

Public Schools of
Petoskey



Year Ended
June 30, 2013

Financial
Statements and
Single Audit Act
Compliance

PUBLIC SCHOOLS OF PETOSKEY

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INDEPENDENT AUDITORS' REPORT

October 11, 2013

Honorable Members of the
Board of Education
of the Public Schools of Petoskey
Petoskey, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Public Schools of Petoskey* (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District'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.

Independent Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of *Public Schools of Petoskey* as of June 30, 2013, and the respective changes in financial position, and the respective budgetary comparison for the general fund, for the year then ended in conformity 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, other than the schedules included on pages 69 through 71, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedules on pages 69 through 71 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Rehmann Johnson LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

As management of the Public Schools of Petoskey (the "District"), a K-12 school district located in Emmet and Charlevoix Counties, Michigan, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. Please read it in conjunction with the District's financial statements, which immediately follows this section.

Overview of the Financial Statements

The District's basic financial statements consist of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. This report also contains other supplementary information.

The basic financial statements include two kinds of statements that present different views of the District:

- . The first two statements are the District-wide financial statements that provide both short-term and long-term information about the District's overall financial status. These statements present an aggregate view of the District's finances and a longer-term view of those finances.
- . The next statements are fund financial statements that focus on individual funds of the District. These statements look at the District's operations in more detail than the District-wide financial statements by providing information about the District's most significant funds - the General Fund, the Sinking Fund, 2012 Technology Bonds Fund, and the Debt Service Fund, with all other funds presented in one column as nonmajor funds.

The statement of fiduciary assets and liabilities - agency fund presents financial information about activities for which the District acts solely as an agent for the benefit of students and others.

District-wide financial statements. The District-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position and the statement of activities, which appear first in the District's financial statements, include all assets and liabilities and use the accrual basis of accounting. This means that all of the current year's revenues and expenses are taken into account regardless of when cash is received.

The two District-wide financial statements report the District's net position and how it has changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The relationship between revenues and expenses is the District's operating results. However, it should be noted that unlike most private-sector companies where improving shareholder wealth is the goal, the District's goal is to provide services to our students. Therefore, in order to assess the overall health of the District, one must consider many nonfinancial factors such as the quality of education provided, breadth of curriculum offered, condition of school facilities, and the safety of the schools.

The statement of net position and statement of activities report the governmental activities for the District, which encompass all of the District's services including instruction, supporting services, community services, food services, and athletics. Property taxes, unrestricted state aid, state grants, and federal grants finance most of these activities.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Fund financial statements. The District's fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants, though the District may establish other funds to help control and manage money for particular purposes. It may also establish other funds to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

The fund level financial statements are reported on a modified accrual basis, which measures only those revenues that are "measurable" and "currently available." Expenses are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund financial statements are formatted to comply with the legal requirements of the Michigan Department of Education's Bulletin 1022. The District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including:

- . Debt Service Fund - consisting of the 2012 Technology bonds, 2005 refunding bonds, Durant bonds, and two land contracts.
- . Special Revenue Fund - consisting of the Food Service Fund.
- . Capital Project Funds - consisting of the Sinking Fund, Technology Fund, and Building & Site Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. Assets are not capitalized at the fund level. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future debt obligations are not recorded at the fund level.

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in a separate statement of assets and liabilities - agency fund. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

District-Wide Financial Analysis

As stated earlier, the statement of net position provides the perspective of the District as a whole. The District's net position increased 1.25% to approximately \$38,593,000 as a result of operations in the current year. The table below provides a summary of the District's net position as of June 30, 2013, and June 30, 2012:

	Net Position		
	Governmental Activities		Percent Change
	2013	2012	
Current assets	\$ 13,500,298	\$ 15,783,687	-14.47%
Capital assets, net	48,789,556	46,777,790	4.30%
Total assets	62,289,854	62,561,477	-0.43%
Current liabilities	4,270,626	3,530,169	20.98%
Long-term liabilities	19,425,983	20,913,537	-7.11%
Total liabilities	23,696,609	24,443,706	-3.06%
Net position:			
Net investment in capital assets	30,837,921	31,788,855	-2.99%
Restricted	6,585,009	8,635,481	-23.74%
Unrestricted	1,170,315	(2,306,565)	-150.74%
Total net position	\$38,593,245	\$38,117,771	1.25%

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Net investment in capital assets, approximately \$30,838,000, is the original cost of the District's capital assets, less depreciation, less the long-term debt outstanding used to finance the acquisition of those assets. This debt will be repaid mainly from voter-approved property taxes collected as the debt and interest payments come due. Restricted net position of approximately \$6,585,000 is shown separately to recognize legal constraints from debt covenants and enabling legislation. These constraints limit the District's ability to use the restricted net position for day-to-day operations.

The remaining amount of net position of approximately \$1,170,000 is unrestricted and represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations of the District as a whole are reported in the statement of activities, summarized in the table below, which shows the changes in net position for fiscal year 2013 and 2012.

	Change in Net Position		
	Governmental Activities		Percent Change
	2013	2012	
Program Revenues:			
Charges for services	\$ 583,044	\$ 719,811	-19.00%
Grants and contributions	3,946,572	4,537,010	-13.01%
General Revenues:			
Property taxes	19,147,541	19,054,898	0.49%
Unrestricted state aid	6,630,261	6,111,043	8.50%
Other	115,336	114,111	1.07%
Total revenues	30,422,754	30,536,873	-0.37%
Expenses:			
Instruction	18,327,145	17,207,905	6.50%
Supporting services	7,561,959	7,362,385	2.71%
Community services	12,367	12,130	1.95%
Food services	879,867	963,186	-8.65%
Athletics	493,750	512,319	-3.62%
Interest on long-term debt	686,751	1,205,917	-43.05%
Unallocated depreciation	1,985,441	1,729,267	14.81%
Total expenses	29,947,280	28,993,109	3.29%
Increase in net position	\$ 475,474	\$ 1,543,764	-69.20%

Of the District's total revenues available to operate the District, 1.92% or approximately \$583,000 came from fees charged to those who benefited from the programs. Revenues from other governments or organizations that subsidize certain programs with grants and other directed types of funding approximated 12.97% or approximately \$3,946,000.

Local property taxes, of approximately \$19,148,000 or 62.94% of total revenue, supported the remaining portion of the governmental activities. Property tax revenue increased by 0.49% due to taxable value increases in the district. The property tax revenue comes mainly from the 18 mills on all non-homestead property, which we are required to levy by the State in order to receive our full State foundation allowance. The District enjoys the support of the community in maintaining our facilities, as approximately \$1,778,000 of the \$19,148,000 in tax revenue is generated by a special millage specifically for capital expenditures. The proceeds and expenditures of this special millage are accounted for exclusively in the District's Sinking Fund. This special millage was renewed by voters in May 2012, and will expire on December 31, 2019.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

The State foundation allowance accounted for 21.79% or approximately \$6,630,000 of the revenue available. This revenue is determined by a formula that incorporates pupil headcount, the annual per pupil allowance, and the non-homestead property taxable values of the District. The increase of 8.50% is mainly due to an increase in the per pupil Foundation allowance and State funding offsets on the District's retirement costs.

The expense portion of table above shows the financial support of each functional area required during the year. The overall increase of 3.29% is due to inflationary cost increases, health care cost increases, and increased retirement benefit costs. Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for approximately \$18,326,000 or 61.20% of total expenses. Support services cost approximately \$7,562,000 or 25.25% of total expenses, which include such items as transportation, maintenance, security, supervision, counseling, health care, and a variety of similar services that support the District's mission of educating children.

The District experienced an increase in net position of approximately \$475,000 or a 69.20% decrease from the fiscal 2012 increase in net position of approximately \$1,544,000. Overall, revenue decreased 0.38%, while expenses increased by 3.29%. It should be noted that under the accrual basis of accounting, property taxes collected for debt service are recognized as revenue, while only interest on the debt is recognized as expense. The increase in net position differs from the change in fund balance and a reconciliation appears later in the financial statements.

Financial Analysis of the District's Funds

As noted earlier, the District uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide, and may provide more insight in the District's overall financial health. As the District completed this year, the governmental funds reported a combined fund balance of approximately \$9,338,000, which is an decrease of approximately \$3,009,000 from the prior year. Approximately \$2,300,000 of this decrease was due to usage of the proceeds from our Technology Bond issue in May 2013. The remaining is due to planned use of resources to support our programming.

Of the combined governmental fund balances, 4.99% or approximately \$466,000 constitutes unassigned fund balance, which is available for spending at the District's discretion. District management has assigned approximately \$1,600,000 of fund balance to indicate planned uses of these funds. Of the assigned fund balance, approximately \$105,000 has been set aside to recognize the fund balance accumulated by the efforts of the Athletic department and supporters and approximately \$521,000 for capital projects. Management has assigned approximately another \$1,600,000 against subsequent year expenditures, in anticipation of declines in state and federal funding. Approximately \$6,580,000 is restricted fund balance to indicate that it is not available for spending at the District's discretion. Of the restricted fund balance, approximately \$6,046,000 is earmarked for capital improvements, approximately \$449,000 is earmarked for payments on long-term debt and \$85,000 is earmarked for food service. The remaining fund balance is non-spendable fund balance, and is earmarked for inventory and prepaid items.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, assigned fund balance of the General Fund was approximately \$1,705,000, while total fund balance was approximately \$2,232,000. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 8.74% of total General Fund expenditures and transfers.

