

City of Petoskey

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2013

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CITY OF PETOSKEY BUILDING AUTHORITY

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Management Discussion and Analysis

December 31, 2013

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 \$1,244,000 or 1.6% in 2013 with the increase made up of the following:

- Governmental net position decreased by \$144,000.
- Business-type net position increased by \$1,269,000.
- Component units net position increased by \$119,000.

Total revenues and transfers for the year are \$26.2 million and are made up of the following:

- Governmental activities \$9.9 million.
- Business-type activities \$14.7 million.
- Component units activities \$1.6 million.

Total expenses for the year are \$24.9 million and are made up of the following:

- Governmental activities \$10.0 million.
- Business-type activities \$13.4 million.
- Component units activities \$1.5 million.

The General Fund on a current financial resources basis experienced a decrease of \$518,662 in fund balance resulting in a total fund balance at year-end of \$3,114,396.

Project Highlights

The City completed the upgrading of certain electrical distribution lines to underground and conversion to the higher 7200 voltage system, allowing the Bear River Valley substation to be taken off line and be decommissioned. This completes a long term project that has taken several years and now provides redundancy to the downtown area and is able to better meet their current and future power needs.

In 2014 the Michigan Department of Transportation is scheduled to reconstruct US-31 from the intersection of US-31 and 131 to Lake Street, which includes work on the Mitchell Street Bridge. In preparation for this work the City concentrated on work along the corridor that needed to be performed prior to the State's project. Work included; reconfiguring various intersections, installing bases for new traffic signals, along with electric, water and sewer utility system upgrades.

Electric utility service along Arlington Avenue was upgraded with a new underground system in advance of street and sidewalk work to be performed in 2014.

Financial Statement Presentation

Overview of Statements

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

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

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

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

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

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

Fund Type Statements

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

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

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

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

Financial Statement Presentation - continued

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

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

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

Financial Analysis

Summary of Net Position December 31, 2013 and 2012

	Governmental	Activities	Business-type	Activities	Total Primary	Government
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 6,947,939	\$ 7,570,220	\$15,930,500	\$15,020,422	\$22,878,439	\$22,590,642
Capital assets	23,894,053	23,609,565	41,240,224	41,725,701	65,134,277	65,335,266
Total assets	30,841,992	\$31,179,785	57,170,724	\$56,746,123	88,012,716	\$87,925,908
Deferred outflows of resources	-	-	360,342	419,102	360,342	419,102
Total assets and deferred outflows of resources	\$30,841,992	\$31,179,785	\$57,531,066	\$57,165,225	\$88,373,058	\$88,345,010
Current liabilities	\$ 419,968	\$ 492,494	\$ 1,580,011	\$ 1,661,393	\$ 1,999,979	\$ 2,153,887
Noncurrent liabilities	1,168,902	1,290,158	9,736,280	10,558,049	10,905,182	11,848,207
Total liabilities	\$ 1,588,870	\$ 1,782,652	\$11,316,291	\$12,219,442	\$12,905,161	\$14,002,094
Net position						
Invested in capital assets, net of related debt	\$22,900,744	\$22,522,205	\$30,534,844	\$30,107,742	\$53,435,588	\$52,629,947
Restricted	2,328,314	1,851,865	3,539,424	3,530,025	5,867,738	5,381,890
Unrestricted	4,024,064	5,023,063	12,140,507	11,308,016	16,164,571	16,331,079
Total net position	\$29,253,122	\$29,397,133	\$46,214,775	\$44,945,783	\$75,467,897	\$74,342,916

Financial Analysis - continued

Total net position of the City is \$75,467,897 which includes \$53,435,588 in capital assets net of debt. Capital assets are largely made up of electric, water, sewer and street systems assets.

The City used fund balance reserves during 2013 in the following governmental funds and amounts to cover anticipated expenditures that were included in the City's 2013 budget:

General Fund	\$518,662
General Street	171,661

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.

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

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

Financial Analysis - continued

Changes in Net Position December 31, 2013 and 2012

	Governmental	Activities	Business-type	Activities	Total Primary	Government
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	\$ 1,614,657	\$1,634,208	\$ 16,457,579	\$15,981,367	\$18,072,236	\$17,615,575
Operating grants and contributions	913,361	1,643,231	122,216	157,357	1,035,577	1,800,588
Capital grants and contributions	4,500	10,000	155,243	46,782	159,743	56,782
	2,532,518	3,287,439	16,735,038	16,185,506	19,267,556	19,472,945
General revenues:						
Property taxes	4,702,740	4,541,803	-	-	4,702,740	4,541,803
State shared revenue	508,436	474,962	-	-	508,436	474,962
Investment earnings	87,751	98,945	160,362	164,455	248,113	263,400
Unrealized loss on investments	-	-	(445,765)	-	(445,765)	-
Gain on sale of capital asset	-	711,348	-	-	-	711,348
	5,298,927	5,827,058	(285,403)	164,455	5,013,524	5,991,513
Total revenues	7,831,445	9,114,497	16,449,635	16,349,961	24,281,080	25,464,458
Expenses						
Program expenses:						
Legislative	7,894	8,530	-	-	7,894	8,530
General government	1,583,155	1,663,842	-	-	1,583,155	1,663,842
Public safety	2,611,120	2,951,661	-	-	2,611,120	2,951,661
Public works	3,502,109	3,350,313	-	-	3,502,109	3,350,313
Health and social services	37,289	18,187	-	-	37,289	18,187
Recreation and cultural	1,793,998	1,620,938	-	-	1,793,998	1,620,938
Other	1,691	1,523	-	-	1,691	1,523
Interest on long-term debt	163,439	175,393	-	-	163,439	175,393
Unallocated depreciation	310,261	310,855	-	-	310,261	310,855
Water and Sewer Electric	-	-	3,597,659	4,025,885	3,597,659	4,025,885
	-	-	9,817,284	9,765,451	9,817,284	9,765,451
Total expenses	10,010,956	10,101,242	13,414,943	13,791,336	23,425,899	23,892,578
Changes in net position before transfers	(2,179,511)	(986,745)	3,034,692	2,558,625	855,181	1,571,880
Transfers	2,035,500	2,006,300	(1,765,700)	(1,736,500)	269,800	269,800
Changes in net position	(144,011)	1,019,555	1,268,992	822,125	1,124,981	1,841,680
Net position-beginning of year	29,397,133	28,377,578	44,945,783	44,123,658	74,342,916	72,501,236
Net position-end of year	\$29,253,122	\$29,397,133	\$46,214,775	\$44,945,783	\$75,467,897	\$74,342,916

Financial Analysis - continued

Total revenues of \$7,831,445 for governmental activities during 2013 were \$1,283,052 less than the \$9,114,497 during 2012. The charges for services in Governmental Activities totaled \$1,614,657 for 2013, a decrease of \$19,551 from 2012's \$1,634,208. The remaining decrease is due to an approximate \$1,441,000 decrease in grants and contributions, along with the proceeds of the sale of Turcott Field.

Charges for services in Business-type Activities totaled \$16,457,579 in 2013, an increase of \$476,212 from \$15,981,367 in 2012. Both the Water and Sewer Fund and Electric Fund charges increased during the year by \$183,318 and \$292,894, respectively. Electric customer monthly billing charges increased by \$292,894 primarily due to an increase of approximately 6% in electric charges largely because of an increase in wholesale power costs and a 1.5% overall increase in electric rates during 2013.

Water and sewer billing rates increased by approximately 3.5% and sewer rates by approximately 9% over the prior year and construction revenue decreased approximately \$2.7 million from the previous year's sale of water wells in Bay Harbor to CMS Land Company and continued construction of replacement wells during 2011. Water usage realized a net decrease of approximately 10,000 cubic feet in 2013 compared to 2012, while sewer usage realized a net decrease of approximately 38,000 cubic feet presumably due to the cooler and wetter summer.

Revenues from all sources total \$24,281,080, of which \$7,831,445 is from governmental activities and \$16,449,635 from business-type activities. Total revenues from governmental activities include \$4,702,740 in property taxes accounting for 60% of the funds and \$1,614,657 or 21% from charges for services. Total revenue for business-type activity receives the vast majority of revenues through charges for services totaling \$16,457,579 during 2013.

Expenses under the full accrual basis of accounting for governmental activities totaled \$10,010,956 which includes depreciation on such items as buildings and infrastructure amounting to \$1,541,878. Total expense does not include capital asset items such as street and sidewalk improvements. Public safety accounts for \$2,611,120 or 26% of expenses while public works totals \$3,502,109 or 35%. Expenses for general government were \$1,583,155 or 16% of expenses, and recreation and cultural were \$1,793,998, or 18% of expenses.

Expenses for business-type activities total \$13,414,943 which consists of \$9,817,284 or 73% from the electric system and \$3,597,659 or 27% from the water and sewer systems. Within the electric system \$7,515,588 or 77% of the expense is for purchased power. Total water and sewer system costs of \$3,597,659 are broken down between the two at \$1,596,872 or 44% water and \$2,000,787 or 56% sewer.

General Fund Budgetary Highlights

Total General Fund revenues of \$7,465,327 were less than total budgeted revenues as amended of \$7,519,600 by \$54,273 or 1%. Actual revenues decreased from 2013 by approximately \$349,000. Tax revenue, federal grants and other fell under budget by \$3,749, \$500 and \$105,403, respectively.

Total General Fund expenditures of \$7,983,989 were \$84,411 lower than total budgeted expenditures of \$8,068,400 or 1%. Total expenditures for 2013 were more than the 2012 total of \$6,931,118 by \$1,052,871 or 15%. The difference is due primarily to a 2013 increase in recreation and culture of \$1,263,325 related to the relocation of the Turcott Baseball field.

Capital Assets and Debt Administration

Capital Assets

As of year-end the City of Petoskey had \$65,134,277 invested in capital assets as reflected in the following schedule:

Capital Assets
December 31, 2013 and 2012
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Land and land rights	\$ 4,042,213	\$ 4,042,213	\$ -	\$ -	\$ 4,042,213	\$4,042,213
Land improvements	2,663,875	2,093,419	-	-	2,663,875	2,093,419
Buildings	3,118,758	3,041,412	-	-	3,118,758	3,041,412
Equipment	1,937,101	1,917,459	-	-	1,937,101	1,917,459
Streets and sidewalks	12,132,106	12,515,062	-	-	12,132,106	12,515,062
Electric system	-	-	15,821,325	15,685,895	15,821,325	15,685,895
Water system	-	-	11,845,411	12,070,001	11,845,411	12,070,001
Sewer system	-	-	13,573,488	13,969,805	13,573,488	13,969,805
	\$23,894,053	\$23,609,565	\$41,240,224	\$41,725,701	\$65,134,277	\$65,335,266

Major capital asset additions for 2013 include:

Governmental Activities

Sidewalks	\$ 164,592
Street reconstruction projects	349,186
Motor pool replacement	381,813
Land improvements	685,157
Buildings	250,000

Business-Type Activities

Water system improvements	\$ 290,917
Sewer system improvements	179,532
Electric system improvement	1,173,075

Bond Debt

The City had \$10,950,000 of face value in outstanding bond debt at year-end which is distributed in the following debt schedule:

Debt Schedule

December 31, 2013 and 2012

Governmental Activities	2013	2012
General Obligation Bonds:		
Municipal facilities - marina	\$ 925,000	\$ 950,000
Parking improvements	75,000	145,000
	<u>1,000,000</u>	<u>1,095,000</u>
Business-Type Activities		
Revenue Bonds:		
Sewer system improvements	5,710,000	6,015,000
Water system improvements	1,715,000	2,130,000
Sewer system improvements	2,525,000	2,620,000
	<u>9,950,000</u>	<u>10,765,000</u>
Total bond debt	<u>\$10,950,000</u>	<u>\$11,860,000</u>

Principal payments on bonds in the amount of \$95,000 for governmental activities and \$815,000 for business-type activities were made in 2013.

