

Public Schools of
Petoskey



Year Ended
June 30, 2014

Financial
Statements and
Single Audit Act
Compliance

PUBLIC SCHOOLS OF PETOSKEY

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INDEPENDENT AUDITORS' REPORT

October 13, 2014

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, 2014, 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 previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the *Public Schools of Petoskey* as of June 30, 2014, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 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 other supplementary information, as listed in the table of contents, has 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 13, 2014 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.

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

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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, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

The District's financial statements consist of three parts: Management's Discussion and Analysis (this section), the basic financial statements and 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 aggregated and 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, and two land contracts.
- . Special Revenue Fund - consisting of the Food Service Fund.
- . Capital Project Funds - consisting of the Sinking Fund, Technology Bonds 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 6.97% to approximately \$41,285,000 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, 2014, and June 30, 2013:

	Net Position		
	Governmental Activities		Percent Change
	2014	2013	
Current assets	\$ 12,667,845	\$ 13,500,298	-6.17%
Capital assets, net	49,209,394	48,789,556	0.86%
Total assets	61,877,239	62,289,854	-0.66%
Current liabilities	3,875,518	4,270,626	-9.25%
Long-term liabilities	16,717,139	19,425,983	-13.94%
Total liabilities	20,592,657	23,696,609	-13.10%
Net position:			
Net investment in capital assets	33,744,048	30,837,921	9.42%
Restricted	5,733,817	6,585,009	-12.93%
Unrestricted	1,806,717	1,170,315	54.38%
Total net position	\$ 41,284,582	\$ 38,593,245	6.97%

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Net investment in capital assets, approximately \$33,744,000, 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 \$5,734,000 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 \$1,807,000 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 2014 and 2013.

	Change in Net Position		
	Governmental Activities		Percent Change
	2014	2013	
Program Revenues:			
Charges for services	\$ 758,203	\$ 583,044	30.04%
Grants and contributions	4,348,395	3,946,572	10.18%
General Revenues:			
Property taxes	19,603,430	19,147,541	2.38%
Unrestricted state aid	6,797,793	6,630,261	2.53%
Other	114,990	115,336	-0.30%
Total revenues	31,622,811	30,422,754	3.94%
Expenses:			
Instruction	17,301,917	18,327,145	-5.59%
Supporting services	7,338,093	7,561,959	-2.96%
Community services	10,889	12,367	-11.95%
Food services	903,199	879,867	2.65%
Athletics	472,625	493,750	-4.28%
Interest on long-term debt	608,201	686,751	-11.44%
Unallocated depreciation	2,296,550	1,985,441	15.67%
Total expenses	28,931,474	29,947,280	-3.39%
Increase in net position	\$ 2,691,337	\$ 475,474	466.03%

Of the District's total revenues available to operate the District, 2.40% or approximately \$758,000 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 13.75% or approximately \$4,348,000.

The State foundation allowance accounted for 21.50% or approximately \$6,798,000 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 2.53% is mainly due to an increase in enrollment of 20 students over the prior year.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Local property taxes, of approximately \$19,603,000 or 61.99% of total revenue, supported the remaining portion of the governmental activities. Property tax revenue increased by 2.38% 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 \$1,797,000 of the \$19,603,000 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.

The expense portion of table above shows the financial support of each functional area required during the year. The overall decrease of 3.39% is due to reduced staffing and other cost cutting measures. Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for approximately \$17,302,000 or 59.80% of total expenses. Support services cost approximately \$7,337,000 or 25.36% 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 \$2,691,000 or a 466.03% increase from fiscal 2013 increase in net position of approximately \$475,000. Overall, revenue increased 3.94%, while expenses decreased by 3.39%. 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 \$8,883,000, which is a decrease of approximately \$454,000 from the prior year. Approximately \$918,000 in fund balance was used in the Sinking Fund and the 2012 Technology Bond Capital Projects Fund on infrastructure projects. Most other funds posted modest increases in fund balance due to cost cutting measures and careful budget oversight.

Of the combined governmental fund balances, 9.49% or approximately \$843,000 constitutes unassigned fund balance, which is available for spending at the District's discretion. District management has assigned approximately \$2,197,000 of fund balance to indicate planned uses of these funds. Of the assigned fund balance, approximately \$106,000 has been set aside to recognize the fund balance accumulated by the efforts of the Athletic department and supporters and approximately \$490,000 for capital projects. Management has assigned approximately another \$1,600,000 as the minimum amount necessary to avoid borrowing for cash flow purposes. Approximately \$5,818,000 is restricted fund balance to indicate that it is not available for spending at the District's discretion. Of the restricted fund balance, approximately \$5,128,000 is earmarked for capital improvements, approximately \$595,000 is earmarked for payments on long-term debt and \$95,000 is earmarked for food service. The remaining fund balance is non-spendable, 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 \$1,706,000, while total fund balance was approximately \$2,568,000. 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 10.13% of total General Fund expenditures and transfers.

The fund balance of the District's General Fund increased by approximately \$337,000 during the current fiscal year, due to a multi-year management plan designed to use accumulated fund balance to offset future 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 \$389,000 less than the final amended budget, a variance of (1.49)%. 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 \$1,170,000 less than the final amended budget, a variance of 4.41%. \$270,000 of the difference was due to state and federal grant awards that were not spent in the time frame anticipated. These funds are not lost, rather they carry forward to the next fiscal year. Another \$223,000 was due to anticipated property tax rebates that did not occur and are no longer likely to occur. The remaining difference was due to cost-savings programs implemented throughout the year.
- The difference between the original and final amended budget for the General Fund is mainly related to changes in health and retirement benefits, pupil count, state funding and other factors that were not known at the time of the original budget, along with various other small changes to budgeted revenues and expenditures.