The fund balance of the District's General Fund decreased by approximately \$801,000 during the current fiscal year, due to a multi-year management plan designed to use accumulated fund balance to offset expected declines in State funding.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires the budget be amended to ensure expenditures do not exceed appropriations. A statement showing the District's original and final budget amounts, compared with amounts actually paid and received, is provided in the basic financial statements.

A summary of variances from the final amended budget is as follows:

- The District's General Fund revenues were approximately \$334,000 less than the final amended budget, a variance of (1.33)%. The actual revenue was under budget mainly due to some local and federal grant awards not being spent in the time frame anticipated.
- The District's General Fund expenditures were approximately \$872,000 less than the final amended budget, a variance of 3.30%. The reduction of actual expenditures under budget is due to cost saving programs implemented throughout the year and due to some federal awards not being spent in the time frame anticipated.
- The difference between the original and final amended budget for the General Fund is mainly related to changes in health and retirement benefits that were not known at the time of the original budget and various other small changes to budgeted revenues and expenditures.

Capital Asset and Debt Administration

Capital Assets. By June 30, 2013, the District had invested approximately \$80,548,000 in a broad range of capital assets, including school buildings, land, athletic facilities, furniture, and equipment. This represents a net increase (including all additions and disposals) of approximately \$3,997,000 or 5.22% from last year. More detailed information about capital assets is available in Note 7 to the financial statements.

This year's capital asset additions include renovation of the Middle School auditorium. Construction-in-progress is attributable mainly to the Middle School roof replacement.

	Capital Assets	
	2013	2012
Land	\$ 3,384,351	\$ 3,384,351
Construction in progress	1,138,850	282,156
Buildings and improvements	65,333,316	64,659,751
Furniture and equipment	10,691,860	8,224,912
Total capital assets	80,548,377	76,551,170
Less accumulated depreciation	31,758,821	29,773,380
Net capital assets	\$48,789,556	\$46,777,790

Debt. At year-end, the District had approximately \$19,426,000 in general obligation bonds and other long-term debt outstanding - a decrease of 7.11% from last year - as shown in the below table. The entire decrease is due to District payments on outstanding debt. More detailed information about the District's long-term debt is presented in Note 8 to the financial statements, and in the Other Supplementary Information section.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

	Long-Term Debt	
	2013	2012
General obligation bonds	\$ 17,174,184	\$ 19,455,187
Other general obligation debt	<u>2,251,799</u>	<u>1,458,350</u>
Total long-term debt	<u>\$ 19,425,983</u>	<u>\$ 20,913,537</u>

In 2006, the District entered into a land contract for the purchase of land in the amount of \$700,000. The balance on the contract was approximately \$463,000 at June 30, 2013. In 2004, the District also entered into a land contract for the purchase of land. The original amount of the 2004 land contract was \$700,000, and the remaining balance at year end is approximately \$315,000.

Factors Bearing on the District's Future

We considered many factors when setting the District's 2013-14 fiscal year budget, including the anticipated loss of significant amounts of state and federal funding and increased retirement and health care costs. The District has planned for these losses, as evidenced by the cost-savings measures implemented over the past several years, and the stability in our fund balance.

Approximately 81% of total General Fund revenues are from the foundation allowance, including property taxes. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. That makes our student count estimate one of the most important factors impacting our budget. In setting the budget for 2013-14, we assumed a reduction of 45 students based on the predictions of an independent pupil enrollment statistician, and a \$120 increase in the Foundation allowance and related performance funding, based on State budget documents.

Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect the revenues to fund its appropriation to school districts. For fiscal year 2012-13, the District saw a foundation allowance of \$6,966. This State funding was \$120 more than in 2011-12, after the District qualified for the State's "Best Practice Incentive" funds. Having exhausted in 2011-12 the funds set aside from the Federal Edujobs grant, the district anticipated significant usage of accumulated fund balance during the 2012-13 school year.

Going into the budget planning cycle for 2013-14, we believe the foundation allowance will stay level at \$7,026. This modest increase plus other anticipated performance grants, will increase our revenues by approximately \$784,000. We also assume that our costs will increase by approximately \$960,000 due to staff contract provisions, retirement costs, and health care cost increases. This imbalance of \$176,000, when added to the current year budget imbalance of \$801,000, was larger than the Administration or Board is willing to accept. To offset this projected \$977,000 use of fund balance, in June 2013 the District implemented a cost savings plan designed to cut costs by \$1.2 million for the 2013-14 fiscal year. The District anticipates these cuts, when combined with the expected increase in revenue, will generate a slight increase of \$88,000 to the 2013-14 ending fund balance. This will maintain the fund balance at approximately \$2.18 million or 8.5% of expenditures, which is moderately above the minimum level required to meet cash flow requirements without borrowing. The District believes these cost cutting measures, when combined with the State's retirement reform and health care cost reforms, is sufficient to maintain the current programming for the next few years with only modest increases from State revenue sources. However, State funding increases over the past ten years have been less than the rate of inflation, and further cuts in 2-3 years will be necessary if that trend continues.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

The District's labor contract with the Petoskey Education Association, which represents the District's teachers, was settled in August 2013, and will expire in August 2015. The District's labor contract with the Petoskey Educational Support Personnel Association, which represents the District's support personnel, was settled in August 2013, and will expire in August 2015.

Requests for Information

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances. It is also designed to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, 1130 Howard Street, Petoskey, Michigan 49770.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

Statement of Net Position

June 30, 2013

Assets	
Cash and cash equivalents	\$ 7,411,148
Investments	3,933,457
Receivables	2,004,401
Other current assets	151,292
Capital assets not being depreciated	4,523,201
Capital assets being depreciated, net	<u>44,266,355</u>
Total assets	<u>62,289,854</u>
Liabilities	
Accounts payable and accrued liabilities	3,619,089
Unearned revenue	651,537
Long-term liabilities:	
Due within one year	2,787,609
Due in more than one year	<u>16,638,374</u>
Total liabilities	<u>23,696,609</u>
Net position	
Net investment in capital assets	30,837,921
Restricted for:	
Capital outlay	6,045,692
Debt service	448,983
Food service	90,334
Unrestricted	<u>1,170,315</u>
Total net position	<u><u>\$ 38,593,245</u></u>

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

PUBLIC SCHOOLS OF PETOSKEY

Statement of Activities

For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 18,327,145	\$ 53,496	\$ 3,257,788	\$ (15,015,861)
Supporting services	7,561,959	53,912	101,868	(7,406,179)
Community services	12,367	-	-	(12,367)
Food services	879,867	325,283	524,892	(29,692)
Athletics	493,750	150,353	62,024	(281,373)
Interest on long-term debt	686,751	-	-	(686,751)
Unallocated depreciation	1,985,441	-	-	(1,985,441)
Total governmental activities	\$ 29,947,280	\$ 583,044	\$ 3,946,572	(25,417,664)
General revenues				
Property taxes - operations				16,147,407
Property taxes - debt service				3,000,134
Unrestricted state aid				6,630,261
Unrestricted investment earnings				23,790
Other				91,546
Total general revenues				25,893,138
Change in net position				475,474
Net position, beginning of year, as restated				38,117,771
Net position, end of year				\$ 38,593,245

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

FUND FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

Governmental Funds

June 30, 2013

	General	Sinking	2012 Technology Bonds
Assets			
Cash and cash equivalents	\$ 129,251	\$ 3,716,740	\$ 2,624,887
Investments	3,664,555	215,052	-
Accounts receivable	39,763	-	14,110
Due from other governmental units	1,928,441	-	-
Other assets	59,384	-	-
Total assets	\$ 5,821,394	\$ 3,931,792	\$ 2,638,997
Liabilities			
Accounts payable	\$ 585,081	\$ 18,749	\$ 15,597
Contracts payable	-	490,751	-
Salaries payable	1,480,585	-	-
Accrued liabilities	872,528	-	-
Unearned revenue	651,537	-	-
Total liabilities	3,589,731	509,500	15,597
Fund balances			
Nonspendable			
Inventory	8,483	-	-
Prepaid items	50,901	-	-
Restricted			
Food service	-	-	-
Debt service	-	-	-
Capital outlay - capital project funds	-	3,422,292	2,623,400
Assigned			
Athletics	104,978	-	-
Capital outlay - capital project funds	-	-	-
Subsequent year expenditures	1,600,000	-	-
Unassigned (deficit)	467,301	-	-
Total fund balances	2,231,663	3,422,292	2,623,400
Total liabilities and fund balances	\$ 5,821,394	\$ 3,931,792	\$ 2,638,997