Economic Factors

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

Due to a general decline in the real estate market, including a large volume of foreclosures within the City, the City's total taxable value decreased by 10% in 2010, 6.4% in 2011, and 3.4% in 2012. After three straight years of declining property tax values, the taxable value for 2013 increased by just less than 1% and 1.8% in 2014. This upturn in property values in the City as well as the State is seen as a positive first step in returning to a period of slow growth that will return property tax values to previous levels, although it will take a number of years. Due to restrictions in State valuation laws, the City's taxable value can only increase at 5% or the rate of inflation, whichever is less.

Revenues received from the State, which include revenue sharing and transportation funds, are affected as well by current economic conditions along with allocation to local units established by the legislature. Revenue sharing amounts are dependent on the collection of sales tax, which tend to go down when the economy is slow with the reverse being true when the economy is good. Transportation funds are derived through gas taxes and while they are affected by the economy they are more affected by the price of oil and resulting gas prices that do not always follow certain economic conditions. The improvement in the State's economy also affected state revenue sharing as it increased by \$11,642 or 2.5% in 2013, while gas tax revenue in the Major and Local Street Funds increased for the second year in a row in the amount of \$59,266 or 15% from the previous year.

Utility charges for electric, water and sewer service tend to fluctuate based on weather conditions more so than any other factor, although the City has seen a reduction in usage that is believed to be the result of foreclosed properties. During hot summer months electrical usage will be up while dry spells will increase water usage. Utility rates had not been increased in several years but were reviewed due to rising costs and concerns over water quality issues. Based on the results of utility rate studies, electric rates are increasing annually by approximately 1.5% in each customer class for the years 2010 through 2014, and water and sewer rates are increasing annually for the years 2011 through 2014.

Annual usage for all three utilities increased during the hot summer of 2012, but decreased in 2013, partially due to the cooler and closer to normal summer. The increased costs of wholesale electric power purchases continues to increase, which is passed on to the customer in the way of a power cost adjustment on the monthly utility bill. The increased power costs are due in large part, to additional federal regulations placed on emissions from coal fired plants.

Contacting the City's Financial Management

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



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Members of City Council and City Manager
City of Petoskey

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund and the aggregate remaining fund information of the *City of Petoskey* (the "City") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of City of Petoskey as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *ix*, and the required supplementary information on pages 45 - 50, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Combining Financial Statements

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

Dennis, Gartland & Niergarth

City of Petoskey

STATEMENT OF NET POSITION

December 31, 2013

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	TIFA	Library	Downtown Management Parking
ASSETS						
Current assets						
Cash and equivalents	\$ 5,589,275	\$ 4,851,948	\$ 10,441,223	\$ 792,099	\$ 561,750	\$ 532,697
Investments	-	3,345,319	3,345,319	188,832	-	-
Receivables						
Taxes	-	-	-	43,174	-	-
Special assessments	27,314	-	27,314	-	-	-
Accounts	-	2,320,101	2,320,101	25	-	-
Due from fiduciary funds	427,359	-	427,359	-	58,068	-
Due from other governmental units	231,066	-	231,066	-	-	-
Inventory	<u>142,071</u>	<u>1,188,546</u>	<u>1,330,617</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>6,417,085</u>	<u>11,705,914</u>	<u>18,122,999</u>	<u>1,024,130</u>	<u>619,818</u>	<u>532,697</u>
Non-current assets						
Restricted cash and investments						
Customer deposits	-	225,163	225,163	-	-	-
Sewage service covenants	-	770,923	770,923	-	-	-
Revenue bond covenants	-	2,146,443	2,146,443	-	-	-
MPPA energy restrictions	-	622,058	622,058	-	-	-
Prepaid pension	530,854	-	530,854	-	-	-
MPPA working capital advance	-	459,999	459,999	-	-	-
Capital assets	44,091,813	70,030,121	114,121,934	3,715,591	7,408,384	-
Less accumulated depreciation	<u>(20,197,760)</u>	<u>(28,789,897)</u>	<u>(48,987,657)</u>	<u>(709,623)</u>	<u>(2,756,707)</u>	<u>-</u>
Total non-current assets	<u>24,424,907</u>	<u>45,464,810</u>	<u>69,889,717</u>	<u>3,005,968</u>	<u>4,651,677</u>	<u>-</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred loss on debt refunding	<u>-</u>	<u>360,342</u>	<u>360,342</u>	<u>-</u>	<u>79,863</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 30,841,992</u>	<u>\$ 57,531,066</u>	<u>\$ 88,373,058</u>	<u>\$ 4,030,098</u>	<u>\$ 5,351,358</u>	<u>\$ 532,697</u>

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

City of Petoskey

STATEMENT OF NET POSITION - Continued

December 31, 2013

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	TIFA	Library	Downtown Management Parking
LIABILITIES AND NET POSITION						
LIABILITIES						
Current liabilities						
Accounts payable	\$ 102,619	\$ 546,946	\$ 649,565	\$ -	\$ 8,940	\$ 14,770
Accrued expenses	207,164	52,029	259,193	-	43,328	-
Accrued interest	10,185	-	10,185	29,437	-	-
Payable from restricted assets						
Current portion of revenue						
bonds	-	805,000	805,000	-	-	-
Accrued interest	-	176,036	176,036	-	-	-
Bonds payable, due within one						
year	<u>100,000</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>	<u>165,000</u>	<u>-</u>
Total current liabilities	<u>419,968</u>	<u>1,580,011</u>	<u>1,999,979</u>	<u>129,437</u>	<u>217,268</u>	<u>14,770</u>
Noncurrent liabilities						
Payable from restricted assets						
Customer deposits	-	196,242	196,242	-	-	-
Long-term accrued expenses	190,593	-	190,593	-	-	-
Estimated liability for landfill						
post-closure care costs	85,000	-	85,000	-	-	-
Bonds payable, net	<u>893,309</u>	<u>9,540,038</u>	<u>10,433,347</u>	<u>2,628,605</u>	<u>3,221,202</u>	<u>-</u>
Total noncurrent						
liabilities	<u>1,168,902</u>	<u>9,736,280</u>	<u>10,905,182</u>	<u>2,628,605</u>	<u>3,221,202</u>	<u>-</u>
Total liabilities	<u>1,588,870</u>	<u>11,316,291</u>	<u>12,905,161</u>	<u>2,758,042</u>	<u>3,438,470</u>	<u>14,770</u>
NET POSITION						
Invested in capital assets, net of debt	22,900,744	30,534,844	53,435,588	277,363	1,345,338	-
Restricted						
Refuse collection	130,403	-	130,403	-	-	-
Marina	624,818	-	624,818	-	-	-
Public safety	35,000	-	35,000	-	-	-
Streets and improvements	1,372,851	-	1,372,851	-	-	-
Downtown programs and						
services	165,242	-	165,242	-	-	-
Debt service	-	-	-	-	148,000	-
Sewage service covenants	-	770,923	770,923	-	-	-
Revenue bond indentures	-	2,146,443	2,146,443	-	-	-
MPPA energy expenses	-	622,058	622,058	-	-	-
TIFA expenses	-	-	-	994,693	-	-
Unrestricted	<u>4,024,064</u>	<u>12,140,507</u>	<u>16,164,571</u>	<u>-</u>	<u>419,550</u>	<u>517,927</u>
Total net position	<u>29,253,122</u>	<u>46,214,775</u>	<u>75,467,897</u>	<u>1,272,056</u>	<u>1,912,888</u>	<u>517,927</u>
Total liabilities and net						
position	<u>\$ 30,841,992</u>	<u>\$ 57,531,066</u>	<u>\$ 88,373,058</u>	<u>\$ 4,030,098</u>	<u>\$ 5,351,358</u>	<u>\$ 532,697</u>

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

City of Petoskey

STATEMENT OF ACTIVITIES

Year ended December 31, 2013

Functions/Program	Program Revenues				Net (Expense) Revenue and Changes in Net Position					
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units		
					Governmental Activities	Business-type Activities	Total	TIFA	Library	Downtown Management Parking
Primary Government										
Governmental activities										
Legislative	\$ 7,894	\$ -	\$ -	\$ -	\$ (7,894)	\$ -	\$ (7,894)	\$ -	\$ -	\$ -
General government	1,583,155	149,710	142,264	-	(1,291,181)	-	(1,291,181)	-	-	-
Public safety	2,611,120	47,899	13,564	4,500	(2,545,157)	-	(2,545,157)	-	-	-
Public works	3,502,109	257,418	659,862	-	(2,584,829)	-	(2,584,829)	-	-	-
Health and social services	37,289	-	-	-	(37,289)	-	(37,289)	-	-	-
Recreation and cultural	1,793,998	1,159,630	97,671	-	(536,697)	-	(536,697)	-	-	-
Other	1,691	-	-	-	(1,691)	-	(1,691)	-	-	-
Interest on long-term debt	163,439	-	-	-	(163,439)	-	(163,439)	-	-	-
Unallocated depreciation	310,261	-	-	-	(310,261)	-	(310,261)	-	-	-
Total governmental activities	<u>10,010,956</u>	<u>1,614,657</u>	<u>913,361</u>	<u>4,500</u>	<u>(7,478,438)</u>	<u>-</u>	<u>(7,478,438)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-type activities										
Water and sewer	3,597,659	5,007,350	122,216	142,049	-	1,673,956	1,673,956	-	-	-
Electric	9,817,284	11,450,229	-	13,194	-	1,646,139	1,646,139	-	-	-
Total business-type activities	<u>13,414,943</u>	<u>16,457,579</u>	<u>122,216</u>	<u>155,243</u>	<u>-</u>	<u>3,320,095</u>	<u>3,320,095</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 23,425,899</u>	<u>\$ 18,072,236</u>	<u>\$ 1,035,577</u>	<u>\$ 159,743</u>	<u>(7,478,438)</u>	<u>3,320,095</u>	<u>(4,158,343)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Component Units										
TIFA	\$ 144,135	\$ -	\$ -	\$ -	-	-	-	(144,135)	-	-
Library	1,040,304	126,522	287,198	-	-	-	-	-	(626,584)	-
Downtown Management Parking	285,436	447,682	-	-	-	-	-	-	-	162,246
Total component units	<u>\$ 1,469,875</u>	<u>\$ 574,204</u>	<u>\$ 287,198</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(144,135)</u>	<u>(626,584)</u>	<u>162,246</u>
General revenues										
Property taxes					4,702,740	-	4,702,740	271,847	723,453	-
State shared revenue					508,436	-	508,436	-	-	-
Unrestricted interest and investment earnings					87,751	160,362	248,113	4,979	5,911	3,255
Unrealized loss on investments					-	(445,765)	(445,765)	(11,714)	-	-
Transfers					2,035,500	(1,765,700)	269,800	(172,000)	-	(97,800)
Total general revenues and transfers					<u>7,334,427</u>	<u>(2,051,103)</u>	<u>5,283,324</u>	<u>93,112</u>	<u>729,364</u>	<u>(94,545)</u>
Change in net position					(144,011)	1,268,992	1,124,981	(51,023)	102,780	67,701
Net position, beginning of year					<u>29,397,133</u>	<u>44,945,783</u>	<u>74,342,916</u>	<u>1,323,079</u>	<u>1,810,108</u>	<u>450,226</u>
Net position, end of year					<u>\$ 29,253,122</u>	<u>\$ 46,214,775</u>	<u>\$ 75,467,897</u>	<u>\$ 1,272,056</u>	<u>\$ 1,912,888</u>	<u>\$ 517,927</u>