Capital Asset and Debt Administration

Capital Assets. By June 30, 2014, the District had invested approximately \$77,902,000 in a broad range of capital assets, including school buildings, land, athletic facilities, furniture, and equipment. This represents a net decrease (including all additions and disposals) of approximately \$2,647,000 or (3.29)% 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	
	2014	2013
Land	\$ 3,384,351	\$ 3,384,351
Construction in progress	1,102,574	1,138,850
Buildings and improvements	67,543,536	65,333,316
Furniture and equipment	5,871,229	10,691,860
Total capital assets	77,901,690	80,548,377
Less accumulated depreciation	28,692,296	31,758,821
Net capital assets	<u>\$49,209,394</u>	<u>\$48,789,556</u>

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Debt. At year-end, the District had approximately \$16,717,000 in general obligation bonds and other long-term debt outstanding - a decrease of 13.9% 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.

	Long-Term Debt	
	2014	2013
General obligation bonds	\$ 14,784,060	\$ 17,174,184
Other general obligation debt	1,933,081	2,251,799
Total long-term debt	<u>\$ 16,717,141</u>	<u>\$ 19,425,983</u>

In fiscal 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 \$419,000 at June 30, 2014. In fiscal 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 \$263,000.

Factors Bearing on the District's Future

We considered many factors when setting the District's 2014-15 fiscal year budget, including anticipated increases of state and federal funding and increased retirement and health care costs. The District has planned for these changes, 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 2014-15, we assumed a reduction of seven (7) students based on the predictions of an independent pupil enrollment statistician, and a \$175 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 2013-14, the District saw a foundation allowance of \$7,076. This State funding was \$60 more than in 2012-13, after the District qualified for the State's "Best Practice Incentive" funds and "School Funding Equity" payment. The addition of 20 students over our predictions contributed greatly to the positive direction of the 2013-14 budget, as we were able to absorb these students without having to add significant costs through hiring more staff. However, we do not anticipate similar unexpected enrollment increases in the future. Based on our statistician's recommendations, we are planning for flat to slightly declining K-12 enrollment that mirrors the state-wide trend.

Budget cuts in 2013-14 were part of a multi-year financial plan that was expected to increase the fund balance at year end. This increase was then allocated to offset the expected budget shortfall in 2014-15. Going into the budget planning cycle for 2014-15, we believe the foundation allowance will increase by \$175 to \$7,251. This modest increase, along with several other grant funding changes, is expected to increase revenues by \$928,000. We also assume that our costs will increase by approximately \$1.5 million due to staff contract provisions, retirement costs, and health care cost increases. The anticipated shortfall is expected to reduce our fund balance down between \$1.6 to \$2.0 million by the end of the 2014-15 fiscal year. The District believes a fund balance of \$1.6 million, or 6.0% of expenses, is the minimum necessary to meet contingencies and cash flow requirements without borrowing, and the 2014-15 budget falls within these parameters.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

The District believes that constant monitoring of the budget and modest on-going 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.

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

Governmental Activities

June 30, 2014

Assets	
Cash and cash equivalents	\$ 7,327,317
Investments	3,253,302
Receivables	1,970,722
Prepays and other current assets	116,504
Capital assets not being depreciated	4,486,925
Capital assets being depreciated, net	<u>44,722,469</u>
Total assets	<u>61,877,239</u>
Liabilities	
Accounts payable and accrued liabilities	3,139,249
Unearned revenue	736,269
Long-term liabilities:	
Due within one year	2,896,542
Due in more than one year	<u>13,820,597</u>
Total liabilities	<u>20,592,657</u>
Net position	
Net investment in capital assets	33,744,048
Restricted for:	
Capital outlay	5,128,180
Debt service	504,050
Food service	101,587
Unrestricted	<u>1,806,717</u>
Total net position	<u>\$ 41,284,582</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, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 17,301,917	\$ 107,181	\$ 3,657,940	\$ (13,536,796)
Supporting services	7,338,093	71,979	114,407	(7,151,707)
Community services	10,889	-	-	(10,889)
Food services	903,199	390,638	523,048	10,487
Athletics	472,625	188,405	53,000	(231,220)
Interest on long-term debt	608,201	-	-	(608,201)
Unallocated depreciation	2,296,550	-	-	(2,296,550)
Total governmental activities	\$ 28,931,474	\$ 758,203	\$ 4,348,395	(23,824,876)
General revenues				
Property taxes				16,471,853
Property taxes - debt service				3,131,577
Unrestricted state aid				6,797,793
Unrestricted investment earnings				20,249
Other				94,741
Total general revenues				26,516,213
Change in net position				2,691,337
Net position, beginning of year				38,593,245
Net position, end of year				\$ 41,284,582

