)	554,960	4,083	16,460
General revenues							
Interest and investment earnings	<u>(2,985)</u>	<u>(2,369)</u>	-	-	-	-	<u>(5,354)</u>
Revenues over (under) expenditures/ change in net position	(3,055)	(799)	-	(544,083)	554,960	4,083	11,106
<b>Fund balance/net position, beginning of year</b>	<u>31,404</u>	<u>123,602</u>	-	<u>3,789,209</u>	<u>(3,858,106)</u>	<u>(24,209)</u>	<u>61,900</u>
<b>Fund balance/net position, end of year</b>	<u><u>\$ 28,349</u></u>	<u><u>\$ 122,803</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,245,126</u></u>	<u><u>\$ (3,303,146)</u></u>	<u><u>\$ (20,126)</u></u>	<u><u>\$ 73,006</u></u>