City of Petoskey

BALANCE SHEET - GOVERNMENTAL FUNDS

December 31, 2013

	General Fund	Major Street Fund	Local Street Fund	Right-of-Way Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and equivalents	\$ 2,938,593	\$ 293,089	\$ 502,407	\$ 379,600	\$ 729,262	\$ 4,842,951
Receivables						
Special assessments	-	-	-	-	27,314	27,314
Due from other funds	290,302	-	-	126,652	10,405	427,359
Due from governmental units	123,349	91,000	16,717	-	-	231,066
Inventory	-	-	-	-	116,025	116,025
Total assets	\$ 3,352,244	\$ 384,089	\$ 519,124	\$ 506,252	\$ 883,006	\$ 5,644,715
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 58,224	\$ 13,319	\$ 2,720	\$ -	\$ 7,410	\$ 81,673
Accrued expenditures	179,624	11,615	8,960	-	6,665	206,864
Total liabilities	237,848	24,934	11,680	-	14,075	288,537
FUND BALANCES						
Non-spendable						
Inventory	-	-	-	-	116,025	116,025
Restricted	790,221	359,155	507,444	506,252	165,242	2,328,314
Committed	-	-	-	-	587,664	587,664
Unassigned	2,324,175	-	-	-	-	2,324,175
Total fund balances	3,114,396	359,155	507,444	506,252	868,931	5,356,178
Total liabilities and fund balances	\$ 3,352,244	\$ 384,089	\$ 519,124	\$ 506,252	\$ 883,006	\$ 5,644,715

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, 2013

Total Fund Balance - Governmental Funds \$ 5,356,178

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

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

Governmental capital assets	38,473,847
Accumulated depreciation	(16,435,853)

Governmental funds report interest when due, whereas in the statement of net position, interest is accrued on outstanding bonds. (10,185)

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. (24,150)

Governmental funds report all pension contributions as an expenditure, whereas, in the statement of net position, a prepaid has been reported for the cumulative amount by which contributions exceed the Annual Pension Cost. 530,854

The difference between the Net Other Post Employment Benefit Obligation and the amount the City paid has been accrued as a liability in the government-wide statements. (166,443)

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

Governmental bonds payable, net	(993,309)
Landfill post-closure costs	(85,000)

Internal service funds are used to charge costs of certain activities, such as insurance and motor vehicle usage, to various departments within the City. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. 2,607,183

Net Position of Governmental Activities \$ 29,253,122

City of Petoskey

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

Year ended December 31, 2013

	General Fund	Major Street Fund	Local Street Fund	Right-of-Way Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 3,193,051	\$ -	\$ -	\$ 1,509,689	\$ -	\$ 4,702,740
Special assessments	-	-	-	-	89,518	89,518
Licenses and permits	15,265	-	-	-	-	15,265
Federal grants	4,500	-	-	-	-	4,500
State grants	664,264	522,505	137,357	-	-	1,324,126
Contributions from local units	97,671	-	-	-	-	97,671
Charges for services	1,159,630	-	-	-	-	1,159,630
Fines and forfeits	34,447	-	-	-	-	34,447
Interest and investment earnings	65,102	2,966	2,379	6,727	7,384	84,558
Other	147,897	-	-	-	46,941	194,838
	<u>5,381,827</u>	<u>525,471</u>	<u>139,736</u>	<u>1,516,416</u>	<u>143,843</u>	<u>7,707,293</u>
Total revenues						
EXPENDITURES						
Current						
Legislative	7,894	-	-	-	-	7,894
General government	1,523,311	-	-	-	-	1,523,311
Public safety	2,812,762	-	-	-	-	2,812,762
Public works	596,935	590,950	301,810	-	722,624	2,212,319
Health and welfare	37,289	-	-	-	-	37,289
Recreational and cultural	1,844,457	-	-	-	-	1,844,457
Other	-	-	-	1,691	-	1,691
Capital outlay	996,341	-	349,186	-	193,290	1,538,817
Debt service						
Principal	-	-	-	-	145,000	145,000
Interest and fiscal charges	-	-	-	-	163,552	163,552
	<u>7,818,989</u>	<u>590,950</u>	<u>650,996</u>	<u>1,691</u>	<u>1,224,466</u>	<u>10,287,092</u>
Total expenditures						
REVENUES OVER (UNDER) EXPENDITURES	<u>(2,437,162)</u>	<u>(65,479)</u>	<u>(511,260)</u>	<u>1,514,725</u>	<u>(1,080,623)</u>	<u>(2,579,799)</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in	2,065,700	100,000	700,000	-	1,015,000	3,880,700
Operating transfer out	(165,000)	-	-	(1,500,000)	(340,000)	(2,005,000)
Transfers from component units	17,800	-	-	-	252,000	269,800
	<u>1,918,500</u>	<u>100,000</u>	<u>700,000</u>	<u>(1,500,000)</u>	<u>927,000</u>	<u>2,145,500</u>
Total other financing sources (uses)						
NET CHANGE IN FUND BALANCES	(518,662)	34,521	188,740	14,725	(153,623)	(434,299)
Fund balance, beginning of year	<u>3,633,058</u>	<u>324,634</u>	<u>318,704</u>	<u>491,527</u>	<u>1,022,554</u>	<u>5,790,477</u>
Fund balance, end of year	<u>\$ 3,114,396</u>	<u>\$ 359,155</u>	<u>\$ 507,444</u>	<u>\$ 506,252</u>	<u>\$ 868,931</u>	<u>\$ 5,356,178</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, 2013

Net Change in Fund Balances - Total Governmental Funds \$ (434,299)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their useful lives as depreciation.

Expenditures for capital assets	1,444,553
Current year depreciation	(1,227,076)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of principal paid on long-term debt.

95,000

Bond discounts are reported as expenditures or other financing sources/uses in the governmental funds, but are reported as asset accounts in the statement of net position and are amortized.

Bond discount amortization	(949)
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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.

1,062

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 more than the amounts earned by \$8,415.

8,415

Governmental funds report pension expenditures when paid or payable, whereas the statement of activities reports the Annual Pension Cost

(15,292)

Governmental funds report other post-employment benefit expenditures when paid or payable, whereas the statement of activities reports the annual actuarial cost.

13,790

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.

(29,215)

Change in Net Position of Governmental Activities

\$ (144,011)

City of Petoskey

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

December 31, 2013

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Electric System	Water and Sewer System	Totals	
ASSETS				
Current assets				
Cash and equivalents	\$ 2,800,714	\$ 2,051,234	\$ 4,851,948	\$ 746,324
Investments	1,548,064	1,797,255	3,345,319	-
Accounts receivables	1,635,787	684,314	2,320,101	-
Due from other funds	-	28,922	28,922	-
Inventory	1,007,507	181,039	1,188,546	26,046
Total current assets	6,992,072	4,742,764	11,734,836	772,370
Noncurrent assets				
Restricted cash and investments				
Customer deposits	208,863	16,300	225,163	-
Sewage service covenants	-	770,923	770,923	-
Revenue bond covenants	-	2,146,443	2,146,443	-
MPPA energy charges	622,058	-	622,058	-
MPPA working capital advance	459,999	-	459,999	-
Capital assets	29,973,556	40,056,565	70,030,121	5,617,966
Less accumulated depreciation	(14,152,231)	(14,637,666)	(28,789,897)	(3,761,907)
Total noncurrent assets	17,112,245	28,352,565	45,464,810	1,856,059
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on debt refunding	-	360,342	360,342	-
Total assets and deferred outflows of resources	\$ 24,104,317	\$ 33,455,671	\$ 57,559,988	\$ 2,628,429

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

City of Petoskey

STATEMENT OF NET POSITION - PROPRIETARY FUNDS - Continued

December 31, 2013

	Business-Type Activities - Enterprise Funds			Governmental
	Electric System	Water and Sewer System	Totals	Activities - Internal Service Funds
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES				
Accounts payable	\$ 415,692	\$ 131,254	\$ 546,946	\$ 20,946
Accrued expenses	15,288	36,741	52,029	300
Due to other funds	28,922	-	28,922	-
Total current liabilities	459,902	167,995	627,897	21,246
CURRENT LIABILITIES (payable from restricted assets)				
Current portion of revenue bonds	-	805,000	805,000	-
Accrued interest	-	176,036	176,036	-
Total current liabilities (payable from restricted assets)	-	981,036	981,036	-
NONCURRENT LIABILITIES				
Payable from restricted assets				
Customer deposits	179,942	16,300	196,242	-
Revenue bonds (net current portion and unamortized premiums)	-	9,540,038	9,540,038	-
Total noncurrent liabilities	179,942	9,556,338	9,736,280	-
Total liabilities	639,844	10,705,369	11,345,213	21,246
NET POSITION				
Invested in capital assets, net of debt	15,821,325	14,713,519	30,534,844	1,856,059
Restricted for sewage service covenants	-	770,923	770,923	-
Restricted for revenue bond indentures	-	2,146,443	2,146,443	-
Restricted for MPPA energy expenses	622,058	-	622,058	-
Unrestricted	7,021,090	5,119,417	12,140,507	751,124
Total net position	23,464,473	22,750,302	46,214,775	2,607,183
Total liabilities and net position	\$ 24,104,317	\$ 33,455,671	\$ 57,559,988	\$ 2,628,429