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, 2014

	General Fund	Sinking Fund	2012 Technology Bonds Fund
Assets			
Cash and cash equivalents	\$ 808,719	\$ 3,300,076	\$ 2,067,944
Investments	2,984,335	215,100	-
Accounts receivable	8,240	-	-
Due from other funds	6,570	-	28,398
Due from other governmental units	1,942,260	-	-
Other assets	19,045	5,536	-
Total assets	\$ 5,769,169	\$ 3,520,712	\$ 2,096,342
Liabilities			
Accounts payable	\$ 262,025	\$ -	\$ 100,278
Contracts payable	-	388,596	-
Salaries payable	1,432,010	-	-
Accrued liabilities	769,884	-	-
Due to other funds	710	-	-
Unearned revenue	736,269	-	-
Total liabilities	3,200,898	388,596	100,278
Fund balances			
Nonspendable:			
Inventory	8,443	-	-
Prepaid items	10,602	-	-
Restricted:			
Food service	-	-	-
Debt service	-	-	-
Capital outlay - capital project funds	-	3,132,116	1,996,064
Assigned:			
Athletics	106,403	-	-
Capital outlay - capital project funds	-	-	-
Subsequent years' expenditures	1,600,000	-	-
Unassigned	842,823	-	-
Total fund balances	2,568,271	3,132,116	1,996,064
Total liabilities and fund balances	\$ 5,769,169	\$ 3,520,712	\$ 2,096,342

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



Debt Service Fund	Nonmajor Funds	Total Governmental Funds
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\$ 541,133	\$ 609,445	\$ 7,327,317
53,867	-	3,253,302
-	12,158	20,398
-	710	35,678
-	8,064	1,950,324
-	91,923	116,504

<u>\$ 595,000</u>	<u>\$ 722,300</u>	<u>\$ 12,703,523</u>
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\$ -	\$ 95,506	\$ 457,809
-	-	388,596
-	-	1,432,010
-	-	769,884
-	34,968	35,678
-	-	736,269

-	130,474	3,820,246
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-	6,923	15,366
-	-	10,602

-	94,664	94,664
595,000	-	595,000
-	-	5,128,180

-	-	106,403
-	490,239	490,239
-	-	1,600,000
-	-	842,823

<u>595,000</u>	<u>591,826</u>	<u>8,883,277</u>
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<u>\$ 595,000</u>	<u>\$ 722,300</u>	<u>\$ 12,703,523</u>
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PUBLIC SCHOOLS OF PETOSKEY

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2014

Fund balances - total governmental funds	\$ 8,883,277
Amounts reported for governmental activities 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	4,486,925
Capital assets being depreciated, net	44,722,469
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	(284,060)
Bonds and land contracts payable	(15,181,286)
Employee incentives	(600,662)
Accrued interest on bonds payable	(90,950)
Compensated absences	(651,131)
Net position of governmental activities	<u>\$ 41,284,582</u>

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

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PUBLIC SCHOOLS OF PETOSKEY

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2014

	General Fund	Sinking Fund	2012 Technology Bonds Fund
Revenues			
Local sources:			
Property taxes	\$ 14,203,784	\$ 1,796,530	\$ -
Payment in lieu of taxes	471,539	-	-
Charges for services	107,081	-	-
Tuition	100	-	-
Rent income	-	-	-
Interest	4,401	9,824	7,118
Athletics	241,405	-	-
Other income	89,028	-	-
State sources	8,839,954	-	-
Federal sources	408,097	-	-
Interdistrict sources	1,322,089	-	-
Total revenues	25,687,478	1,806,354	7,118
Expenditures			
Current:			
Instruction	17,563,972	-	-
Supporting services	7,758,695	-	-
Community services	10,889	-	-
Food services	-	-	-
Other	-	1,409	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlay	17,314	1,962,268	641,918
Total expenditures	25,350,870	1,963,677	641,918
Revenues over (under) expenditures	336,608	(157,323)	(634,800)
Other financing sources (uses)			
Transfers in	-	-	7,464
Transfers out	-	(132,853)	-
Total other financing sources (uses)	-	(132,853)	7,464
Net change in fund balances	336,608	(290,176)	(627,336)
Fund balances, beginning of year	2,231,663	3,422,292	2,623,400
Fund balances, end of year	\$ 2,568,271	\$ 3,132,116	\$ 1,996,064

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



Debt Service Fund	Nonmajor Funds	Total Governmental Funds
\$ 3,131,577	\$ -	\$ 19,131,891
-	-	471,539
-	390,638	497,719
-	-	100
-	71,979	71,979
3,599	2,425	27,367
-	-	241,405
-	-	89,028
-	36,119	8,876,073
-	486,929	895,026
-	-	1,322,089
<u>3,135,176</u>	<u>988,090</u>	<u>31,624,216</u>
-	-	17,563,972
-	-	7,758,695
-	-	10,889
-	903,199	903,199
3,144	-	4,553
2,431,164	-	2,431,164
680,240	-	680,240
-	104,264	2,725,764
<u>3,114,548</u>	<u>1,007,463</u>	<u>32,078,476</u>
<u>20,628</u>	<u>(19,373)</u>	<u>(454,260)</u>
132,853	-	140,317
(7,464)	-	(140,317)
<u>125,389</u>	<u>-</u>	<u>-</u>
146,017	(19,373)	(454,260)
<u>448,983</u>	<u>611,199</u>	<u>9,337,537</u>
<u>\$ 595,000</u>	<u>\$ 591,826</u>	<u>\$ 8,883,277</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, 2014

Net change in fund balances - total governmental funds \$ (454,260)

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 assets purchased/constructed	2,717,117
Depreciation expense	(2,296,550)
Loss on disposal of capital assets	(729)

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	55,124
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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.

Principal payments on long-term liabilities	2,431,165
Early retirement incentive payments	301,320

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	(78,765)
Change in accrued interest payable on bonds	16,915

Change in net position of governmental activities	<u>\$ 2,691,337</u>
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The accompanying notes are an integral part of these basic financial statements.