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



Debt Service	Nonmajor Funds	Total Governmental Funds
\$ 422,515	\$ 517,755	\$ 7,411,148
53,850	-	3,933,457
-	7,850	61,723
-	14,237	1,942,678
-	91,908	151,292
<u>\$ 476,365</u>	<u>\$ 631,750</u>	<u>\$ 13,500,298</u>
\$ 27,382	\$ 20,551	\$ 667,360
-	-	490,751
-	-	1,480,585
-	-	872,528
-	-	651,537
<u>27,382</u>	<u>20,551</u>	<u>4,162,761</u>
-	6,908	15,391
-	-	50,901
-	85,000	85,000
448,983	-	448,983
-	-	6,045,692
-	-	104,978
-	520,865	520,865
-	-	1,600,000
-	(1,574)	465,727
<u>448,983</u>	<u>611,199</u>	<u>9,337,537</u>
<u>\$ 476,365</u>	<u>\$ 631,750</u>	<u>\$ 13,500,298</u>

PUBLIC SCHOOLS OF PETOSKEY

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2013

Fund balances - total governmental funds	\$ 9,337,537
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements.	
Capital assets not being depreciated	4,523,201
Capital assets being depreciated, net	44,266,355
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Unamortized bond premiums, net	(339,184)
Bonds and land contracts payable	(17,612,451)
Employee incentives	(901,982)
Accrued interest on bonds payable	(107,865)
Compensated absences	(572,366)
Net position of governmental activities	<u>\$ 38,593,245</u>

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

PUBLIC SCHOOLS OF PETOSKEY

Statement of Revenue, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2013

	General	Sinking	2012 Technology Bonds
Revenue			
Local sources:			
Property taxes	\$ 13,895,909	\$ 1,777,833	\$ -
Payment in lieu of taxes	473,665	-	-
Charges for services	51,176	-	-
Tuition	2,320	-	-
Rent income	-	-	-
Interest	6,106	11,584	12,273
Athletics	212,377	-	-
Other income	116,794	-	-
State sources	8,280,466	-	-
Federal sources	443,615	-	-
Interdistrict sources	1,265,318	-	-
Total revenues	24,747,746	1,789,417	12,273
Expenditures			
Current:			
Instruction	17,489,888	-	-
Supporting services	7,960,128	-	-
Community services	12,367	-	-
Food services	-	-	-
Other	-	32,073	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlay	86,811	1,501,030	2,318,880
Total expenditures	25,549,194	1,533,103	2,318,880
Revenue (under) over expenditures	(801,448)	256,314	(2,306,607)
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	(132,853)	-
Total other financing sources (uses)	-	(132,853)	-
Net change in fund balances	(801,448)	123,461	(2,306,607)
Fund balances, beginning of year	3,033,111	3,298,831	4,930,007
Fund balances, end of year	\$ 2,231,663	\$ 3,422,292	\$ 2,623,400

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

Debt Service	Nonmajor Funds	Total Governmental Funds
\$ 3,000,134	\$ -	\$ 18,673,876
-	-	473,665
-	325,283	376,459
-	-	2,320
-	53,912	53,912
3,644	2,456	36,063
-	-	212,377
-	-	116,794
11,395	37,599	8,329,460
-	487,293	930,908
-	-	1,265,318
<u>3,015,173</u>	<u>906,543</u>	<u>30,471,152</u>
-	-	17,489,888
-	-	7,960,128
-	-	12,367
-	879,867	879,867
50,546	-	82,619
2,317,361	-	2,317,361
737,779	-	737,779
-	93,844	4,000,565
<u>3,105,686</u>	<u>973,711</u>	<u>33,480,574</u>
<u>(90,513)</u>	<u>(67,168)</u>	<u>(3,009,422)</u>
132,853	-	132,853
-	-	(132,853)
<u>132,853</u>	<u>-</u>	<u>-</u>
42,340	(67,168)	(3,009,422)
<u>406,643</u>	<u>678,367</u>	<u>12,346,959</u>
<u>\$ 448,983</u>	<u>\$ 611,199</u>	<u>\$ 9,337,537</u>

PUBLIC SCHOOLS OF PETOSKEY

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2013

Net change in fund balances - total governmental funds \$ (3,009,422)

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 those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	3,997,207
Depreciation expense	(1,985,441)

Governmental funds report bond premiums as expenditures. However, in the statement of activities, these costs are allocated over the life of the related bonds and reported as amortization expense.

Amortization of bond premium	55,126
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but a reduction in long-term liabilities on the statement of net position.

Issuance of early retirement incentives	(900,993)
Principal payments on long-term liabilities	2,317,361
Early retirement incentive payments	1,504

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds, but rather are deferred to the following fiscal year.

Payments received on long-term Durant settlement receivable	(10,877)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in the accrual for compensated absences	14,556
Change in accrued interest payable on bonds	(3,547)

Change in net position - governmental activities	<u>\$ 475,474</u>
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The accompanying notes are an integral part of these basic financial statements.

PUBLIC SCHOOLS OF PETOSKEY

Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual

General Fund

For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenue				
Local sources	\$ 14,923,178	\$ 14,761,862	\$ 14,758,347	\$ (3,515)
State sources	8,010,578	8,302,379	8,280,466	(21,913)
Federal sources	624,291	601,229	443,615	(157,614)
Interdistrict sources	1,346,157	1,415,604	1,265,318	(150,286)
Total revenue	<u>24,904,204</u>	<u>25,081,074</u>	<u>24,747,746</u>	<u>(333,328)</u>
Expenditures				
Current:				
Instruction	17,738,975	17,860,290	17,489,888	(370,402)
Supporting services	8,068,666	8,411,444	7,960,128	(451,316)
Community services	27,283	30,583	12,367	(18,216)
Capital outlay	137,010	118,313	86,811	(31,502)
Total expenditures	<u>25,971,934</u>	<u>26,420,630</u>	<u>25,549,194</u>	<u>(871,436)</u>
Net change in fund balances	(1,067,730)	(1,339,556)	(801,448)	538,108
Fund balances, beginning of year	<u>3,033,111</u>	<u>3,033,111</u>	<u>3,033,111</u>	-
Fund balances, end of year	<u>\$ 1,965,381</u>	<u>\$ 1,693,555</u>	<u>\$ 2,231,663</u>	<u>\$ 538,108</u>

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

PUBLIC SCHOOLS OF PETOSKEY

Statement of Fiduciary Assets and Liabilities

Agency Fund
June 30, 2013

Assets	
Cash and cash equivalents	\$ 188,969
Investments	425,000
Accounts receivable	<u>300</u>
Total assets	<u>\$ 614,269</u>
Liabilities	
Due to student groups	\$ 260,007
Scholarships payable	240,534
Due to others	<u>113,728</u>
Total liabilities	<u>\$ 614,269</u>

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

NOTES TO FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Public Schools of Petoskey (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit includes significant operational or financial relationships with the District.

District-Wide and Fund Financial Statements

The District-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the year ended June 30, 2013.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function 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 instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund follows the accrual basis of accounting, but does not have a measurement focus. Revenues are 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 revenues 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period, except taxes which must be collected within 60 days, and reimbursement type grants which must be collected within one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those accounted for and reported in another fund.

The *Sinking Fund* is used to record capital project activities funded with the sinking fund millage.

The *2012 Technology Bonds Fund* is used to record capital project activities funded with the 2012 technology bond proceeds.

The *Debt Service Fund* is used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

Additionally, the District reports the following fund types:

The *Special Revenue Fund* accounts and reports the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The *Agency Fund* accounts for assets held for other groups and organizations and is custodial in nature.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The effect of interfund activity has been eliminated from the District-wide financial statements.

Assets, liabilities and equity

Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

Receivables and payables

The District follows the practice of recording as receivables revenues that have been earned but not yet received. Receivables consist primarily of State School Aid payments from the State of Michigan and Federal grant funds earned but not yet collected. No amounts have been identified as potentially uncollectible by management, and therefore, no amount has been recorded as a provision for bad debts.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). There were no interfund advances outstanding at June 30, 2013.

Inventory and prepaid items

Inventory is valued at cost (first-in, first-out). Inventory consists of expendable supplies held for sale or consumption. The cost is recorded as an expenditure when consumed or sold rather than when purchased. Reported inventories are equally offset by nonspendable fund balance, which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets.

Payments made to vendors for services that will benefit future periods are reported as prepaid items.

Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	5-50
Furniture and equipment	5-15

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Compensated absences

District policy permits certain employees to accumulate earned but unused sick pay benefits, which are paid when the employee separates from service with the District. A liability is recorded in the District-wide financial statements for such amounts. No liability is recorded for accumulated vacation since hours earned do not vest.

Long-term obligations

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. 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 on debt issuances are reported as other financing uses.

Bonded Construction Costs and Sinking Funds

The 2012 Technology Bonds Fund includes activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code. Beginning in the year of issuance, the District has recorded the annual construction activity in the 2012 Technology Bonds Fund.

Fund equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify, or rescind a fund balance commitment. The District reports assigned fund balance for amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education has delegated the authority to assign fund balance to the District's CFO or his designee. Unassigned fund balance is the residual classification for the general fund.

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

Restricted net position represents assets which are legally restricted by outside parties or enabling legislation.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Use of Estimates

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

2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year-end.

The General Fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (“GAAP”), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budget for the General Fund is adopted on a functional basis.