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, 2013

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Electric System</u>	<u>Water and Sewer System</u>	<u>Totals</u>	
Operating revenue				
Charges for services	\$ 11,109,624	\$ 5,007,350	\$ 16,116,974	\$ 929,794
Operating expenses				
Purchased power	7,515,588	-	7,515,588	-
Personnel services	478,250	644,552	1,122,802	18,625
Contractual services	416,802	556,936	973,738	320,245
Supplies	5,967	9,420	15,387	205,893
Materials	135,216	328,234	463,450	-
Heat, light and power	1,065	450,174	451,239	-
Depreciation	1,006,687	1,091,354	2,098,041	314,802
Rent	21,000	45,200	66,200	-
Total operating expenses	<u>9,580,575</u>	<u>3,125,870</u>	<u>12,706,445</u>	<u>859,565</u>
OPERATING INCOME	<u>1,529,049</u>	<u>1,881,480</u>	<u>3,410,529</u>	<u>70,229</u>
Nonoperating revenues				
Unrestricted interest and investment earnings	48,386	111,976	160,362	3,193
Unrealized loss from investments	(143,513)	(302,252)	(445,765)	-
Rent	139,700	-	139,700	-
Sewage service covenant	-	122,216	122,216	-
Construction	7,705	14,073	21,778	-
Miscellaneous	193,200	-	193,200	7,363
Total nonoperating revenues	<u>245,478</u>	<u>(53,987)</u>	<u>191,491</u>	<u>10,556</u>
Nonoperating expenses				
Personnel services	23,231	418	23,649	-
Contractual services	109,667	-	109,667	-
Supplies	8,236	-	8,236	-
Materials	12,806	-	12,806	-
Heat, light and power	39,811	-	39,811	-
Interest	-	444,805	444,805	-
Depreciation	42,958	-	42,958	-
Other expenses	-	26,566	26,566	-
Total nonoperating expenses	<u>236,709</u>	<u>471,789</u>	<u>708,498</u>	<u>-</u>
Net nonoperating revenues (expenses)	<u>8,769</u>	<u>(525,776)</u>	<u>(517,007)</u>	<u>10,556</u>
INCOME BEFORE OPERATING TRANSFERS	1,537,818	1,355,704	2,893,522	80,785
Other financing uses				
Operating transfers out	(828,600)	(937,100)	(1,765,700)	(110,000)
Capital contributions	<u>13,194</u>	<u>127,976</u>	<u>141,170</u>	<u>-</u>
CHANGE IN NET POSITION	722,412	546,580	1,268,992	(29,215)
Net position, beginning of year	<u>22,742,061</u>	<u>22,203,722</u>	<u>44,945,783</u>	<u>2,636,398</u>
Net position, end of year	<u>\$ 23,464,473</u>	<u>\$ 22,750,302</u>	<u>\$ 46,214,775</u>	<u>\$ 2,607,183</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, 2013

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Electric System	Water and Sewer System	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 11,224,732	\$ 4,988,352	\$ 16,213,084	\$ 929,794
Cash payments to suppliers for goods and services	(7,960,541)	(1,375,672)	(9,336,213)	(521,534)
Cash payments to employees for services	(487,104)	(653,569)	(1,140,673)	(19,992)
Cash payments to other funds for services	(21,000)	(45,305)	(66,305)	-
Net cash provided by operating activities	<u>2,756,087</u>	<u>2,913,806</u>	<u>5,669,893</u>	<u>388,268</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES				
Operating transfers out to other funds	(828,600)	(937,100)	(1,765,700)	(110,000)
Increase (decrease) in customer deposits	19,155	3,000	22,155	-
Net cash provided by rental, construction and miscellaneous non-operating activities	<u>85,701</u>	<u>129,246</u>	<u>214,947</u>	<u>7,363</u>
Net cash used by non-capital and related financing activities	<u>(723,744)</u>	<u>(804,854)</u>	<u>(1,528,598)</u>	<u>(102,637)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(1,185,075)	(470,447)	(1,655,522)	(381,813)
Principal paid on revenue bonds and contracts payable	-	(815,000)	(815,000)	-
Interest paid on revenue bonds and contracts payable	-	(456,691)	(456,691)	-
Capital contributed by customers	<u>13,194</u>	<u>127,976</u>	<u>141,170</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(1,171,881)</u>	<u>(1,614,162)</u>	<u>(2,786,043)</u>	<u>(381,813)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale (purchase) of investments, net	37,004	(390)	36,614	-
Interest received	<u>48,386</u>	<u>111,976</u>	<u>160,362</u>	<u>3,193</u>
Net cash provided by investing activities	<u>85,390</u>	<u>111,586</u>	<u>196,976</u>	<u>3,193</u>
NET INCREASE (DECREASE) IN CASH	945,852	606,376	1,552,228	(92,989)
Cash, beginning of year	<u>2,063,725</u>	<u>3,249,033</u>	<u>5,312,758</u>	<u>839,313</u>
Cash, end of year	<u>\$ 3,009,577</u>	<u>\$ 3,855,409</u>	<u>\$ 6,864,986</u>	<u>\$ 746,324</u>
Current assets	\$ 2,800,714	\$ 2,051,234	\$ 4,851,948	\$ 746,324
Restricted assets	<u>208,863</u>	<u>1,804,175</u>	<u>2,013,038</u>	<u>-</u>
Totals	<u>\$ 3,009,577</u>	<u>\$ 3,855,409</u>	<u>\$ 6,864,986</u>	<u>\$ 746,324</u>

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

City of Petoskey

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued

Year ended December 31, 2013

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Electric System	Water and Sewer System	Totals	
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 1,529,049	\$ 1,881,480	\$ 3,410,529	\$ 70,229
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	1,049,645	1,091,354	2,140,999	314,802
(Increase) decrease in accounts receivable	115,108	(18,998)	96,110	-
(Increase) decrease in inventory	104,850	(19,219)	85,631	1,459
Increase in prepaid expenses	(3,775)	-	(3,775)	-
Decrease in due from other funds	-	(105)	(105)	-
Increase (decrease) in accounts payable	(29,936)	(11,689)	(41,625)	3,145
Increase (decrease) in accrued expenses	(8,854)	(9,017)	(17,871)	(1,367)
Total adjustments	1,227,038	1,032,326	2,259,364	318,039
Net cash provided by operating activities	\$ 2,756,087	\$ 2,913,806	\$ 5,669,893	\$ 388,268

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

City of Petoskey

STATEMENT OF FIDUCIARY NET POSITION

December 31, 2013

	Pension Trust Fund	Private Purpose Trust Fund	Agency Funds
ASSETS			
Cash	\$ -	\$ 15,993	\$ 964,253
Investments	76,263	-	-
Receivables			
Taxes	-	-	2,981,903
 Total assets	 \$ 76,263	 \$ 15,993	 \$ 3,946,156
 LIABILITIES AND NET POSITION			
LIABILITIES			
Accounts payable	\$ -	\$ 103	\$ 776,862
Due to other funds	-	-	427,359
Due to component unit	-	-	58,068
Due to other governmental units	-	-	2,683,867
 Total liabilities	 -	 103	 3,946,156
 NET POSITION			
Held in trust for pension benefits and other purposes	76,263	15,890	-
 Total liabilities and net position	 \$ 76,263	 \$ 15,993	 \$ 3,946,156

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, 2013

	<u>Pension Trust Fund</u>	<u>Private Purpose Trust Fund</u>
ADDITIONS TO NET POSITION		
Contributions		
Employer	\$ 13,171	\$ -
Private donations	<u>-</u>	<u>16,390</u>
Total contributions	13,171	16,390
Net investment earnings		
Interest and unrealized gains/losses	<u>13,652</u>	<u>96</u>
Total additions	26,823	16,486
DEDUCTIONS FROM NET POSITION		
Miscellaneous expenses	<u>-</u>	<u>15,569</u>
NET CHANGE IN NET POSITION	26,823	917
Net position, beginning of year	<u>49,440</u>	<u>14,973</u>
Net position, end of year	<u><u>\$ 76,263</u></u>	<u><u>\$ 15,890</u></u>

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

City of Petoskey

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

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

The Financial Reporting Entity

The City's financial statements include the accounts of all City operations. In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the City may or may not be financially accountable and, as such, be includable within the City's financial statements. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board ("GASB") Statement No. 61, *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. Separate financial statements for the Building Authority are not required or issued.

Discretely Presented Component Units

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

Government-Wide and Fund Financial Statements

The City of Petoskey's basic financial statements include both government-wide (reporting the City as a whole) and the fund financial statements (reporting the City's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from legally separate component units for which the primary government is financially accountable.

Government-Wide Financial Statements

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

Fund Financial Statements

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

Fund Types and Major Funds

Activities in Major Funds

Governmental Funds

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

Major Street Fund - The Major Street Fund accounts for State gas and weight tax revenues and transfers from the Right-of-Way Fund that are restricted for expenditures related to maintaining and improving the City's major streets.

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

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

Proprietary (Enterprise) Funds

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

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

Activities in Non-Major Funds

Governmental Funds

Special Revenue Funds - These funds are used to account for specific revenue (other than 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.

NOTES TO FINANCIAL STATEMENTS - Continued

Proprietary Funds

Internal Service Funds - These funds account for the cost of acquiring, maintaining and providing equipment and services for the benefit of other funds, generally on a cost-reimbursement basis.

Fiduciary Funds

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

Budgets and Budgetary Accounting

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

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

Cash and Investments

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

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

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

Property Taxes

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

Interfund Transactions and Balances

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

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

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

Inventories

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

Capital Assets

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

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

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond issuance costs are expensed as incurred.

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

In the government-wide and proprietary fund financial statements, gains or losses on debt refunding are deferred and amortized over the life of the bonds.

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 restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Post Employment Benefits

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

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, 2012 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 April 25, 2014, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - BUDGETARY COMPLIANCE

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended December 31, 2013, the following functions incurred total expenditures in excess of amounts appropriated for expenditures:

Fund	Final Budget	Amount of Expenditures	Budget Variance
General Fund			
Public safety	2,806,800	2,848,537	41,737
Major Street Fund - public works	513,900	590,950	77,050
General Street - capital outlay	150,000	193,290	43,290

NOTE C - DEPOSITS AND INVESTMENTS

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

At December 31, 2013, 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	\$ 5,347,377	\$ 5,093,846	\$ 1,886,546	\$ -	\$ 980,246	\$ -
Restricted cash and cash equivalents	2,013,038	-	-	-	-	-
Restricted investments	-	1,751,549	-	-	-	-
Investments	608,708	2,736,611	-	188,832	-	76,263
	<u>\$ 7,969,123</u>	<u>\$ 9,582,006</u>	<u>\$ 1,886,546</u>	<u>\$ 188,832</u>	<u>\$ 980,246</u>	<u>\$ 76,263</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, 2013, \$10,497,944 of the City's deposits (including certificates of deposit) were exposed to custodial credit risk because they were uninsured and uncollateralized.

NOTES TO FINANCIAL STATEMENTS - Continued

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.