PUBLIC SCHOOLS OF PETOSKEY

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

General Fund

For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 15,022,742	\$ 15,113,236	\$ 15,117,338	\$ 4,102
State sources	8,535,419	9,003,550	8,839,954	(163,596)
Federal sources	594,970	610,001	408,097	(201,904)
Interdistrict sources	1,396,517	1,349,461	1,322,089	(27,372)
Total revenues	25,549,648	26,076,248	25,687,478	(388,770)
Expenditures				
Current:				
Instruction	17,785,710	17,993,088	17,563,972	(429,116)
Supporting services	8,298,966	8,430,882	7,758,695	(672,187)
Community services	30,583	28,448	10,889	(17,559)
Capital outlay	105,524	68,514	17,314	(51,200)
Total expenditures	26,220,783	26,520,932	25,350,870	(1,170,062)
Net change in fund balances	(671,135)	(444,684)	336,608	781,292
Fund balances, beginning of year	2,231,663	2,231,663	2,231,663	-
Fund balances, end of year	\$ 1,560,528	\$ 1,786,979	\$ 2,568,271	\$ 781,292

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, 2014

Assets	
Cash and cash equivalents	\$ 233,474
Investments	425,000
Accounts receivable	<u>5,875</u>
Total assets	<u>\$ 664,349</u>
Liabilities	
Due to student groups	\$ 330,432
Scholarships payable	246,497
Due to others	<u>87,420</u>
Total liabilities	<u>\$ 664,349</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. 61 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. 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, 2014.

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 for 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, 2014.

Other assets

Inventory is valued at lower of cost (first-in, first-out) or market. 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. Prepaid items 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.

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 District 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 balances

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.

Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District.

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, 2014:

	Totals
Statement of Net Position	
Cash and cash equivalents	\$ 7,327,317
Investments	3,253,302
Statement of Fiduciary Assets and Liabilities	
Agency Funds	
Cash and cash equivalents	233,474
Investments	<u>425,000</u>
Total	<u>\$ 11,239,093</u>
Deposits and investments	
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 7,985,491
Cash on hand	300
Investments	<u>3,253,302</u>
Total	<u>\$ 11,239,093</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	\$ 3,253,302	S&P - AAAm

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

Investment and Deposit Risk

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, \$8,191,506 of the District's bank balance of \$8,691,506 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 99 percent due from other governmental units and 1 percent due from customers.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are 27 percent due to vendors, 46 percent salaries payable, and 27 percent other accrued liabilities.

6. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2014, was as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 6,570	\$ 710
2012 Technology Bonds	28,398	-
Nonmajor Funds	710	34,968
	<u>\$ 35,678</u>	<u>\$ 35,678</u>

The Agency Fund owes the General Fund \$8,240 at June 30, 2014.

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.

For the year ended June 30, 2014, interfund transfers consisted of the following:

	Transfers in	Transfers out
Sinking	\$ -	\$ 132,853
2012 Technology Bonds	7,464	-
Debt Service	132,853	7,464
	<u>\$ 140,317</u>	<u>\$ 140,317</u>

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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.

7. CAPITAL ASSETS

Capital assets activity was as follows for the year ended June 30, 2014:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,384,351	\$ -	\$ -	\$ -	\$ 3,384,351
Construction-in-progress	1,138,850	1,102,574	-	(1,138,850)	1,102,574
	<u>4,523,201</u>	<u>1,102,574</u>	<u>-</u>	<u>(1,138,850)</u>	<u>4,486,925</u>
Capital assets, being depreciated:					
Buildings and improvements	65,333,316	1,071,370	-	1,138,850	67,543,536
Furniture and equipment	10,691,860	543,173	(5,363,804)	-	5,871,229
	<u>76,025,176</u>	<u>1,614,543</u>	<u>(5,363,804)</u>	<u>1,138,850</u>	<u>73,414,765</u>
Less accumulated depreciation for:					
Buildings and improvements	(24,026,671)	(1,600,031)	-	-	(25,626,702)
Furniture and equipment	(7,732,150)	(696,519)	5,363,075	-	(3,065,594)
	<u>(31,758,821)</u>	<u>(2,296,550)</u>	<u>5,363,075</u>	<u>-</u>	<u>(28,692,296)</u>
Total capital assets being depreciated, net	<u>44,266,355</u>	<u>(682,007)</u>	<u>(729)</u>	<u>1,138,850</u>	<u>44,722,469</u>
Governmental activities capital assets, net	<u>\$ 48,789,556</u>	<u>\$ 420,567</u>	<u>\$ (729)</u>	<u>\$ -</u>	<u>\$ 49,209,394</u>

Unallocated depreciation expense of \$2,296,550 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, 2014:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Bonds Payable					
General obligation	\$ 16,835,000	\$ -	\$ (2,335,000)	\$ 14,500,000	\$ 2,440,000
Premium on bonds	339,184	-	(55,124)	284,060	55,126
Total bond payable	17,174,184	-	(2,390,124)	14,784,060	2,495,126
Other long-term liabilities					
Land contracts	777,452	-	(96,164)	681,288	101,085
Early retirement incentives	901,982	-	(301,320)	600,662	300,331
Compensated absences	572,366	100,780	(22,015)	651,131	-
Total other long-term liabilities	2,251,800	100,780	(419,499)	1,933,081	401,416
Total long-term liabilities	\$ 19,425,984	\$ 100,780	\$ (2,809,623)	\$ 16,717,141	\$ 2,896,542

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Long-term debt at June 30, 2014, includes the following:

General Obligation Bonds

2005 refunding bonds due in annual installments ranging from \$1,970,000 to \$2,125,000 plus interest ranging from 4.05% to 5.00%; final payment due May 2019. \$ 10,415,000

2012 technology bonds due in annual installments ranging from \$470,000 to \$1,225,000 plus interest ranging from 1.50% to 2.00%; final payment due May 2020. 4,085,000

Premium on bonds 284,060

Total general obligation bonds 14,784,060

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. 418,525

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 15, 2019. 262,761

Early retirement incentives 600,662

Compensated absences 651,131

Total other long-term liabilities 1,933,079

Total long-term debt \$ 16,717,139

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
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	2,994,295	136,155	3,130,450
2020-2022	1,394,106	35,434	1,429,540
Total	\$ 16,066,008	\$ 1,795,628	\$ 17,861,636

Interest and paying agent fees paid were \$608,976 for the year ended June 30, 2014.