3. DEPOSITS AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of June 30, 2013:

	Totals
Statement of Net Position	
Cash and cash equivalents	\$ 7,411,148
Investments	3,933,457
Statement of Fiduciary Assets and Liabilities	
Agency Funds	
Cash and cash equivalents	188,969
Investments	425,000
Total	<u>\$ 11,958,574</u>
Deposits and investments	
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 8,024,817
Cash on hand	300
Investments	3,933,457
Total	<u>\$ 11,958,574</u>

Michigan law authorizes the District to deposit and invest in:

Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than five years after the purchase dates.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following investments:

	Maturity	Fair Value	Rating
Michigan Liquid Asset Fund	n/a	\$ 3,933,457	S&P - AAAM

Certificates of deposit of \$425,000 are considered bank deposits for risk purposes.

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year-end.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, \$7,974,350 of the District's bank balance of \$8,474,350 was exposed to custodial credit risk because it was uninsured and uncollateralized.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

4. RECEIVABLES

Receivables are 97 percent due from other governmental units and 3 percent due from customers.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are 32 percent due to vendors, 41 percent salaries, and 27 percent accrued liabilities.

6. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The District reports interfund balances between certain funds. These interfund balances resulted primarily from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. There were no interfund balances as of June 30, 2013.

Transfers are used to: 1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; 2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and 3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2013, the District's Sinking Capital Project Fund transferred \$132,853 to the Debt Service Fund.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

7. CAPITAL ASSETS

Capital assets activity was as follows for the year ended June 30, 2013:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,384,351	\$ -	\$ -	\$ -	\$ 3,384,351
Construction-in-progress	282,156	1,138,850	-	(282,156)	1,138,850
	<u>3,666,507</u>	<u>1,138,850</u>	<u>-</u>	<u>(282,156)</u>	<u>4,523,201</u>
Capital assets, being depreciated:					
Buildings and improvements	64,659,751	391,409	-	282,156	65,333,316
Furniture and equipment	8,224,912	2,466,948	-	-	10,691,860
	<u>72,884,663</u>	<u>2,858,357</u>	<u>-</u>	<u>282,156</u>	<u>76,025,176</u>
Less accumulated depreciation for:					
Buildings and improvements	(22,469,525)	(1,557,146)	-	-	(24,026,671)
Furniture and equipment	(7,303,855)	(428,295)	-	-	(7,732,150)
	<u>(29,773,380)</u>	<u>(1,985,441)</u>	<u>-</u>	<u>-</u>	<u>(31,758,821)</u>
Total capital assets being depreciated, net	<u>43,111,283</u>	<u>872,916</u>	<u>-</u>	<u>282,156</u>	<u>44,266,355</u>
Governmental activities capital assets, net	<u>\$ 46,777,790</u>	<u>\$ 2,011,766</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,789,556</u>

Unallocated depreciation expense of \$1,985,441 was charged to the governmental activities.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

8. LONG-TERM DEBT

Long-term debt of the District consists of the following at June 30, 2013:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Bonds Payable					
General obligation	\$ 19,050,000	\$ -	\$ (2,215,000)	\$ 16,835,000	\$ 2,335,000
Durant resolution	10,877	-	(10,877)	-	-
Premium	394,310	-	(55,126)	339,184	55,124
Total bond payable	19,455,187	-	(2,281,003)	17,174,184	2,390,124
Other long-term liabilities					
Land contracts	868,935	-	(91,484)	777,451	96,165
Early retirement incentives	2,493	900,993	(1,504)	901,982	301,320
Compensated absences	586,922	83,566	(98,122)	572,366	-
Total other long-term liabilities	1,458,350	984,559	(191,110)	2,251,799	397,485
Total long-term liabilities	\$ 20,913,537	\$ 984,559	\$ (2,472,113)	\$ 19,425,983	\$ 2,787,609

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Long-term debt at June 30, 2013, includes the following:

General Obligation Bonds

2005 refunding bonds due in annual installments ranging from \$1,880,000 to \$2,125,000 plus interest ranging from 4.05% to 5.00%; final payment due May 2019. \$ 12,295,000

2012 technology bonds due in annual installments ranging from \$455,000 to \$1,225,000 plus interest ranging from 1.50% to 2.00%; final payment due May 2020. 4,540,000

Premium on bonds 339,184

Total bonds 17,174,184

Other Long-term Liabilities

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 1, 2022. 462,817

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 15, 2019. 314,634

Early retirement incentives 901,982

Compensated absences 572,366

Total other long-term liabilities 2,251,799

Total long-term debt \$ 19,425,983

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Debt service requirements

The annual requirements to service the bonds, early retirement incentives, and land contracts outstanding to maturity, including both principal and interest, are as follows:

Year Ended June 30,	Principal	Interest	Total
2014	\$ 2,787,609	\$ 680,240	\$ 3,467,849
2015	2,896,542	574,495	3,471,037
2016	3,011,714	463,773	3,475,487
2017	2,831,818	345,237	3,177,055
2018	2,937,533	240,534	3,178,067
2019-2022	4,388,401	171,589	4,559,990
Total	\$ 18,853,617	\$ 2,475,868	\$ 21,329,485

Interest and paying agent fees paid were \$686,751 for the year ended June 30, 2013.

Compensated absences are generally liquidated by the General Fund.

9. PROPERTY TAXES

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 of the following year. School related property taxes are levied on December 1 each year, based on the previous year's assessment, by township governments whose boundaries include property within the District, and are due on February 28. Delinquent real taxes are advanced to the District by the Revolving Tax Fund of the applicable County. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year-end, if any.

10. BENEFIT PLANS

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a collection of several retirement plans administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute. The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-5103.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Funding Policy

Defined Benefit Plans

Member contribution rates vary based on date of hire and certain voluntary elections. *Member Investment Plan* (“MIP”) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3.0 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000. Basic Plan members make no contributions. Members first enrolled on or after July 1, 2010 are enrolled in the MIP Plus Plan. Member contributions are matched at a rate of 50 percent by the employer, up to a maximum of one percent. *Basic 4%* and *MIP 7%* members contribute 4 percent and 7 percent of pretax salary, respectively. Based on the option selected at enrollment, these individuals contribute at a fixed rate until termination of employment or until reaching 30 years of service. At that time, based on the option selected, employee contributions are no longer required or revert to the contribution requirements under the MIP plan in which the employee initially enrolled.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree healthcare benefits on a cash disbursement basis. The rates for the year ended June 30, 2013 as a percentage of payroll ranged from 20.96 to 25.39 percent.

Hybrid Plans

Effective February 1, 2013, members that initially enrolled in the defined benefit plan were provided the option to convert to a defined contribution plan. In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4 percent employer contributions to a personal 401(k) account. Voluntary employee contributions are permitted in accordance with IRS guidelines. Employer contributions and earnings thereon vest based on the following schedule: 50 percent at 2 years of service, 75 percent at 3 years of service, and 100 percent at 4 years of service. Any voluntary contributions vest with the employee immediately. If a member participating in the hybrid plan retires with certain age and service requirements, he or she will receive a monthly pension based on compensation received before February 1, 2013.

Defined Contribution Plan

A member first enrolling in MPSERS on or after September 4, 2012 is automatically enrolled in the defined contribution plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the hybrid plan as described above.

The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District’s contributions to MPSERS under all plans for the years ended June 30, 2013, 2012, and 2011 were \$3,140,071, \$3,963,680, and \$3,473,860, respectively, equal to the required contributions for each year.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Other Postemployment Benefits

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the Premium Subsidy plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Plan participants contribute 3 percent of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that cover up to 80 percent of cost.

Plan members enrolled on or after September 4, 2012 participate in the Personal Healthcare Fund. This defined contribution other postemployment benefits plan includes a required 2 percent employee contribution into a personal tax-deferred account, which is matched by an additional 2 percent employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3 percent employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 are pending a Supreme Court resolution.

The District's contributions to MPSERS for other postemployment benefits are not separately identified and are included in the contribution amounts disclosed above.

11. SINKING FUND

The Sinking Fund records capital project activities funded with a sinking fund millage. For this fund, the District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

12. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2013, was as follows:

Capital assets:

Capital assets not being depreciated	\$ 4,523,201
Capital assets being depreciated, net	<u>44,266,355</u>
	48,789,556

Related debt:

Noncurrent liabilities	
Due within one year	(2,787,609)
Due in more than one year	(16,638,374)
Add back: early retirement incentives	901,982
Add back: compensated absences	<u>572,366</u>

Net investment in capital assets \$ 30,837,921

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

13. COMMITMENTS AND CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and contracts. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2013.

During fiscal year 2013, the District had entered into two construction contracts amounting to approximately \$1,819,000. The contracts are for renovations to the middle school. As of June 30, 2013, approximately \$877,000 was recorded as construction in progress related to these projects.

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program, in which the District participates, operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

14. RESTATEMENT

The District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended June 30, 2013, which eliminated the presentation of bond issuance costs as an asset amortized over the life of the related bonds. As a result of this change in accounting principle, beginning net position of Governmental Activities decreased by \$454,972.