At December 31, 2013, the City's investments consisted of the following:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of Deposit	\$ 608,708	\$ 0.90
Federal Home Loan Bank Bonds	901,985	11.42
Federal National Mortgage Associations Bonds	1,192,628	12.43
Government National Mortgage Association Bonds	132,602	6.79
City of Sterling Heights Bonds	52,663	11.76
City of Lansing Bonds	439,648	5.33
City of Harbor Springs Bonds	210,307	16.64
Antrim County General Obligation Bonds	895,270	14.26
Chippewa Valley Schools	229,831	13.34
MPPA Investment Pools	622,058	6.23
Money Market Mutual Funds	<u>5,170,109</u>	<u>-</u>
Total portfolio	<u>\$ 10,455,809</u>	<u>5.04</u>

Credit Risk

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 \$350,000. Moody's Investor Service rated the City's investments in the Federal Home Loan Bank Bonds and the Federal National Mortgage Association Bonds, AAA. Standard and Poors rated the City's investments in the Governmental National Mortgage Association Bonds, City of Sterling Heights Bonds, and City of Harbor Springs Bonds, AA+; the Antrim County General Obligation Bonds and Chippewa Valley Schools Bonds AA-; and City of Lansing Bonds, AA. 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.

NOTES TO FINANCIAL STATEMENTS - Continued

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. State law does not require and the City does not have a specific policy pertaining to investment custodial credit risk which is more restrictive than State law. As of December 31, 2013, \$4,285,700 of the City's investments were uninsured and uncollateralized, and \$5,093,846 were collateralized by securities held by the pledging financial institutions.

Concentration of Credit Risk

The City places no limit on the amount it may invest in any one issuer. The Antrim County General Obligations Bonds of \$895,270 are the only investment not guaranteed by the U.S. Government and not invested in diversified mutual funds or external investment pools that represent more than 5% of the City's investments.

Interest Rate Risk

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

The City recognized an unrealized loss on investments of \$445,765 for the year ended December 31, 2013.

NOTE D - 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 2013 State taxable valuation of the City of Petoskey totaled \$445,456,986.

The tax rates for the year ended December 31, 2013 were as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>
General governmental services	7.6707 per \$1,000
Right-of-way	3.8580 per \$1,000
Library	0.8600 per \$1,000
Library (additional, approved by voters)	0.9541 per \$1,000
Refuse collection	0.4890 per \$1,000

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INTERFUND RECEIVABLES AND PAYABLES

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

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 290,302	\$ -
Right-of-Way Fund	126,652	-
Electric Fund	-	28,922
Water and Sewer Fund	28,922	-
Other Nonmajor Governmental Funds	10,405	-
Fiduciary Funds	<u>-</u>	<u>427,359</u>
Total	<u>\$ 456,281</u>	<u>\$ 456,281</u>

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

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Library Component Unit	\$ 58,068	\$ -
Fiduciary Funds	<u>-</u>	<u>58,068</u>
Total	<u>\$ 58,068</u>	<u>\$ 58,068</u>

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

NOTE F - INTERFUND TRANSFERS

Operating transfers within the primary government are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 2,065,700	\$ 165,000
Major Street Fund	100,000	-
Local Street Fund	700,000	-
Right-of-Way Fund	-	1,500,000
Electric Fund	-	828,600
Water and Sewer Fund	-	937,100
Other Nonmajor Governmental Funds	1,015,000	340,000
Internal Service Funds	<u>-</u>	<u>110,000</u>
Total	<u>\$ 3,880,700</u>	<u>\$ 3,880,700</u>

NOTES TO FINANCIAL STATEMENTS - Continued

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

	<u>Transfers In</u>	<u>Transfers Out</u>
TIFA Component Unit	\$ -	\$ 172,000
Other Nonmajor Component Units	-	97,800
General Fund	17,800	-
Other Nonmajor Governmental Funds	<u>252,000</u>	<u>-</u>
Total	<u>\$ 269,800</u>	<u>\$ 269,800</u>

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

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

Electric Fund	\$ 208,600
Water and Sewer Fund	<u>347,100</u>
	<u>\$ 555,700</u>

NOTE G - CAPITAL ASSETS

Investment in capital assets changed as follows during the year ended December 31, 2013:

Governmental Activities

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending</u>
Capital assets not being depreciated				
Land	\$ 4,042,213	\$ -	\$ -	\$ 4,042,213
Capital assets being depreciated				
Land improvements	2,708,190	685,157	-	3,393,347
Buildings	5,437,464	250,000	(23,700)	5,663,764
Equipment	6,305,395	381,813	(237,447)	6,449,761
Infrastructure	<u>24,028,950</u>	<u>513,778</u>	<u>-</u>	<u>24,542,728</u>
Subtotal	<u>38,479,999</u>	<u>1,830,748</u>	<u>(261,147)</u>	<u>40,049,600</u>
Less accumulated depreciation				
Land improvements	(614,771)	(114,701)	-	(729,472)
Buildings	(2,396,052)	(168,272)	19,318	(2,545,006)
Equipment	(4,387,936)	(362,171)	237,447	(4,512,660)
Infrastructure	<u>(11,513,888)</u>	<u>(896,734)</u>	<u>-</u>	<u>(12,410,622)</u>
Subtotal	<u>(18,912,647)</u>	<u>(1,541,878)</u>	<u>256,765</u>	<u>(20,197,760)</u>
Net capital assets being depreciated	<u>19,567,352</u>	<u>288,870</u>	<u>(4,382)</u>	<u>19,851,840</u>
Governmental activities net capital assets	<u>\$ 23,609,565</u>	<u>\$ 288,870</u>	<u>\$ (4,382)</u>	<u>\$ 23,894,053</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	\$ 837,856	\$ 12,000	\$ -	\$ 849,856
Capital assets being depreciated				
Land improvements	450,670	-	-	450,670
Buildings	23,362,390	-	-	23,362,390
Utility system improvements	42,928,983	1,643,522	-	44,572,505
Equipment	<u>794,700</u>	<u>-</u>	<u>-</u>	<u>794,700</u>
Subtotal	<u>67,536,743</u>	<u>1,643,522</u>	<u>-</u>	<u>69,180,265</u>
Less accumulated depreciation				
Land improvements	(31,296)	(10,433)	-	(41,729)
Buildings	(8,607,664)	(650,084)	-	(9,257,748)
Utility system improvements	(17,306,215)	(1,474,417)	-	(18,780,632)
Equipment	<u>(703,723)</u>	<u>(6,065)</u>	<u>-</u>	<u>(709,788)</u>
Subtotal	<u>(26,648,898)</u>	<u>(2,140,999)</u>	<u>-</u>	<u>(28,789,897)</u>
Net capital assets being depreciated	<u>40,887,845</u>	<u>(497,477)</u>	<u>-</u>	<u>40,390,368</u>
Business-type activities net capital assets	<u>\$ 41,725,701</u>	<u>\$ (485,477)</u>	<u>\$ -</u>	<u>\$ 41,240,224</u>

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

Governmental activities

General government	\$ 1,535
Public safety	109,043
Public works	1,069,013
Recreation and cultural	52,025
Unallocated	<u>310,262</u>
Total governmental activities	<u>\$ 1,541,878</u>

Business-type activities

Water and sewer	\$ 1,091,354
Electric	<u>1,049,645</u>
Total business-type activities	<u>\$ 2,140,999</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Component Units

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending</u>
Capital assets being depreciated				
Land improvements	\$ 2,819,360	\$ -	\$ -	\$ 2,819,360
Buildings	6,416,166	-	-	6,416,166
Equipment	<u>1,865,076</u>	<u>43,373</u>	<u>(20,000)</u>	<u>1,888,449</u>
Subtotal	<u>11,100,602</u>	<u>43,373</u>	<u>(20,000)</u>	<u>11,123,975</u>
Less accumulated depreciation				
Land improvements	(316,067)	(140,968)	-	(457,035)
Buildings	(1,617,500)	(182,371)	-	(1,799,871)
Equipment	<u>(1,161,846)</u>	<u>(67,578)</u>	<u>20,000</u>	<u>(1,209,424)</u>
Subtotal	<u>(3,095,413)</u>	<u>(390,917)</u>	<u>20,000</u>	<u>(3,466,330)</u>
Component units' net capital assets	<u>\$ 8,005,189</u>	<u>\$ (347,544)</u>	<u>\$ -</u>	<u>\$ 7,657,645</u>

Proprietary Fund Type Property, Plant and Equipment

Proprietary fund type property, plant and equipment at December 31, 2013 are summarized as follows:

	<u>Enterprise</u>	<u>Internal Service</u>
Land	\$ 849,856	\$ -
Land improvements	450,670	-
Buildings	23,362,390	11,011
Utility system improvements	44,572,505	-
Equipment	<u>794,700</u>	<u>5,606,955</u>
Total	70,030,121	5,617,966
Less accumulated depreciation	<u>(28,789,897)</u>	<u>(3,761,907)</u>
Net	<u>\$ 41,240,224</u>	<u>\$ 1,856,059</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE H - LONG-TERM DEBT

The following is a summary of the City's long-term debt transactions for the year ended December 31, 2013:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
PRIMARY GOVERNMENT					
Governmental activities					
General obligation debt	\$ 1,095,000	\$ -	\$ 95,000	\$ 1,000,000	\$ 100,000
Compensated absences	<u>32,565</u>	<u>-</u>	<u>8,415</u>	<u>24,150</u>	<u>-</u>
Total governmental activities	<u>\$ 1,127,565</u>	<u>\$ -</u>	<u>\$ 103,415</u>	<u>\$ 1,024,150</u>	<u>\$ 100,000</u>
Business-type activities					
Revenue obligation debt	<u>\$ 10,765,000</u>	<u>\$ -</u>	<u>\$ 815,000</u>	<u>\$ 9,950,000</u>	<u>\$ 805,000</u>
COMPONENT UNIT					
General obligation debt	<u>\$ 6,290,000</u>	<u>\$ -</u>	<u>\$ 220,000</u>	<u>\$ 6,070,000</u>	<u>\$ 265,000</u>

Bonds payable at December 31, 2013 is composed of the following individual issues:

General Obligation (Governmental Activities)

\$1,000,000, 2010 City of Petoskey Building Authority Improvement bonds due in remaining annual installments of \$25,000 to \$125,000 through April 2024; interest rate of 3.00% to 4.63%. Funds for repayment have been provided by the Marina Bond Debt Fund.	\$ 925,000
Unaccreted discount	(6,691)
\$800,000, 1999 Building Authority Downtown Improvement bonds; due in a remaining annual installment of \$75,000 through October 2014; interest rate of 5.0%. Funds for repayment have been provided by the Downtown Management/Parking Fund.	<u>75,000</u>
Total governmental activities general obligation bonds	<u>\$ 993,309</u>

Revenue Obligation (Business-type Activities)