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 (MPSERS), a collection of several retirement plans administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS 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 MPSERS. 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. 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, 2014 as a percentage of payroll ranged from 20.96 to 24.79 percent. In addition, the District is invoiced monthly an amount that approximates 4.56 percent of covered payroll for "MPSERS UAAL Stabilization." This additional contribution is offset by monthly State aid payments equal to the amounts actually billed by the Office of Retirement Services.

Hybrid Plans

Members hired between July 1, 2010 and September 3, 2012 are enrolled in the Pension Plus plan. Members hired on or after September 4, 2012 are automatically enrolled in this plan unless an election is made to participate in the defined contribution plan (described below). Participant contributions contain a pension component as well as a savings component. The pension component is based on the following pretax contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000. For the savings component, participants contribute 2 percent of gross pay to a 457 plan. Member contributions for the savings component are matched at a rate of 50 percent by the employer, up to a maximum of one percent and invested in a 401(k) plan.

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 for the pension component of the plan vest at 10 years of service. Employer contributions for the savings component 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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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.

Required Contributions

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, 2014, 2013, and 2012 were \$3,063,246, \$3,140,071, and \$3,963,680, respectively, equal to the required contributions for each year.

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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

12. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2014, was as follows:

	Governmental Activities
Capital assets:	
Capital assets not being depreciated	\$ 4,486,925
Capital assets being depreciated, net	<u>44,722,469</u>
	49,209,394
Less related debt:	
Noncurrent liabilities	
Due within one year	(2,896,542)
Due in more than one year	(13,820,597)
Add back: early retirement incentives	600,662
Add back: compensated absences	<u>651,131</u>
Net investment in capital assets	<u>\$ 33,744,048</u>

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, 2014.

During fiscal year 2014, the District had entered into six construction contracts amounting to approximately \$3,060,000. As of June 30, 2014, approximately \$1,142,000 remains to be completed on these construction contracts.

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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

14. EFFECT OF UPCOMING CHANGES IN ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will be effective for the District's fiscal year ending June 30, 2015. This statement will require the recognition of a "net pension liability" on the statement of net position, equal to the unfunded portion of the District's defined benefit pension plan, as defined and calculated in accordance with the new standard. The exact amount of this liability is not readily determinable at this time. GASB 68 will require the net pension liability to be recorded for the year ending June 30, 2015, by restating beginning net position as of July 1, 2014.



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

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2014

	Special Revenue Fund	Capital Project Fund	
	Food Service	Building and Site	Total
Assets			
Cash and cash equivalents	\$ 37,790	\$ 571,655	\$ 609,445
Accounts receivable	12,158	-	12,158
Due from other funds	-	710	710
Due from other governmental units	-	8,064	8,064
Other assets	91,923	-	91,923
Total assets	\$ 141,871	\$ 580,429	\$ 722,300
Liabilities			
Accounts payable	\$ 33,714	\$ 61,792	\$ 95,506
Due to other funds	6,570	28,398	34,968
Total liabilities	40,284	90,190	130,474
Fund balances			
Nonspendable - inventory	6,923	-	6,923
Restricted - food service	94,664	-	94,664
Assigned - capital outlay	-	490,239	490,239
Total fund balances	101,587	490,239	591,826
Total liabilities and fund balances	\$ 141,871	\$ 580,429	\$ 722,300

PUBLIC SCHOOLS OF PETOSKEY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
For the Year Ended June 30, 2014

	Special Revenue Fund	Capital Project Fund	
	Food Service	Building and Site	Total
Revenues			
Local sources:			
Charges for services	\$ 390,638	\$ -	\$ 390,638
Rent income	-	71,979	71,979
Interest	766	1,659	2,425
State sources	36,119	-	36,119
Federal sources	486,929	-	486,929
Total revenues	914,452	73,638	988,090
Expenditures			
Current:			
Food services	903,199	-	903,199
Capital outlay	-	104,264	104,264
Total expenditures	903,199	104,264	1,007,463
Net change in fund balances	11,253	(30,626)	(19,373)
Fund balances, beginning of year	90,334	520,865	611,199
Fund balances, end of year	\$ 101,587	\$ 490,239	\$ 591,826

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

General Fund

June 30, 2014

(With Comparative Totals as of June 30, 2013)

	2014	2013
Assets		
Cash and cash equivalents	\$ 808,719	\$ 129,251
Investments	2,984,335	3,664,555
Accounts receivable	8,240	39,763
Due from other funds	6,570	-
Due from other governmental units	1,942,260	1,928,441
Other assets	19,045	59,384
Total assets	\$ 5,769,169	\$ 5,821,394
Liabilities		
Accounts payable	\$ 262,025	\$ 585,081
Salaries payable	1,432,010	1,480,585
Accrued liabilities	769,884	872,528
Due to other funds	710	-
Unearned revenue	736,269	651,537
Total liabilities	3,200,898	3,589,731
Fund balances		
Nonspendable:		
Inventory	8,443	8,483
Prepaid items	10,602	50,901
Assigned:		
Athletics	106,403	104,978
Subsequent years' expenditures	1,600,000	1,600,000
Unassigned	842,823	467,301
Total fund balances	2,568,271	2,231,663
Total liabilities and fund balances	\$ 5,769,169	\$ 5,821,394