**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2012

	Special Revenue Fund	Capital Project Funds	
	Food Service	Building and Site	Total
Assets			
Cash and cash equivalents	\$ 2,002	\$ 515,753	\$ 517,755
Accounts receivable	7,850	-	7,850
Due from other governmental units	9,125	5,112	14,237
Other assets	91,908	-	91,908
Total assets	\$ 110,885	\$ 520,865	\$ 631,750
Liabilities			
Accounts payable	\$ 20,551	\$ -	\$ 20,551
Fund balances			
Nonspendable - inventory	6,908	-	6,908
Restricted	85,000	-	85,000
Assigned			
Capital outlay	-	520,865	520,865
Unassigned (deficit)	(1,574)	-	(1,574)
Total fund balances	90,334	520,865	611,199
Total liabilities and fund balances	\$ 110,885	\$ 520,865	\$ 631,750

PUBLIC SCHOOLS OF PETOSKEY

Combining Statement of Revenue, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended June 30, 2013

	Special Revenue Fund	Capital Project Funds	
	Food Service	Building and Site	Total
Revenue			
Local sources			
Charges for services	\$ 325,283	\$ -	\$ 325,283
Rent income	-	53,912	53,912
Interest	739	1,717	2,456
State sources	37,599	-	37,599
Federal sources	487,293	-	487,293
Total revenue	850,914	55,629	906,543
Expenditures			
Current			
Food services	879,867	-	879,867
Capital outlay	-	93,844	93,844
Total expenditures	879,867	93,844	973,711
Net change in fund balances	(28,953)	(38,215)	(67,168)
Fund balances, beginning of year	119,287	559,080	678,367
Fund balances, end of year	\$ 90,334	\$ 520,865	\$ 611,199

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

General Fund

June 30, 2013

(With Comparative Totals as of June 30, 2012)

	2013	2012
Assets		
Cash and cash equivalents	\$ 129,251	\$ 400
Investments	3,664,555	4,599,894
Accounts receivable	39,763	1,922
Due from other funds	-	7,559
Due from other governmental units	1,928,441	1,505,698
Other assets	59,384	61,310
Total assets	\$ 5,821,394	\$ 6,176,783
Liabilities		
Accounts payable	\$ 585,081	\$ 286,163
Checks issued in excess of cash	-	221,223
Salaries payable	1,480,585	1,460,624
Accrued liabilities	872,528	821,988
Deferred revenue	651,537	353,674
Total liabilities	3,589,731	3,143,672
Fund balances		
Nonspendable		
Inventory	8,483	14,171
Prepaid items	50,901	47,139
Assigned		
Athletics	104,978	93,829
Subsequent year expenditures	1,600,000	1,749,836
Unassigned	467,301	1,128,136
Total fund balances	2,231,663	3,033,111
Total liabilities and fund balances	\$ 5,821,394	\$ 6,176,783

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Revenue

General Fund

For the Year Ended June 30, 2013

(With Comparative Totals For the Year Ended June 30, 2012)

	2013	2012
Revenue		
Local Sources		
Property taxes	\$ 13,895,909	\$ 14,311,708
Payment in lieu of taxes	473,665	463,775
Charges for services	51,176	225,831
Tuition	2,320	18,277
Interest	6,106	8,337
Athletics	212,377	234,037
Other income	116,794	105,607
Total local sources	<u>14,758,347</u>	<u>15,367,572</u>
State sources		
State aid - foundation allowance		
Proposal A obligation	1,035,506	648,554
Discretionary payment	5,312,479	4,984,943
Prior year adjustments	129,961	183,070
Special education headlee obligation	712,870	692,337
State aid - other unrestricted grants		
Best practice incentive	152,315	294,476
State aid - restricted grants		
At-risk	329,438	399,530
MPSERS cost offset	506,547	236,575
Data collection	71,850	64,084
Technological infrastructure	29,500	-
Total state sources	<u>8,280,466</u>	<u>7,503,569</u>
Federal sources		
American Recovery and Reinvestment Act	-	32,872
Title I	343,007	353,665
Title II	50,757	62,223
Title IX	45,048	52,232
Edujobs	-	703,056
Other	4,803	3,000
Total federal sources	<u>443,615</u>	<u>1,207,048</u>
Interdistrict sources		
Vocational education - millage	374,636	437,922
Vocational education - added cost	149,706	103,012
Expense reimbursements	740,976	731,431
Total interdistrict sources	<u>1,265,318</u>	<u>1,272,365</u>
Total revenue	<u>\$ 24,747,746</u>	<u>\$ 25,350,554</u>

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2013

(With Comparative Totals For the Year Ended June 30, 2012)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
Instruction					
Basic programs					
Elementary	\$ 3,864,720	\$ 2,110,126	\$ 126,381	\$ 121,983	\$ -
Middle school	2,076,039	1,130,554	59,393	28,390	5,536
High school	2,425,217	1,282,120	129,896	47,873	-
Summer school	-	-	-	-	-
Total basic programs	8,365,976	4,522,800	315,670	198,246	5,536
Added needs					
Special education	1,245,326	700,471	227,293	4,749	-
Compensatory education	155,212	92,325	369,470	41,493	-
Vocational education	613,163	347,228	61,602	228,864	-
Total added needs	2,013,701	1,140,024	658,365	275,106	-
Total instruction	10,379,677	5,662,824	974,035	473,352	5,536
Supporting services					
Pupil services					
Guidance services	308,080	163,766	-	1,751	-
Health services	-	-	160,558	210	-
Other	17,029	5,832	53,738	-	-
Total pupil services	325,109	169,598	214,296	1,961	-
Instructional staff services					
Improvement of instruction	12,850	4,350	12,939	4,986	-
Library	65,855	43,028	60,589	26,552	-
Technology assisted instruction	132,412	63,511	655	1,554	-
Supervision	114,056	57,523	2,072	1,525	-
Academic student assessment	-	-	-	26,688	-
Total instructional staff services	325,173	168,412	76,255	61,305	-



Total	
2013	2012

\$ 6,223,210	\$ 6,077,236
3,299,912	3,266,192
3,885,106	3,839,752
-	135
<u>13,408,228</u>	<u>13,183,315</u>

2,177,839	2,134,428
658,500	755,057
<u>1,250,857</u>	<u>1,265,028</u>

<u>4,087,196</u>	<u>4,154,513</u>
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<u>17,495,424</u>	<u>17,337,828</u>
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473,597	479,745
160,768	140,595
<u>76,599</u>	<u>72,680</u>

<u>710,964</u>	<u>693,020</u>
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35,125	47,456
196,024	197,770
198,132	189,474
175,176	172,149
<u>26,688</u>	<u>26,086</u>

<u>631,145</u>	<u>632,935</u>
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Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2013

(With Comparative Totals For the Year Ended June 30, 2012)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
General administration					
Board of education	\$ -	\$ -	\$ 45,428	\$ 3,016	\$ -
Executive administration	168,542	95,380	127,245	9,801	-
Total general administration	168,542	95,380	172,673	12,817	-
School administration					
Office of the principal	774,382	482,163	202,724	25,115	-
Business services					
Fiscal services	248,168	147,933	13,794	492,211	-
Operations and maintenance	355,967	240,325	722,739	657,992	81,275
Transportation	-	-	1,239,496	-	-
Support services - central	42,296	29,552	-	-	-
Security services	-	-	-	-	-
Athletic activities	112,939	37,879	262,231	80,701	-
Total supporting services	2,352,576	1,371,242	2,904,208	1,332,102	81,275
Community services					
Community services direction	3,353	2,092	-	1,583	-
Non-public school pupils	-	-	5,165	174	-
Total community services	3,353	2,092	5,165	1,757	-
Total operating expenditures	\$ 12,735,606	\$ 7,036,158	\$ 3,883,408	\$ 1,807,211	\$ 86,811



Total	
2013	2012

\$ 48,444	\$ 49,064
<u>400,968</u>	<u>385,045</u>
449,412	434,109
<u>1,484,384</u>	<u>1,468,820</u>
<u>902,106</u>	<u>703,420</u>
<u>2,058,298</u>	<u>2,091,988</u>
<u>1,239,496</u>	<u>1,225,250</u>
<u>71,848</u>	<u>66,084</u>
<u>-</u>	<u>16,093</u>
<u>493,750</u>	<u>512,319</u>
<u>8,041,403</u>	<u>7,844,038</u>
<u>7,028</u>	<u>9,376</u>
<u>5,339</u>	<u>2,754</u>
<u>12,367</u>	<u>12,130</u>
<u>\$ 25,549,194</u>	<u>\$ 25,193,996</u>

Concluded

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

Food Service Special Revenue Fund

June 30, 2013

(With Comparative Totals as of June 30, 2012)

	2013	2012
Assets		
Cash and cash equivalents	\$ 2,002	\$ 48,322
Accounts receivable	7,850	-
Due from other governmental units	9,125	-
Other assets	91,908	103,932
Total assets	\$ 110,885	\$ 152,254
Liabilities		
Accounts payable	\$ 20,551	\$ 31,880
Unearned revenue	-	1,087
Total liabilities	20,551	32,967
Fund balances		
Nonspendable - inventory	6,908	18,932
Restricted	85,000	85,000
Assigned	-	15,355
Unassigned (deficit)	(1,574)	-
Total fund balances	90,334	119,287
Total liabilities and fund balances	\$ 110,885	\$ 152,254

PUBLIC SCHOOLS OF PETOSKEY

Statement of Revenue, Expenditures and Changes in Fund Balances

Food Service Special Revenue Fund

For the Year Ended June 30, 2013

(With Comparative Totals For the Year Ended June 30, 2012)