\$6,330,000, 2011 Water and Sewer refunding bonds; remaining annual installments of \$305,000 to \$570,000 through February 2026; interest rate of 3.00% to 5.00%.	\$ 5,710,000
Unamortized premium	269,726
\$2,150,000, 2011 Water and Sewer refunding bonds; remaining annual installments of \$405,000 to \$450,000 through February 2017; interest rate of 3.00% to 4.00%.	1,715,000
Unamortized premium	57,138

NOTES TO FINANCIAL STATEMENTS - Continued

Revenue Obligation (Business-type Activities) - continued

\$2,755,000, 2011 Water and Sewer bonds; remaining annual installments of \$95,000 to \$200,000 through February 2031; interest rate of 3.00% to 5.00%.	\$ 2,525,000
Unamortized premium	<u>68,174</u>
Total business-type activities revenue obligation debt	<u><u>\$ 10,345,038</u></u>

Deferred Loss on Debt Refunding

Unaccreted loss on refunding - \$6,330,000, 2011 Water and Sewer Refunding Bonds	\$ 180,993
Unaccreted loss on refunding - \$2,150,000, 2011 Water and Sewer Refunding Bonds	<u>179,349</u>
Total deferred loss on debt refunding	<u><u>\$ 360,342</u></u>

General Obligation (Component Unit)

\$2,900,000, 2010 Building Authority TIFA Bear River Valley Improvement bonds; remaining annual installments of \$50,000 to \$250,000 through April 2029; interest rate of 3.00% to 5.00%.	\$ 2,750,000
Unaccreted discount	(21,395)
\$4,300,000, 2003 Building Authority Library Improvement bonds; \$3,425,000 refunded with \$3,520,000, 2012 Building Authority Library Improvement bonds; remaining annual installments of \$170,000 to \$280,000 through October 2028; interest rate of 2.00% to 3.13%.	3,320,000
Unaccreted loss on refunding - \$3,520,000, 2012 Building Authority Library Improvement Bonds	(79,863)
Unamortized premium	<u>66,202</u>
Total component unit general obligation bonds	<u><u>\$ 6,034,944</u></u>

NOTES TO FINANCIAL STATEMENTS - Continued

The annual requirements to amortize all general and revenue obligation bonds outstanding, as of December 31, 2013, are as follows:

Years Ending	Governmental Activities		Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 100,000	\$ 40,331	\$ 805,000	\$ 406,388	\$ 265,000	\$ 210,843
2015	50,000	35,363	850,000	373,288	290,000	204,293
2016	50,000	33,738	840,000	343,688	290,000	197,243
2017	50,000	32,075	930,000	317,138	335,000	187,368
2018	50,000	30,325	495,000	295,763	360,000	176,568
2019-2023	575,000	92,603	2,935,000	1,103,063	1,930,000	696,290
2024-2028	125,000	2,891	2,525,000	342,219	2,350,000	314,762
2029-2031	-	-	570,000	41,563	250,000	6,250
	<u>\$ 1,000,000</u>	<u>\$ 267,326</u>	<u>\$ 9,950,000</u>	<u>\$ 3,223,110</u>	<u>\$ 6,070,000</u>	<u>\$ 1,993,617</u>

NOTE I - RESTRICTED FUND BALANCES/RESTRICTED NET ASSETS

Fund balances and net assets are classified as follows:

Governmental Funds	General Fund	Major Street Fund	Local Street Fund	Right-of-Way Fund	Other Non-Major Funds	Governmental Activities
Restricted for:						
Refuse collection	\$ 130,403	\$ -	\$ -	\$ -	\$ -	\$ 130,403
Marina	624,818	-	-	-	-	624,818
Public safety	35,000	-	-	-	-	35,000
Streets and improvements	-	359,155	507,444	506,252	-	1,372,851
Downtown programs and services	-	-	-	-	165,242	165,242
	<u>\$ 790,221</u>	<u>\$ 359,155</u>	<u>\$ 507,444</u>	<u>\$ 506,252</u>	<u>\$ 165,242</u>	<u>\$ 2,328,314</u>

Enterprise Funds	Electric System Fund	Water and Sewer System Fund	Business-Type Activities
Restricted for:			
MPPA energy expenses	\$ 622,058	\$ -	\$ 622,058
Sewage service covenants	-	770,923	770,923
Revenue bond indentures	-	2,146,443	2,146,443
	<u>\$ 622,058</u>	<u>\$ 2,917,366</u>	<u>\$ 3,539,424</u>

NOTES TO FINANCIAL STATEMENTS - Continued

<u>Fiduciary Funds</u>	<u>Employees Retirement Trust Fund</u>	<u>Library Endowment Trust Fund</u>
Restricted for:		
Employee pension benefits	<u>\$ 76,263</u>	
Library costs		<u>\$ 15,890</u>

Component Units

Restricted for Tax Increment Finance Authority ("TIFA") - The Tax Increment Finance Authority has \$994,693 restricted for use within the TIFA district.

NOTE J - CITY OF PETOSKEY RETIREMENT PLAN

Plan Description

The City of Petoskey participates in the Michigan Municipal Employees' Retirement System ("MERS"), and agent multiple-employer defined benefit pension plan that covers all employees of the City of Petoskey. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the State's local government employees. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 North Canal, Lansing, Michigan 48917.

Funding Policy

There are no contribution requirements for plan members. The City is required to contribute all amounts necessary to fund the system using the actuarial basis specified by statute. The contribution requirements of plan members and the City are established and may be amended by the MERS Board.

Annual Pension Cost

For the year ended 2013, the City's required and actual contributions were \$682,134. The annual required contribution was determined as part of an actuarial valuation at December 31, 2011, using the entry age normal cost method. Significant actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses); and (b) projected salary increases of 4.5% per year (plus a percentage based on an age-related scale to reflect merit, longevity and promotional pay increases). Both (a) and (b) included an inflation component of 3% to 4%. The actuarial value of the City's assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%) and includes an adjustment to reflect market value. The City's unfunded actuarial accrued liabilities are amortized by a level percent of payroll contributions over a 30-year period.

NOTES TO FINANCIAL STATEMENTS - Continued

The components of annual pension costs ("APC") and the change in the net pension prepayment were as follows:

Annual required contribution	\$ 682,134
Interest on net position asset	(43,692)
Adjustment to annual required contribution	<u>58,984</u>
Annual pension cost	697,426
Contributions made	<u>682,134</u>
Decrease in net pension asset	15,292
Net pension asset, beginning of year	<u>546,146</u>
Net position asset, end of year	<u><u>\$ 530,854</u></u>

Three-Year Trend Information for the City of Petoskey

<u>Fiscal Year-Ended</u>	<u>Annual Pension Cost ("APC")</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
December 31, 2011	\$615,129	97%	\$ 561,879
December 31, 2012	650,292	98%	546,146
December 31, 2013	697,426	98%	530,854

Additional trend information may be found within the Required Supplementary Information section of the financial statements.

NOTE K - DEFINED CONTRIBUTION RETIREMENT PLAN

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

The City's contributions were calculated using the eligible base salary amount of \$94,075, as established by City Council and governed by Federal regulations. The City made the required 14.00% contribution for the year, which totaled \$13,171.

At December 31, 2013, the City had \$76,263 within the Employees Retirement Trust Fund.

NOTE L - DEFERRED COMPENSATION PLAN

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

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

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

Plan Description

The City administers the City's Retiree Health Insurance Plan (the "Plan") as a single-employer defined benefit, Other Post Employment Benefit plan ("OPEB"). The Plan provides for continuation of medical insurance benefits for certain retirees and their spouses through age 64, and can be amended by action of the City subject to the applicable collective bargaining and employment agreements. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The City's annual Other Post Employment Benefit ("OPEB") cost is calculated based on the annual required contribution ("ARC") of the employer. The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The OPEB liability is reported as long-term accrued expenses on the Statement of Net Position. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and the City's net OPEB obligation to the Retiree Health Plan at December 31, 2013:

NOTES TO FINANCIAL STATEMENTS - Continued

<u>Annual OPEB Cost</u>	
Annual required contribution ("ARC")	\$ 25,469
Adjustment to annual required contribution	<u>(36,375)</u>
Annual OPEB cost (benefit)	(10,906)
Net OPEB contributions made during the fiscal year	<u>(8,400)</u>
Net OPEB obligation (benefit) for 2013	(19,306)
OPEB obligation through December 31, 2012	<u>199,598</u>
Net cumulative OPEB obligation at end of year	<u>\$ 180,292</u>
Percentage of 2013 expense contributed	44 %

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

Fiscal Years Ended <u>December 31,</u>	<u>Annual OPEB Cost</u>	Percentage of Annual OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation (Benefit)</u>
2011	\$ (22,278)	28 %	\$ 224,098
2012	(16,100)	34 %	199,598
2013	(10,906)	44 %	180,292

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

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$123,613, the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$123,613. The covered payroll (annual payroll of active employees covered by the Plan) was \$4,407,994 and the ratio of the UAAL to the covered payroll was 3%.

The projection of future benefit payments for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTES TO FINANCIAL STATEMENTS - Continued

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

A discount rate of 1.50% was used. A general price inflation of 1.00% was assumed. In addition, the Entry Age Normal Cost actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2013 was three years. As authorized by GASB Statement No. 45, the Alternative Measurement Method with its simplifications of certain assumptions was employed in measuring actuarial accrued liabilities and the ARC.

The following simplifying assumptions were made:

Retirement age for active employees - Active employees are assumed to retire at age 62. If an employee would not yet qualify for benefits at age 62, the employee is assumed to work until the year in which he or she becomes eligible, at which time the employee is assumed to retire. Active employees age 62 or older who have qualified for postemployment benefits under the plan are assumed to retire in the first projected year.

Marital status - Assumption of marital status for active employees has been incorporated in the acceptance probability for spousal coverage. Using this approach, the percentage of future retired plan members taking spousal coverage was assumed at 50%. For active employees, spouses' genders were assumed to be opposite to the members' genders and females were assumed three years younger than their spouses. Covered spouse data were collected for current retirement plan members as of the valuation date, and were assumed to remain unchanged until the assumed death of the spouses.

Mortality - Life expectancies were based on the 2004 United States Life Tables for Males and Females.

Turnover - Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on a rate of 10% initially, decreased to an ultimate rate of 5.5% after eight years.