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Revenues

General Fund

For the Year Ended June 30, 2014

(With Comparative Totals For the Year Ended June 30, 2013)

	2014	2013
Revenues		
Local Sources		
Property taxes	\$ 14,203,784	\$ 13,895,909
Payment in lieu of taxes	471,539	473,665
Charges for services	107,081	51,176
Tuition	100	2,320
Interest	4,401	6,106
Athletics	241,405	212,377
Other income	89,028	116,794
Total local sources	15,117,338	14,758,347
State sources		
State aid - foundation allowance:		
Proposal A obligation	869,610	1,035,506
Discretionary payment	5,496,064	5,312,479
Prior year adjustments	43,131	129,961
Performance funding	88,319	-
Special education headlee obligation	725,418	712,870
State aid - other unrestricted grants:		
Best practice incentive	153,282	152,315
Equity payments	147,387	-
State aid - restricted grants:		
At-risk	388,382	329,438
MPSERS cost offset	813,954	506,547
Data collection	72,935	71,850
Technological infrastructure	29,472	29,500
First robotics	12,000	-
Total state sources	8,839,954	8,280,466
Federal sources		
Title I	293,135	343,007
Title II	59,963	50,757
Title IX	42,452	45,048
Other	12,547	4,803
Total federal sources	408,097	443,615
Interdistrict sources		
Vocational education - millage	408,694	374,636
Vocational education - added cost	131,320	149,706
Expense reimbursements	782,075	740,976
Total interdistrict sources	1,322,089	1,265,318
Total revenues	\$ 25,687,478	\$ 24,747,746

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2014

(With Comparative Totals For the Year Ended June 30, 2013)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
Instruction					
Basic programs					
Elementary	\$ 3,642,630	\$ 2,303,716	\$ 117,467	\$ 87,129	\$ -
Middle school	1,895,693	1,240,186	86,754	28,278	-
High school	2,396,817	1,389,053	195,089	39,035	-
Total basic programs	7,935,140	4,932,955	399,310	154,442	-
Added needs					
Special education	1,201,526	728,316	329,834	2,247	-
Compensatory education	159,181	100,961	366,046	37,234	-
Vocational education	584,515	356,167	59,051	217,047	6,882
Total added needs	1,945,222	1,185,444	754,931	256,528	6,882
Total instruction	9,880,362	6,118,399	1,154,241	410,970	6,882
Supporting services					
Pupil services					
Guidance services	319,720	191,719	-	9,689	-
Health services	-	-	169,267	-	-
Other	17,388	6,595	41,943	-	-
Total pupil services	337,108	198,314	211,210	9,689	-
Instructional staff services					
Improvement of instruction	19,096	10,415	52,572	1,491	-
Library	67,514	53,033	46,543	25,969	-
Technology assisted instruction	134,152	70,499	625	-	-
Supervision	116,585	64,131	737	3,103	-
Academic student assessment	-	-	-	29,875	-
Total instructional staff services	337,347	198,078	100,477	60,438	-



Total	
2014	2013

\$ 6,150,942	\$ 6,223,210
3,250,911	3,299,912
4,019,994	3,885,106
<u>13,421,847</u>	<u>13,408,228</u>

2,261,923	2,177,839
663,422	658,500
<u>1,223,662</u>	<u>1,250,857</u>
<u>4,149,007</u>	<u>4,087,196</u>
<u>17,570,854</u>	<u>17,495,424</u>

521,128	473,597
169,267	160,768
<u>65,926</u>	<u>76,599</u>
<u>756,321</u>	<u>710,964</u>

83,574	35,125
193,059	196,024
205,276	198,132
184,556	175,176
<u>29,875</u>	<u>26,688</u>
<u>696,340</u>	<u>631,145</u>

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2014

(With Comparative Totals For the Year Ended June 30, 2013)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
General administration					
Board of education	\$ -	\$ -	\$ 39,247	\$ 1,607	\$ -
Executive administration	163,582	103,412	62,381	9,011	-
Total general administration	163,582	103,412	101,628	10,618	-
School administration					
Office of the principal	862,275	575,112	116,828	21,928	-
Business services					
Fiscal services	234,639	153,024	19,147	92,796	-
Operations and maintenance	339,462	235,543	747,717	761,119	10,432
Security services	-	-	1,843	-	-
Transportation	-	-	1,213,866	-	-
Support services - central	42,631	33,004	-	3,235	-
Athletic activities	106,561	38,709	267,600	59,755	-
Total supporting services	2,423,605	1,535,196	2,780,316	1,019,578	10,432
Community services					
Community services direction	-	-	-	1,103	-
Non-public school pupils	-	-	5,193	4,593	-
Total community services	-	-	5,193	5,696	-
Total operating expenditures	\$ 12,303,967	\$ 7,653,595	\$ 3,939,750	\$ 1,436,244	\$ 17,314