	2013	2012
Revenue		
Local sources		
Lunch sales	\$ 166,221	\$ 189,169
Breakfast sales	9,849	9,897
Ala carte sales	149,213	174,933
State sources	37,599	37,883
Federal sources	487,293	565,166
Interest income	739	717
Total revenue	<u>850,914</u>	<u>977,765</u>
Expenditures		
Salaries	26,647	37,802
Employee benefits	21,498	34,807
Purchased services	379,851	411,128
Supplies, materials and other expenditures	69,713	80,309
Food costs	382,158	399,140
Total expenditures	<u>879,867</u>	<u>963,186</u>
Net change in fund balances	(28,953)	14,579
Fund balances, beginning of year	<u>119,287</u>	<u>104,708</u>
Fund balances, end of year	<u>\$ 90,334</u>	<u>\$ 119,287</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet

Capital Projects Funds

June 30, 2013

(With Comparative Totals as of June 30, 2012)

	Sinking Fund	Building and Site	Technology Bonds
Assets			
Cash and cash equivalents	\$ 3,716,740	\$ 515,753	\$ 2,624,887
Investments	215,052	-	-
Accounts receivable	-	-	14,110
Due from other governmental units	-	5,112	-
Total assets	<u>\$ 3,931,792</u>	<u>\$ 520,865</u>	<u>\$ 2,638,997</u>
Liabilities			
Accounts payable	\$ 18,749	\$ -	\$ 15,597
Contracts payable	490,751	-	-
Total liabilities	<u>509,500</u>	<u>-</u>	<u>15,597</u>
Fund balances			
Restricted - capital outlay	3,422,292	-	2,623,400
Assigned - capital outlay	-	520,865	-
Total fund balances	<u>3,422,292</u>	<u>520,865</u>	<u>2,623,400</u>
Total liabilities and fund balances	<u>\$ 3,931,792</u>	<u>\$ 520,865</u>	<u>\$ 2,638,997</u>



Total	
2013	2012

\$ 6,857,380	\$ 8,776,593
215,052	214,975
14,110	-
5,112	-
<u>\$ 7,091,654</u>	<u>\$ 8,991,568</u>

\$ 34,346	\$ -
490,751	203,650
<u>525,097</u>	<u>203,650</u>

6,045,692	8,228,838
520,865	559,080
<u>6,566,557</u>	<u>8,787,918</u>
<u>\$ 7,091,654</u>	<u>\$ 8,991,568</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

Capital Projects Funds

For the Year Ended June 30, 2013

(With Comparative Totals For the Year Ended June 30, 2012)

	Sinking Fund	Building and Site	2012 Technology Bonds
Revenue			
Property taxes	\$ 1,777,833	\$ -	\$ -
Rent income	-	53,912	-
Interest	11,584	1,717	12,273
Total revenue	1,789,417	55,629	12,273
Expenditures			
Capital outlay	1,501,030	93,844	2,318,880
Other	32,073	-	-
Total expenditures	1,533,103	93,844	2,318,880
Revenue over (under) expenditures	256,314	(38,215)	(2,306,607)
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	(132,853)	-	-
Total other financing sources (uses)	(132,853)	-	-
Net change in fund balances	123,461	(38,215)	(2,306,607)
Fund balances, beginning of year	3,298,831	559,080	4,930,007
Fund balances, end of year	\$ 3,422,292	\$ 520,865	\$ 2,623,400



Total	
2013	2012

\$ 1,777,833	\$ 1,801,220
53,912	48,676
<u>25,574</u>	<u>17,125</u>
<u>1,857,319</u>	<u>1,867,021</u>

3,913,754	2,001,931
<u>32,073</u>	<u>21,842</u>

<u>3,945,827</u>	<u>2,023,773</u>
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<u>(2,088,508)</u>	<u>(156,752)</u>
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-	4,930,000
<u>(132,853)</u>	<u>(132,853)</u>

<u>(132,853)</u>	<u>4,797,147</u>
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(2,221,361)	4,640,395
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<u>8,787,918</u>	<u>4,147,523</u>
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<u>\$ 6,566,557</u>	<u>\$ 8,787,918</u>
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PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Schedule

Debt Service Fund

June 30, 2013

(With Comparative Totals as of June 30, 2012)

	2005 Refunding Bonds	Foster Land Contract	Veurink Land Contract	2012 Technology Bonds
Assets				
Cash and cash equivalents	\$ 334,650	\$ -	\$ -	\$ 87,865
Investments	53,850	-	-	-
Due from other governmental units	-	-	-	-
Total assets	<u>\$ 388,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,865</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 27,382
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	-	-	-	27,382
Fund balances				
Restricted	<u>388,500</u>	<u>-</u>	<u>-</u>	<u>60,483</u>
Total liabilities and fund balances	<u>\$ 388,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,865</u>

Note: This schedule represents various debt issues that are accounted for in the Debt Service Fund.



Durant Settlement	Total	
	2013	2012
\$ -	\$ 422,515	\$ 405,946
-	53,850	53,818
-	-	10,877
<u>\$ -</u>	<u>\$ 476,365</u>	<u>\$ 470,641</u>
\$ -	\$ 27,382	\$ 45,562
-	-	7,559
-	-	10,877
-	27,382	63,998
-	448,983	406,643
<u>\$ -</u>	<u>\$ 476,365</u>	<u>\$ 470,641</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Schedule of Debt Service Activities and Changes in Fund Balances

Debt Service Fund

For the Year Ended June 30, 2013

(With Comparative Totals For the Year Ended June 30, 2012)

	2005 Refunding Bonds	Foster Land Contract	Veurink Land Contract	2012 Technology Bonds
Revenue				
Local sources:				
Property taxes	\$ 2,460,110	\$ -	\$ -	\$ 540,024
State sources	-	-	-	-
Interest income	3,644	-	-	-
Total revenue	2,463,754	-	-	540,024
Expenditures				
Principal	1,825,000	49,348	42,136	390,000
Interest	621,250	17,078	24,291	74,642
Other	22,807	-	-	27,739
Total expenditures	2,469,057	66,426	66,427	492,381
Revenue over (under) expenditures	(5,303)	(66,426)	(66,427)	47,643
Other financing sources (uses)				
Premium on bond issuance	-	-	-	-
Bond proceeds	-	-	-	-
Transfers in	-	66,426	66,427	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	66,426	66,427	-
Net change in fund balances	(5,303)	-	-	47,643
Fund balances, beginning of year	393,803	-	-	12,840
Fund balances, end of year	\$ 388,500	\$ -	\$ -	\$ 60,483

Note: This schedule represents various debt issues that are accounted for in the Debt Service Fund.



Durant Settlement	Total	
	2013	2012
\$ -	\$ 3,000,134	\$ 2,478,195
11,395	11,395	11,396
-	3,644	4,167
<u>11,395</u>	<u>3,015,173</u>	<u>2,493,758</u>
10,877	2,317,361	1,832,414
518	737,779	754,835
-	50,546	71,027
<u>11,395</u>	<u>3,105,686</u>	<u>2,658,276</u>
<u>-</u>	<u>(90,513)</u>	<u>(164,518)</u>
-	-	67,485
-	-	4,930,000
-	132,853	132,853
-	-	(4,930,000)
<u>-</u>	<u>132,853</u>	<u>200,338</u>
-	42,340	35,820
<u>-</u>	<u>406,643</u>	<u>370,823</u>
<u>\$ -</u>	<u>\$ 448,983</u>	<u>\$ 406,643</u>

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2013

	Balances July 1, 2012	Receipts	Disbursements	Balances June 30, 2013
Assets				
Cash	\$ 144,768	\$ 895,882	\$ 851,681	\$ 188,969
Investments	425,000	-	-	425,000
Accounts receivable	1,100	(800)	-	300
Total assets	\$ 570,868	\$ 895,082	\$ 851,681	\$ 614,269
Liabilities				
Due to student groups	\$ 246,314	\$ 609,295	\$ 595,602	\$ 260,007
Scholarships payable	240,590	3,169	3,225	240,534
Due to others	83,964	282,618	252,854	113,728
Total liabilities	\$ 570,868	\$ 895,082	\$ 851,681	\$ 614,269
The balances consist of the following:				
Deposits due to student groups				
Central Elementary				
Central 3rd Grade	\$ 18	\$ -	\$ -	\$ 18
Central 5th Grade	211	3,488	3,439	260
Central Library & Computer	652	-	-	652
Central School Fund	543	1,723	2,083	183
Central School Store	663	1,202	1,212	653
5th Grade Colonial Days	-	701	481	220
Lincoln Elementary				
Lincoln School Fund	2,593	1,264	1,744	2,113
Ottawa Elementary				
Ottawa 4th Grade Field Trip	924	3,045	2,566	1,403
Ottawa 5th Grade Field Trip	97	15,266	12,822	2,541
Ottawa Boy's Group	125	-	125	-
Ottawa Field Trip Fund	881	3,616	3,941	556
Ottawa Girls Group	212	1,225	1,437	-
Ottawa instructional supplies	5,617	4,245	4,057	5,805
Ottawa Learning Center	21	-	-	21
Ottawa Popcorn Sales	2,472	2,222	1,297	3,397
Ottawa School Fund	4,740	1,268	4,298	1,710
Ottawa Kindergarten	-	2,000	1,884	116
Sheridan Elementary				
Sheridan 3rd Grade	614	2,035	1,837	812
Sheridan 4th Grade	836	995	844	987
Sheridan 5th Grade	69	190	100	159
Sheridan Garden Fund	109	-	-	109
Sheridan School	12,448	11,242	8,045	15,645
Sheridan Student Council	17	555	510	62
Petoskey Middle School				
6th Grade Club	1,342	43,898	44,704	536
7th Grade Club	1,800	8,646	8,203	2,243
8th Grade Club	4,581	14,929	13,835	5,675
Builder's Club	317	440	567	190