Health insurance premiums - 2013 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

NOTES TO FINANCIAL STATEMENTS - Continued

Allocation of Post Employment Benefits

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

Government activities	
General government	\$ (2,758)
Public safety	(2,758)
Public works	<u>(8,274)</u>
Total governmental activities OPEB expense	(13,790)
Business-type activities	
Water and sewer	<u>(5,516)</u>
Total OPEB expense	<u>\$ (19,306)</u>

NOTE N - COMMITMENTS AND CONTINGENCIES

Landfill Closure and Post-Closure Care Costs

An agreement with the State of Michigan requires that the City of Petoskey perform monitoring functions at a former landfill site for 30 years after closure. A liability is being recognized based on the estimated future post-closure costs that will be incurred over the remaining term of the agreement, which runs through August 2022. The estimated total current cost of the landfill post-closure care of \$85,000 is based on the amount that would be paid if the services to monitor the landfill were acquired as of December 31, 2013. However, the actual cost of post-closure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

Entitlement Commitments

Between 1979 and 2001, the Michigan Public Power Agency ("MPPA"), of which the City is a member, acquired ownership interests in the Consumers Power Campbell No. 3 plant, the Detroit Edison Belle River Unit and other related assets, and the CT Project No. 1. The City's entitlement share of the Campbell No. 3, Belle River Unit and CT Project No. 1 generating capacities are 1,470 (KW), 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>Campbell No. 3</u>	<u>Belle River Unit</u>	<u>CT Project No. 1</u>	<u>Total</u>
2014	\$ 130,350	\$ 508,636	\$ 229,534	\$ 868,520
2015	124,425	508,612	229,176	862,213
2016	-	508,650	229,487	738,137
2017	-	508,686	229,463	738,149
2018	-	-	229,582	229,582
2019 - 2023	-	-	1,147,194	1,147,194
2024 - 2026	-	-	688,579	688,579
Total	<u>\$ 254,775</u>	<u>\$ 2,034,584</u>	<u>\$ 2,983,015</u>	<u>\$ 5,272,374</u>

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

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

Revenue Bond Contingencies

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

NOTE O - RISK MANAGEMENT

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

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

REQUIRED SUPPLEMENTARY INFORMATION

City of Petoskey

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year ended December 31, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
REVENUES					
Taxes	3,196,800	3,196,800	3,193,051	-	(3,749)
Licenses and permits	8,700	8,700	15,265	-	6,565
Federal grants	5,000	5,000	4,500	-	(500)
State grants	542,500	656,100	664,264	113,600	8,164
Contributions from local units	60,000	93,000	97,671	33,000	4,671
Charges for services	1,104,700	1,145,700	1,159,630	41,000	13,930
Fines and forfeitures	20,500	20,500	34,447	-	13,947
Interest and investment earnings	57,000	57,000	65,102	-	8,102
Other	154,400	253,300	147,897	98,900	(105,403)
Total revenues	5,149,600	5,436,100	5,381,827	286,500	(54,273)
EXPENDITURES					
Current					
Legislative, general government, and health and welfare	1,563,800	1,563,800	1,483,592	-	80,208
Public safety	2,806,800	2,806,800	2,848,537	-	(41,737)
Public works	641,100	641,100	596,935	-	44,165
Recreation and cultural	2,653,600	3,056,700	3,054,925	(403,100)	1,775
Total expenditures	7,665,300	8,068,400	7,983,989	(403,100)	84,411
REVENUES OVER (UNDER) EXPENDITURES	(2,515,700)	(2,632,300)	(2,602,162)	(116,600)	30,138
OTHER FINANCING SOURCES (USES)					
Operating transfers in	2,065,700	2,065,700	2,065,700	-	-
Transfers from component units	17,800	17,800	17,800	-	-
Total other financing sources (uses)	2,083,500	2,083,500	2,083,500	-	-
NET CHANGE IN FUND BALANCES	(432,200)	(548,800)	(518,662)	(116,600)	30,138
Fund balance, beginning of year	3,811,963	3,811,963	3,633,058	-	(178,905)
Fund balance, end of year	\$ 3,379,763	\$ 3,263,163	\$ 3,114,396	\$ (116,600)	\$ (148,767)

City of Petoskey

BUDGETARY COMPARISON SCHEDULE FOR THE MAJOR STREET FUND

Year ended December 31, 2013

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual Total</u>
REVENUES					
State grants	\$ 423,500	\$ 457,500	\$ 522,505	\$ 34,000	\$ 65,005
Interest and other	<u>400</u>	<u>400</u>	<u>2,966</u>	<u>-</u>	<u>2,566</u>
Total revenues	<u>423,900</u>	<u>457,900</u>	<u>525,471</u>	<u>34,000</u>	<u>67,571</u>
EXPENDITURES					
Current					
Routine maintenance	150,200	167,200	178,006	(17,000)	(10,806)
Winter maintenance	304,300	316,300	382,275	(12,000)	(65,975)
Traffic services	30,400	30,400	24,386	-	6,014
Administration	<u>-</u>	<u>-</u>	<u>6,283</u>	<u>-</u>	<u>(6,283)</u>
Total expenditures	<u>484,900</u>	<u>513,900</u>	<u>590,950</u>	<u>(29,000)</u>	<u>(77,050)</u>
REVENUES UNDER EXPENDITURES	(61,000)	(56,000)	(65,479)	5,000	(9,479)
OTHER FINANCING SOURCES					
Operating transfers in	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	39,000	44,000	34,521	5,000	(9,479)
Fund balance, beginning of year	<u>356,796</u>	<u>356,796</u>	<u>324,634</u>	<u>-</u>	<u>(32,162)</u>
Fund balance, end of year	<u>\$ 395,796</u>	<u>\$ 400,796</u>	<u>\$ 359,155</u>	<u>\$ 5,000</u>	<u>\$ (41,641)</u>

City of Petoskey

BUDGETARY COMPARISON SCHEDULE FOR THE LOCAL STREET FUND

Year ended December 31, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
REVENUES					
State grants	\$ 116,400	\$ 116,400	\$ 137,357	\$ -	\$ 20,957
Interest	500	500	2,379	-	1,879
Total revenues	<u>116,900</u>	<u>116,900</u>	<u>139,736</u>	<u>-</u>	<u>22,836</u>
EXPENDITURES					
Routine maintenance	93,100	93,100	93,250	-	(150)
Winter maintenance	150,200	150,200	185,656	-	(35,456)
Traffic services	13,100	13,100	10,163	-	2,937
Administration	-	-	12,741	-	(12,741)
Capital outlay	<u>608,900</u>	<u>608,900</u>	<u>349,186</u>	<u>-</u>	<u>259,714</u>
Total expenditures	<u>865,300</u>	<u>865,300</u>	<u>650,996</u>	<u>-</u>	<u>214,304</u>
REVENUES OVER EXPENDITURES	(748,400)	(748,400)	(511,260)	-	237,140
OTHER FINANCING SOURCES					
Operating transfers in	<u>700,000</u>	<u>700,000</u>	<u>700,000</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(48,400)	(48,400)	188,740	-	237,140
Fund balance, beginning of year	<u>334,712</u>	<u>334,712</u>	<u>318,704</u>	<u>-</u>	<u>(16,008)</u>
Fund balance, end of year	<u>\$ 286,312</u>	<u>\$ 286,312</u>	<u>\$ 507,444</u>	<u>\$ -</u>	<u>\$ 221,132</u>

City of Petoskey

BUDGETARY COMPARISON SCHEDULE FOR THE RIGHT-OF-WAY FUND

Year ended December 31, 2013

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual Total</u>
REVENUES					
Property taxes	\$ 1,511,500	\$ 1,511,500	\$ 1,509,689	\$ -	\$ (1,811)
Interest	<u>5,200</u>	<u>5,200</u>	<u>6,727</u>	<u>-</u>	<u>1,527</u>
Total revenue	1,516,700	1,516,700	1,516,416	-	(284)
EXPENDITURES					
Contracted services	<u>2,000</u>	<u>2,000</u>	<u>1,691</u>	<u>-</u>	<u>309</u>
REVENUES OVER EXPENDITURES	1,514,700	1,514,700	1,514,725	-	25
OTHER FINANCING USES					
Operating transfers out	<u>(1,500,000)</u>	<u>(1,500,000)</u>	<u>(1,500,000)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	14,700	14,700	14,725	-	25
Fund balance, beginning of year	<u>532,830</u>	<u>532,830</u>	<u>491,527</u>	<u>-</u>	<u>(41,303)</u>
Fund balance, end of year	<u>\$ 547,530</u>	<u>\$ 547,530</u>	<u>\$ 506,252</u>	<u>\$ -</u>	<u>\$ (41,278)</u>

City of Petoskey

DEFINED BENEFIT PENSION PLAN TREND INFORMATION

For the year ended December 31, 2013

Schedule of Funding Progress (In Thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a)/c]</u>
12/31/2009	\$ 16,720	\$ 19,636	\$ 2,916	85 %	\$ 4,014	73 %
12/31/2010	17,439	20,477	3,038	85 %	3,888	78 %
12/31/2011	17,979	21,606	3,627	83 %	4,032	90 %
12/31/2012	18,423	22,432	4,009	82 %	4,408	91 %
12/31/2013			*	*		*

* Information not currently available.

Schedule of Employer Contributions

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
12/31/09	\$ 558,245	97 %
12/31/10	608,544	97 %
12/31/11	615,129	97 %
12/31/12	650,292	98 %
12/31/13	697,426	98 %

The information presented above was determined as part of the actuarial valuation as of the dates indicated.

City of Petoskey

SCHEDULE OF FUNDING PROGRESS OTHER POST EMPLOYMENT BENEFIT PLAN

December 31, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2011	\$ -	123,613	\$ 123,613	- %	\$ 3,888,000	3 %
12/31/2012	-	123,613	123,613	- %	4,032,000	3 %
12/31/2013	-	123,613	123,613	- %	4,408,000	3 %

COMBINING FINANCIAL STATEMENTS

City of Petoskey

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2013

	Special Revenue Funds			Debt Service Funds				Total Non-Major Funds
	General Street	Downtown Management	Total Special Revenue	Building Authority Downtown Improvement Bonds Debt	Building Authority Marina Bond Debt	Building Authority Bear River Valley Bond Debt	Total Debt Service	
ASSETS								
Current assets								
Cash	\$ 533,462	\$ 131,217	\$ 664,679	\$ 45,878	\$ 6,956	\$ 11,749	\$ 64,583	\$ 729,262
Receivables								
Special assessments	-	27,314	27,314	-	-	-	-	27,314
Due from other funds	-	10,405	10,405	-	-	-	-	10,405
Inventory, at cost	<u>116,025</u>	<u>-</u>	<u>116,025</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>116,025</u>
Total assets	<u>\$ 649,487</u>	<u>\$ 168,936</u>	<u>\$ 818,423</u>	<u>\$ 45,878</u>	<u>\$ 6,956</u>	<u>\$ 11,749</u>	<u>\$ 64,583</u>	<u>\$ 883,006</u>
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable	\$ 3,716	\$ 3,694	\$ 7,410	\$ -	\$ -	\$ -	\$ -	\$ 7,410
Accrued expenditures	<u>6,665</u>	<u>-</u>	<u>6,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,665</u>
Total liabilities	<u>10,381</u>	<u>3,694</u>	<u>14,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,075</u>
FUND BALANCES								
Non-spendable								
Inventory	116,025	-	116,025	-	-	-	-	116,025
Restricted								
Special revenue	-	165,242	165,242	-	-	-	-	165,242
Committed	<u>523,081</u>	<u>-</u>	<u>523,081</u>	<u>45,878</u>	<u>6,956</u>	<u>11,749</u>	<u>64,583</u>	<u>587,664</u>
Total fund balances	<u>639,106</u>	<u>165,242</u>	<u>804,348</u>	<u>45,878</u>	<u>6,956</u>	<u>11,749</u>	<u>64,583</u>	<u>868,931</u>
Total liabilities and fund balances	<u>\$ 649,487</u>	<u>\$ 168,936</u>	<u>\$ 818,423</u>	<u>\$ 45,878</u>	<u>\$ 6,956</u>	<u>\$ 11,749</u>	<u>\$ 64,583</u>	<u>\$ 883,006</u>