Total	
2014	2013
\$ 40,854	\$ 48,444
338,386	400,968
<u>379,240</u>	<u>449,412</u>
<u>1,576,143</u>	<u>1,484,384</u>
<u>499,606</u>	<u>902,106</u>
<u>2,094,273</u>	<u>2,058,298</u>
<u>1,843</u>	<u>-</u>
<u>1,213,866</u>	<u>1,239,496</u>
<u>78,870</u>	<u>71,848</u>
<u>472,625</u>	<u>493,750</u>
<u>7,769,127</u>	<u>8,041,403</u>
<u>1,103</u>	<u>7,028</u>
<u>9,786</u>	<u>5,339</u>
<u>10,889</u>	<u>12,367</u>
<u>\$ 25,350,870</u>	<u>\$ 25,549,194</u>

Concluded

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

Food Service Special Revenue Fund

June 30, 2014

(With Comparative Totals as of June 30, 2013)

	2014	2013
Assets		
Cash and cash equivalents	\$ 37,790	\$ 2,002
Accounts receivable	12,158	7,850
Due from other governmental units	-	9,125
Other assets	91,923	91,908
Total assets	\$ 141,871	\$ 110,885
Liabilities		
Accounts payable	\$ 33,714	\$ 20,551
Due to other funds	6,570	-
Total liabilities	40,284	20,551
Fund balances		
Nonspendable - inventory	6,923	6,908
Restricted	94,664	85,000
Unassigned (deficit)	-	(1,574)
Total fund balances	101,587	90,334
Total liabilities and fund balances	\$ 141,871	\$ 110,885

PUBLIC SCHOOLS OF PETOSKEY

Statement of Revenues, Expenditures and Changes in Fund Balances

Food Service Special Revenue Fund

For the Year Ended June 30, 2014

(With Comparative Totals For the Year Ended June 30, 2013)

	2014	2013
Revenues		
Local sources:		
Lunch sales	\$ 160,417	\$ 166,221
Breakfast sales	10,418	9,849
Ala carte sales	219,803	149,213
State sources	36,119	37,599
Federal sources	486,929	487,293
Interest income	766	739
Total revenues	<u>914,452</u>	<u>850,914</u>
Expenditures		
Current:		
Salaries	35,780	26,647
Employee benefits	24,050	21,498
Purchased services	383,383	379,851
Supplies, materials and other expenditures	83,057	69,713
Food costs	376,929	382,158
Total expenditures	<u>903,199</u>	<u>879,867</u>
Net change in fund balances	11,253	(28,953)
Fund balances, beginning of year	<u>90,334</u>	<u>119,287</u>
Fund balances, end of year	<u>\$ 101,587</u>	<u>\$ 90,334</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet

Capital Projects Funds

June 30, 2014

(With Comparative Totals as of June 30, 2013)

	Sinking Fund	Building and Site Fund	Technology Bonds Fund
Assets			
Cash and cash equivalents	\$ 3,300,076	\$ 571,655	\$ 2,067,944
Investments	215,100	-	-
Accounts receivable	-	-	-
Prepaid items	5,536	-	-
Due from other funds	-	710	28,398
Due from other governmental units	-	8,064	-
Total assets	<u>\$ 3,520,712</u>	<u>\$ 580,429</u>	<u>\$ 2,096,342</u>
Liabilities			
Accounts payable	\$ -	\$ 61,792	\$ 100,278
Contracts payable	388,596	-	-
Due to other funds	-	28,398	-
Total liabilities	<u>388,596</u>	<u>90,190</u>	<u>100,278</u>
Fund balances			
Restricted - capital outlay	3,132,116	-	1,996,064
Assigned - capital outlay	-	490,239	-
Total fund balances	<u>3,132,116</u>	<u>490,239</u>	<u>1,996,064</u>
Total liabilities and fund balances	<u>\$ 3,520,712</u>	<u>\$ 580,429</u>	<u>\$ 2,096,342</u>



Total	
2014	2013

\$ 5,939,675	\$ 6,857,380
215,100	215,052
-	14,110
5,536	-
29,108	-
8,064	5,112
<u> </u>	<u> </u>

<u>\$ 6,197,483</u>	<u>\$ 7,091,654</u>
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\$ 162,070	\$ 34,346
388,596	490,751
28,398	-
<u> </u>	<u> </u>
579,064	525,097

5,128,180	6,045,692
490,239	520,865
<u> </u>	<u> </u>

5,618,419	6,566,557
<u> </u>	<u> </u>

<u>\$ 6,197,483</u>	<u>\$ 7,091,654</u>
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PUBLIC SCHOOLS OF PETOSKEY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Capital Projects Funds

For the Year Ended June 30, 2014

(With Comparative Totals For the Year Ended June 30, 2013)

	Sinking Fund	Building and Site Fund	Technology Bonds Fund
Revenues			
Property taxes	\$ 1,796,530	\$ -	\$ -
Rent income	-	71,979	-
Interest	9,824	1,659	7,118
Total revenues	<u>1,806,354</u>	<u>73,638</u>	<u>7,118</u>
Expenditures			
Capital outlay	1,962,268	104,264	641,918
Other	1,409	-	-
Total expenditures	<u>1,963,677</u>	<u>104,264</u>	<u>641,918</u>
Revenues over (under) expenditures	<u>(157,323)</u>	<u>(30,626)</u>	<u>(634,800)</u>
Other financing sources (uses)			
Transfers in	-	-	7,464
Transfers out	(132,853)	-	-
Total other financing sources (uses)	<u>(132,853)</u>	<u>-</u>	<u>7,464</u>
Net change in fund balances	(290,176)	(30,626)	(627,336)
Fund balances, beginning of year	<u>3,422,292</u>	<u>520,865</u>	<u>2,623,400</u>
Fund balances, end of year	<u>\$ 3,132,116</u>	<u>\$ 490,239</u>	<u>\$ 1,996,064</u>