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2013

	Balances July 1, 2012	Receipts	Disbursements	Balances June 30, 2013
Petoskey Middle School (continued)				
Middle School Adventure Education	\$ 1,602	\$ -	\$ -	\$ 1,602
Middle School Art Club	1,046	-	212	834
Middle School Athletics	198	-	-	198
Middle School Celebration Garden	517	-	301	216
Middle School Ecology Club	484	2,332	2,268	548
Middle School Fall Play	6,265	3,653	6,966	2,952
Middle School Photo Club	2,101	-	1,960	141
Middle School Student Council	1,737	1,708	1,228	2,217
Middle School Student Special needs	7,390	-	350	7,040
Middle School Yearbook	3,206	7,697	9,120	1,783
Middle School Greenhouse	73	-	-	73
Middle School Washington DC Trip	1,130	3,475	2,429	2,176
Middle School Wood Shop	56	311	-	367
Middle School Youth In Government	2,692	6,301	7,825	1,168
Middle School Book Fair	189	-	-	189
Middle School Fund	8,354	3,988	1,473	10,869
Middle School Store	530	7,258	7,294	494
Middle School Special Needs Counseling	250	178	144	284
Petoskey Middle School Athletics				
Middle School Dance	47	484	506	25
Middle School Enrichment	6,359	21,857	12,615	15,601
Middle School Football	3,472	1,858	1,266	4,064
Middle School Track	3,195	1,253	1,392	3,056
Middle School Volleyball	2,820	-	-	2,820
Middle School Boys Basketball	14	662	540	136
Middle School Girls Basketball	856	389	564	681
Petoskey High School				
Auto Shop Tool Fund	50	-	-	50
Building Trades Fund	326	3,395	2,808	913
Business Club	163	-	-	163
Class of 2010	2,123	-	2,123	-
Class of 2011	1,051	-	1,051	-
Class of 2012	3,881	-	3,881	-
Class of 2013	2,655	3,640	6,214	81
Class of 2014	860	7,426	5,351	2,935
Class of 2015	658	1,051	750	959
Class of 2016	-	3,881	81	3,800
Communications/ Renaissance Program	32	3,474	3,506	-
DECA	(534)	13,269	11,808	927
Debate Club	6,252	8,100	7,873	6,479
Drafting	716	-	122	594
FCCLA	534	2,941	2,687	788
FCCLA Region II	1	-	1	-
Forensics	374	-	-	374
French Club	1,201	1,281	2,110	372
Future Farmers of America	2,135	315	490	1,960
G Wing Productions	126	-	-	126
Graduated Classes	4,532	-	-	4,532

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2013

	Balances July 1, 2012	Receipts	Disbursements	Balances June 30, 2013
Petoskey High School (continued)				
Guidance Dept Testing	\$ 4,070	\$ 31,999	\$ 31,577	\$ 4,492
HOSA	(1,048)	1,060	-	12
High School Art Club	2,759	-	-	2,759
High School Fall Play	738	4,022	4,548	212
High School Journalism	733	-	718	15
High School Learning Center	834	-	-	834
High School Quiz Bowl Team	309	800	651	458
High School Spring Musical	254	6,838	6,990	102
High School Steel Drum Band	-	27,050	27,050	-
High School Student Council	2,956	7,609	8,591	1,974
High School Vocal	286	1,210	1,069	427
High School Yearbook	1,892	20,188	20,155	1,925
High School Social Studies Club	26	-	-	26
High School Fund	385	2,237	2,372	250
Hospitality Foods Tip Fund	40	194	-	234
Indian Education/Unity Trip	280	-	-	280
Key Club	1,578	736	219	2,095
Model UN/H.S. Enrichment	744	12,100	8,881	3,963
National Honor Society	995	875	440	1,430
Operation Thanksgiving	5,293	-	5,293	-
Petoskey High School Papermakers	2,642	304	377	2,569
Robotics	418	42,816	42,511	723
Science Class	500	-	71	429
Skateboarding Club	107	-	16	91
Spanish Club	569	-	53	516
High School Special Needs Counseling	250	-	-	250
World History Trip Fund	450	-	-	450
High School Athletics				
Athletic Hall Of Fame	325	1,063	825	563
Athletic miscellaneous fundraisers	823	1,686	-	2,509
Boys Basketball	4,778	7,227	9,107	2,898
Boys Golf	995	1,500	1,787	708
Boys Tennis	3,356	4,319	4,942	2,733
Dance	11	-	-	11
Girls Basketball	1,688	785	1,861	612
Girls Golf	1,821	2,115	1,563	2,373
Girls Tennis	3,614	15,853	15,736	3,731
Girls Track	194	1,658	1,386	466
High School Baseball	366	241	569	38
High School Boys Soccer	777	906	2,009	(326)
High School Cross Country	6,134	7,983	10,021	4,096
High School Football	45	-	-	45
High School Girls Soccer	713	499	933	279
High School Hockey	30,110	95,187	90,046	35,251
Northmen Club	629	-	-	629
Pay To Participate Donations	-	1,650	-	1,650
Volleyball	1,940	4,788	2,542	4,186

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund
For the Year Ended June 30, 2013

	Balances July 1, 2012	Receipts	Disbursements	Balances June 30, 2013
High School Athletics (continued)				
Wrestling	\$ 6,336	\$ 9,928	\$ 12,544	\$ 3,720
Boys Track	-	650	196	454
Pink Game	-	17,580	16,748	832
District-Wide Accounts				
Elementary Enrichment	824	5,302	5,319	807
Elementary Enrichment Play	10,511	10,717	8,944	12,284
Elementary Music Fund	671	1,488	1,659	500
Student Reserve	17,972	19,760	15,943	21,789
Total due to student groups	246,314	609,295	595,602	260,007
Scholarships payable				
Doris Reber - Class of 1932 Scholarship	209,292	800	2,000	208,092
Eric Greyerbiehl Memorial Fund	1,707	-	325	1,382
McClutchey Memorial Scholarship	5,087	20	100	5,007
Midshipmen Scholarship	7,247	28	-	7,275
Vaughn Memorial Scholarship	16,750	64	300	16,514
Wil Moyer Music Scholarship	507	750	500	757
Duane Hasse Memorial Fund	-	1,507	-	1,507
Total scholarships payable	240,590	3,169	3,225	240,534
Due to others				
Carol Hansen Memorial Fund	8,536	-	-	8,536
Central PTO	37,213	44,869	54,169	27,913
High School Staff Fund	465	-	103	362
Kathy Robinson Memorial Fund	96	-	-	96
Lincoln PTO	8,238	28,237	33,399	3,076
Maintenance Fund	472	-	376	96
Northmen Night	211	93,415	93,210	416
Ottawa PTO Board Fund	17,631	22,927	27,566	12,992
PEF Grants - Central	-	898	598	300
PEF Grants - High School	529	3,493	4,022	-
PEF Grants - Lincoln	202	994	780	416
PEF Grants - Middle School	14	1,761	1,576	199
PEF Grants - Montessorri	-	2,777	2,777	-
PEF Grants - Ottawa	-	3,369	2,675	694
PEF Grants - Sheridan	150	1,350	1,500	-
PEF Grant - ACT/SAT Seminar	-	860	792	68
Petoskey Family Fund	9,016	11,355	3,664	16,707
Robert Motely Memorial Fund	106	-	-	106
Senior Parent Committee	816	26,445	25,586	1,675
Spitler Building Pop Fund	269	105	61	313
Due to Primary Government	-	39,763	-	39,763
Total due to others	83,964	282,618	252,854	113,728
Totals	\$ 570,868	\$ 895,082	\$ 851,681	\$ 614,269

Concluded

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Bond Indebtedness For the Year Ended June 30, 2013

Purpose	2005 Refunding Bonds
Date of issue	May 27, 2005
Rate of interest	3.50% to 5.00%
Original obligation	\$ 21,370,000
Amount previously paid	<u>9,075,000</u>
Balance outstanding - June 30, 2013	<u>\$ 12,295,000</u>

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
2013-2014	\$ 278,688	\$ 278,688	\$ 1,880,000	\$ 2,437,376
2014-2015	231,688	231,688	1,970,000	2,433,376
2015-2016	182,438	182,438	2,070,000	2,434,876
2016-2017	130,688	130,688	2,125,000	2,386,376
2017-2018	86,594	86,594	2,125,000	2,298,188
2018-2019	43,563	43,563	2,125,000	2,212,126
	<u>\$ 953,659</u>	<u>\$ 953,659</u>	<u>\$ 12,295,000</u>	<u>\$ 14,202,318</u>

Call Provision

Bonds of this issue maturing on or after May 1, 2016, are subject to redemption at the option of the issuer in multiples of \$5,000 in such order as the issuer may determine, and by lot within any maturity, on any date occurring on or after May 1, 2015, at par plus accrued interest to the date fixed for redemption.