City of Petoskey

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

Year ended December 31, 2013

	Special Revenue Funds			Debt Service Funds				Total Other Non-Major Funds
	General Street	Downtown Management	Total	Building Authority Downtown Improvement Bonds Debt	Building Authority Marina Bond Debt	Building Authority Bear River Valley Bond Debt	Total	
REVENUES								
Special assessments	\$ -	\$ 89,518	\$ 89,518	\$ -	\$ -	\$ -	\$ -	\$ 89,518
Interest	3,575	2,794	6,369	599	115	301	1,015	7,384
Other	958	45,983	46,941	-	-	-	-	46,941
Total revenues	<u>4,533</u>	<u>138,295</u>	<u>142,828</u>	<u>599</u>	<u>115</u>	<u>301</u>	<u>1,015</u>	<u>143,843</u>
EXPENDITURES								
Current								
Public works	592,904	129,720	722,624	-	-	-	-	722,624
Capital outlay	193,290	-	193,290	-	-	-	-	193,290
Principal	-	-	-	70,000	25,000	50,000	145,000	145,000
Interest	-	-	-	7,639	37,413	118,500	163,552	163,552
Total expenditures	<u>786,194</u>	<u>129,720</u>	<u>915,914</u>	<u>77,639</u>	<u>62,413</u>	<u>168,500</u>	<u>308,552</u>	<u>1,224,466</u>
REVENUES OVER (UNDER)								
EXPENDITURES	<u>(781,661)</u>	<u>8,575</u>	<u>(773,086)</u>	<u>(77,040)</u>	<u>(62,298)</u>	<u>(168,199)</u>	<u>(307,537)</u>	<u>(1,080,623)</u>
OTHER FINANCING SOURCES (USES)								
Operating transfers in	950,000	-	950,000	-	65,000	-	65,000	1,015,000
Operating transfers out	(340,000)	-	(340,000)	-	-	-	-	(340,000)
Transfers from component units	-	-	-	80,000	-	172,000	252,000	252,000
Total other financing sources (uses)	<u>610,000</u>	<u>-</u>	<u>610,000</u>	<u>80,000</u>	<u>65,000</u>	<u>172,000</u>	<u>317,000</u>	<u>927,000</u>
NET CHANGE IN FUND BALANCE	(171,661)	8,575	(163,086)	2,960	2,702	3,801	9,463	(153,623)
Fund balance, beginning of year	<u>810,767</u>	<u>156,667</u>	<u>967,434</u>	<u>42,918</u>	<u>4,254</u>	<u>7,948</u>	<u>55,120</u>	<u>1,022,554</u>
Fund balance, end of year	<u>\$ 639,106</u>	<u>\$ 165,242</u>	<u>\$ 804,348</u>	<u>\$ 45,878</u>	<u>\$ 6,956</u>	<u>\$ 11,749</u>	<u>\$ 64,583</u>	<u>\$ 868,931</u>

City of Petoskey

COMBINING BALANCE SHEET - INTERNAL SERVICE FUNDS

December 31, 2013

	<u>Motor Vehicle and Equipment</u>	<u>Employee Fringe Benefit</u>	<u>Totals</u>
ASSETS			
Current assets			
Cash	\$ 746,324	\$ -	\$ 746,324
Inventory	<u>26,046</u>	<u>-</u>	<u>26,046</u>
Total current assets	<u>772,370</u>	<u>-</u>	<u>772,370</u>
Noncurrent assets			
Capital assets	5,617,966	-	5,617,966
Less accumulated depreciation	<u>(3,761,907)</u>	<u>-</u>	<u>(3,761,907)</u>
Total noncurrent assets	<u>1,856,059</u>	<u>-</u>	<u>1,856,059</u>
Total assets	<u><u>\$ 2,628,429</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,628,429</u></u>
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable	\$ 20,946	\$ -	\$ 20,946
Accrued wages	<u>300</u>	<u>-</u>	<u>300</u>
Total liabilities	<u>21,246</u>	<u>-</u>	<u>21,246</u>
NET POSITION			
Invested in capital assets, net of related debt	1,856,059	-	1,856,059
Unrestricted	<u>751,124</u>	<u>-</u>	<u>751,124</u>
Total net position	<u>2,607,183</u>	<u>-</u>	<u>2,607,183</u>
Total liabilities and net position	<u><u>\$ 2,628,429</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,628,429</u></u>

City of Petoskey

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - INTERNAL SERVICE FUNDS

Year ended December 31, 2013

	<u>Motor Vehicle and Equipment</u>	<u>Employee Fringe Benefit</u>	<u>Totals</u>
Operating revenues			
Charges for services	\$ 929,794	\$ -	\$ 929,794
Operating expenses			
Personnel services	18,625	-	18,625
Contractual services	320,245	-	320,245
Supplies	205,893	-	205,893
Depreciation	<u>314,802</u>	<u>-</u>	<u>314,802</u>
Total operating expenses	<u>859,565</u>	<u>-</u>	<u>859,565</u>
OPERATING INCOME	<u>70,229</u>	<u>-</u>	<u>70,229</u>
Nonoperating revenues (expenses)			
Interest	3,193	-	3,193
Miscellaneous	<u>7,376</u>	<u>(13)</u>	<u>7,363</u>
Total nonoperating revenues (expenses)	<u>10,569</u>	<u>(13)</u>	<u>10,556</u>
INCOME BEFORE TRANSFERS	80,798	(13)	80,785
Transfers out	<u>(110,000)</u>	<u>-</u>	<u>(110,000)</u>
CHANGE IN NET POSITION	(29,202)	(13)	(29,215)
Net position, beginning of year	<u>2,636,385</u>	<u>13</u>	<u>2,636,398</u>
Net position, end of year	<u>\$ 2,607,183</u>	<u>\$ -</u>	<u>\$ 2,607,183</u>

City of Petoskey

BUILDING AUTHORITY

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

December 31, 2013

	Debt Service Funds				Reconciliation of Fund Balance Sheets to Statement of Net Position			Statement of Net Position
	Downtown Improvement Bonds	2010 Marina Bonds	2010	Library Improvement Bonds	Governmental Financing Leases	Governmental Bonds Payable	Accrued Interest	
			Bear River Valley Bonds					
ASSETS								
Current assets								
Cash	\$ 45,878	\$ 6,956	\$ 11,749	\$ -	\$ -	\$ -	\$ -	\$ 64,583
Interest receivable	-	-	-	-	63,301	-	-	63,301
Lease contract receivable, current	-	-	-	-	365,000	-	-	365,000
Total current assets	45,878	6,956	11,749	-	428,301	-	-	492,884
Non-current assets								
Deferred charges - bond premium and discounts	-	-	-	-	-	(38,115)	-	(38,115)
Lease contract receivable	-	-	-	-	6,663,252	-	-	6,663,252
DEFERRED OUTFLOWS OF RESOURCES								
Deferred loss on debt refunding	-	-	-	-	-	79,863	-	79,863
Total assets and deferred outflows of resources	<u>\$ 45,878</u>	<u>\$ 6,956</u>	<u>\$ 11,749</u>	<u>\$ -</u>	<u>\$ 7,091,553</u>	<u>\$ 41,748</u>	<u>\$ -</u>	<u>\$ 7,197,884</u>
LIABILITIES AND FUND BALANCES/NET POSITION								
LIABILITIES								
Current liabilities								
Accrued interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,301	\$ 63,301
Bonds payable, current	-	-	-	-	-	365,000	-	365,000
Total current liabilities	-	-	-	-	-	365,000	63,301	428,301
Non-current liabilities								
Bonds payable, net	-	-	-	-	-	6,663,252	-	6,663,252
Total liabilities	-	-	-	-	-	7,028,252	63,301	7,091,553
FUND BALANCE/NET POSITION								
Committed	<u>45,878</u>	<u>6,956</u>	<u>11,749</u>	<u>-</u>	<u>7,091,553</u>	<u>(6,986,504)</u>	<u>(63,301)</u>	<u>106,331</u>
Total liabilities and fund balances	<u>\$ 45,878</u>	<u>\$ 6,956</u>	<u>\$ 11,749</u>	<u>\$ -</u>	<u>\$ 7,091,553</u>	<u>\$ 41,748</u>	<u>\$ -</u>	<u>\$ 7,197,884</u>

City of Petoskey

BUILDING AUTHORITY

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

Year ended December 31, 2013

	Debt Service Funds				Reconciliation of Fund Statements of Revenues and Expenditures to the Statement of Activities			Statement of Activities
	Downtown Improvement Bonds	Marina Bonds	Bear River Valley Bonds	Library Improvement Bonds	Governmental Financing Lease	Debt Service	Interest Expense	
Program revenues								
Lease income	\$ 80,000	\$ 65,000	\$ 172,000	\$ 267,268	\$ (313,232)	\$ -	\$ -	\$ 271,036
Expenditures/expenses								
Debt service	70,000	25,000	50,000	170,000	-	(315,000)	-	-
Interest and fees	<u>7,639</u>	<u>37,413</u>	<u>118,500</u>	<u>97,268</u>	<u>-</u>	<u>(31,413)</u>	<u>(2,289)</u>	<u>227,118</u>
Total expenditures/expenses	<u>77,639</u>	<u>62,413</u>	<u>168,500</u>	<u>267,268</u>	<u>-</u>	<u>(346,413)</u>	<u>(2,289)</u>	<u>227,118</u>
Net revenue (expense)	2,361	2,587	3,500	-	(313,232)	346,413	2,289	43,918
General revenues								
Interest and investment earnings	<u>599</u>	<u>115</u>	<u>301</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,015</u>
Revenues over (under) expenditures/ change in net position	2,960	2,702	3,801	-	(313,232)	346,413	2,289	44,933
Fund balance/net position, beginning of year, as restated (Note B)	<u>42,918</u>	<u>4,254</u>	<u>7,948</u>	<u>-</u>	<u>7,404,785</u>	<u>(7,332,917)</u>	<u>(65,590)</u>	<u>61,398</u>
Fund balance/net position, end of year	<u><u>\$ 45,878</u></u>	<u><u>\$ 6,956</u></u>	<u><u>\$ 11,749</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,091,553</u></u>	<u><u>\$ (6,986,504)</u></u>	<u><u>\$ (63,301)</u></u>	<u><u>\$ 106,331</u></u>