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Bond Indebtedness For the Year Ended June 30, 2013

Purpose	Durant Resolution Bonds
Date of issue	November 24, 1998
Rate of interest	4.76%
Original obligation	\$ 162,282
Amount previously paid	<u>162,282</u>
Balance outstanding - June 30, 2013	<u><u>\$ -</u></u>

Concluded

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Other Installment Debt
For the Year Ended June 30, 2013

Purpose	Purchase of Veurink property on land contract.
Date of issue	December 22, 2006
Rate of interest	5.00%
Original obligation	\$ 700,000
Amount previously paid	<u>237,183</u>
Balance outstanding - June 30, 2013	<u><u>\$ 462,817</u></u>

Fiscal Year	Interest	May 1, Principal	Annual Requirements
2013-2014	\$ 22,135	\$ 44,292	\$ 66,427
2014-2015	19,869	46,558	66,427
2015-2016	17,487	48,940	66,427
2016-2017	14,983	51,443	66,426
2017-2018	12,351	54,075	66,426
2018-2019	9,585	56,842	66,427
2019-2020	6,676	59,750	66,426
2020-2021	3,620	62,807	66,427
2021-2022	638	38,110	38,748
	<u>\$ 107,344</u>	<u>\$ 462,817</u>	<u>\$ 570,161</u>

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Other Installment Debt
For the Year Ended June 30, 2013

Purpose	Purchase of Foster property on land contract.
Date of issue	November 14, 2003
Rate of interest	5.00%
Original obligation	\$ 700,000
Amount previously paid	<u>385,366</u>
Balance outstanding - June 30, 2013	<u><u>\$ 314,634</u></u>

Fiscal Year	Interest	May 15, Principal	Annual Requirements
2013-2014	\$ 14,554	\$ 51,873	\$ 66,427
2014-2015	11,900	54,527	66,427
2015-2016	9,110	57,317	66,427
2016-2017	6,178	60,249	66,427
2017-2018	3,095	63,332	66,427
2018-2019	343	27,336	27,679
	<u>\$ 45,180</u>	<u>\$ 314,634</u>	<u>\$ 359,814</u>

Concluded

OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)

PUBLIC SCHOOLS OF PETOSKEY

Property Tax Information (Unaudited)

For the Year Ended June 30, 2013

Taxing District	Tax Levy	Collections and Other Reductions	Delinquent Personal Property Taxes	Percentage of Current Year Levy Collected
Bear Creek Township	\$ 5,680,793	\$ 5,427,338	\$ 253,455	95.54%
Littlefield Township	67,554	67,065	489	99.28%
Little Traverse Township	456,573	418,457	38,116	91.65%
Resort Township	3,593,799	3,365,183	228,616	93.64%
Springvale Township	839,539	773,428	66,111	92.13%
City of Petoskey	6,544,412	6,223,320	321,092	95.09%
Chandler Township	155,974	149,518	6,456	95.86%
Hayes Township	45,894	41,666	4,228	90.79%
Melrose Township	1,106,473	1,000,820	105,653	90.45%
Total	\$ 18,491,011	\$ 17,466,795	\$ 1,024,216	94.46%
Allocated as follows				
General Fund	\$ 13,733,385	\$ 12,948,716	\$ 784,669	94.29%
Debt Service Fund	2,984,570	2,837,832	146,738	95.08%
Capital Project Funds	1,773,056	1,680,247	92,809	94.77%
Total allocated to all funds	\$ 18,491,011	\$ 17,466,795	\$ 1,024,216	94.46%

PUBLIC SCHOOLS OF PETOSKEY

Ten-Year Summary of Enrollment (Unaudited)

For the Year Ended June 30, 2013

Year	Special Education	Elementary School	Middle School	High School	Total	Non-Resident	Resident
2004	79	1,240	712	1,062	3,095	287	2,808
2005	74	1,271	693	1,037	3,075	301	2,774
2006	76	1,261	700	1,050	3,087	324	2,763
2007	76	1,244	660	1,027	3,007	341	2,665
2008	73	1,224	669	1,020	2,987	342	2,645
2009	76	1,246	669	984	2,975	350	2,625
2010	68	1,218	651	994	2,932	367	2,565
2011	63	1,207	637	980	2,887	356	2,531
2012	59	1,223	687	982	2,951	359	2,592
2013	58	1,223	657	991	2,929	377	2,553

Note: Data above extracted from the September pupil counts only.

PUBLIC SCHOOLS OF PETOSKEY

**Ten-Year Summary of General Fund Expenditures,
Student Enrollment And Per Pupil Costs (Unaudited)
For the Year Ended June 30, 2013**

Year	Expenditures and Transfers*	Enrollment	Expenditures Per Pupil
2004	\$ 23,051,973	3,094.58	\$ 7,449
2005	24,942,607	3,074.77	8,112
2006	23,785,212	3,087.10	7,705
2007	24,725,450	3,006.72	8,223
2008	24,959,034	2,987.47	8,355
2009	25,666,499	2,974.87	8,628
2010	25,517,943	2,932.14	8,703
2011	24,962,122	2,886.98	8,646
2012	25,193,996	2,951.46	8,536
2013	25,549,194	2,929.47	8,721

* General Fund expenditures and transfers only.

SINGLE AUDIT ACT COMPLIANCE

INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

October 11, 2013

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Public Schools of Petoskey* (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 11, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Rehmann Robson LLC".

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
U.S. Department of Agriculture				
Child Nutrition Cluster:				
Cash assistance:				
National school lunch - breakfast	10.553	MDE	121970	\$ 101,811
National school lunch - breakfast	10.553	MDE	131970	82,368
National school lunch section 4 all lunches	10.555	MDE	121960	395,013
National school lunch section 4 all lunches	10.555	MDE	131960	312,166
Non-cash assistance:				
Entitlement commodities	10.555	MDE	n/a	45,211
Total U.S. Department of Agriculture				
U.S. Department of Education				
Title I, Part A Cluster:				
Title I, Part A - Improving Basic Programs	84.010	MDE	121530-1112	410,174
Title I, Part A - Improving Basic Programs	84.010	MDE	131530-1213	368,561
Title II, Part D - Enhancing Education Through Technology	84.386A	MDE	131700-1213	11,352
Transition Services	84.048A	ISD	130490/TS	252
Indian Education 12/13	84.060A	Direct	N/A	49,894
Title II, Part A - Improving Teacher Quality	84.367	MDE	120520-1112	143,699
Title II, Part A - Improving Teacher Quality	84.367	MDE	130520-1213	143,073
Total U.S. Department of Education				
U.S. Department of Health and Human Services				
Medicaid Outreach	93.778	ISD	1213	4,551
Total Expenditures of Federal Awards				

See notes to schedule of expenditures of federal awards.

Accrued (Unearned) Revenue June 30, 2012	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2013	Accrued (Unearned) Revenue June 30, 2013
\$ -	\$ 9,745	\$ 92,066	\$ 9,745	\$ -
-	82,368	-	82,368	-
-	37,803	357,210	37,803	-
-	312,166	-	312,166	-
-	442,082	449,276	442,082	-
-	45,211	-	45,211	-
-	487,293	449,276	487,293	-
29,360	79,562	325,238	50,202	-
-	273,508	-	292,805	19,297
29,360	353,070	325,238	343,007	19,297
-	-	-	10,467	10,467
-	252	-	252	-
-	37,873	-	45,048	7,175
5	7,614	57,421	7,609	-
-	29,692	-	32,681	2,989
5	37,306	57,421	40,290	2,989
29,365	428,501	382,659	439,064	39,928
-	4,551	-	4,551	-
\$ 29,365	\$ 920,345	\$ 831,935	\$ 930,908	\$ 39,928

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2013

Reconciliation to grant section auditors' report

Current payments per the grant auditor report	\$ 832,458
Plus	
Amounts passed through Charlevoix-Emmet Intermediate School District	4,803
Entitlement and bonus commodities	45,211
Direct award from Department of Education	<u>37,873</u>
Total current year receipts per schedule of expenditures of federal awards	<u>\$ 920,345</u>

Concluded

PUBLIC SCHOOLS OF PETOSKEY

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the *Public Schools of Petoskey* (the "District") under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. RECONCILIATION OF BASIC FINANCIAL STATEMENTS

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule.

4. PASS-THROUGH AGENCIES

The District receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
ISD	Charlevoix-Emmet Intermediate School District



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

October 11, 2013

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Public Schools of Petoskey* (the "District"), as of and for the year June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 11, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

October 11, 2013

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of the *Public Schools of Petoskey* (the "District") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major federal programs for the year ended June 30, 2013. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rehmann Lobson LLC

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553 & 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

No financial statement findings.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

PUBLIC SCHOOLS OF PETOSKEY

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2013

No findings in the prior year.