Total	
2014	2013

\$ 1,796,530	\$ 1,777,833
71,979	53,912
18,601	25,574
<u>1,887,110</u>	<u>1,857,319</u>
2,708,450	3,913,754
1,409	32,073
<u>2,709,859</u>	<u>3,945,827</u>
<u>(822,749)</u>	<u>(2,088,508)</u>
7,464	-
<u>(132,853)</u>	<u>(132,853)</u>
<u>(125,389)</u>	<u>(132,853)</u>
(948,138)	(2,221,361)
<u>6,566,557</u>	<u>8,787,918</u>
<u>\$ 5,618,419</u>	<u>\$ 6,566,557</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Schedule
 Debt Service Fund
 June 30, 2014
 (With Comparative Totals as of June 30, 2013)

	2005 Refunding Bonds	Foster Land Contract	Veurink Land Contract	Technology Bonds
Assets				
Cash and cash equivalents	\$ 491,492	\$ -	\$ -	\$ 49,641
Investments	53,867	-	-	-
Total assets	\$ 545,359	\$ -	\$ -	\$ 49,641
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Fund balances				
Restricted	545,359	-	-	49,641
Total liabilities and fund balances	\$ 545,359	\$ -	\$ -	\$ 49,641

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



Total	
2014	2013

\$ 541,133	\$ 422,515
<u>53,867</u>	<u>53,850</u>

<u>\$ 595,000</u>	<u>\$ 476,365</u>
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\$ -	\$ 27,382
------	-----------

<u>595,000</u>	<u>448,983</u>
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<u>\$ 595,000</u>	<u>\$ 476,365</u>
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PUBLIC SCHOOLS OF PETOSKEY

Combining Schedule of Debt Service Activities and Changes in Fund Balances

Debt Service Fund

For the Year Ended June 30, 2014

(With Comparative Totals For the Year Ended June 30, 2013)

	2005 Refunding Bonds	Foster Land Contract	Veurink Land Contract	Technology Bonds
Revenues				
Local sources:				
Property taxes	\$ 2,591,553	\$ -	\$ -	\$ 540,024
State sources	-	-	-	-
Interest income	3,599	-	-	-
Total revenues	2,595,152	-	-	540,024
Expenditures				
Principal	1,880,000	51,872	44,292	455,000
Interest	557,376	14,554	22,135	86,175
Other	917	-	-	2,227
Total expenditures	2,438,293	66,426	66,427	543,402
Revenues over (under) expenditures	156,859	(66,426)	(66,427)	(3,378)
Other financing sources (uses)				
Transfers in	-	66,426	66,427	-
Transfers out	-	-	-	(7,464)
Total other financing sources (uses)	-	66,426	66,427	(7,464)
Net change in fund balances	156,859	-	-	(10,842)
Fund balances, beginning of year	388,500	-	-	60,483
Fund balances, end of year	\$ 545,359	\$ -	\$ -	\$ 49,641

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



Total	
2014	2013

\$ 3,131,577	\$ 3,000,134
-	11,395
<u>3,599</u>	<u>3,644</u>

<u>3,135,176</u>	<u>3,015,173</u>
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2,431,164	2,317,361
680,240	737,779
<u>3,144</u>	<u>50,546</u>

<u>3,114,548</u>	<u>3,105,686</u>
------------------	------------------

<u>20,628</u>	<u>(90,513)</u>
---------------	-----------------

132,853	132,853
<u>(7,464)</u>	<u>-</u>

<u>125,389</u>	<u>132,853</u>
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146,017	42,340
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<u>448,983</u>	<u>406,643</u>
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<u>\$ 595,000</u>	<u>\$ 448,983</u>
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PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2014

	Balances July 1, 2013	Receipts	Disbursements	Balances June 30, 2014
Assets				
Cash	\$ 188,969	\$ 1,045,591	\$ 1,001,086	\$ 233,474
Investments	425,000	-	-	425,000
Accounts receivable	300	5,575	-	5,875
Total assets	\$ 614,269	\$ 1,051,166	\$ 1,001,086	\$ 664,349
Liabilities				
Due to student groups	\$ 260,007	\$ 635,920	\$ 565,495	\$ 330,432
Scholarships payable	240,534	7,163	1,200	246,497
Due to others	113,728	408,083	434,391	87,420
Total liabilities	\$ 614,269	\$ 1,051,166	\$ 1,001,086	\$ 664,349
The balances consist of the following:				
Deposits due to student groups				
Central Elementary				
Central 3rd Grade	\$ 18	\$ 877	\$ 881	\$ 14
Central 5th Grade	260	3,620	3,377	503
Central Library & Computer	652	4,198	4,030	820
Central School Fund	183	3,184	3,243	124
Central School Store	653	856	1,085	424
5th Grade Colonial Days	220	38	38	220
Central scholarship fund	-	540	166	374
Lincoln Elementary				
Lincoln School Fund	2,113	957	503	2,567
Ottawa Elementary				
Ottawa 4th Grade Field Trip	1,403	3,053	4,014	442
Ottawa 5th Grade Field Trip	2,541	14,397	12,596	4,342
Ottawa Field Trip Fund	556	4,514	3,998	1,072
Ottawa instructional supplies	5,805	4,200	1,659	8,346
Ottawa Learning Center	21	-	11	10
Ottawa Popcorn Sales	3,397	1,646	1,079	3,964
Ottawa School Fund	1,710	6,966	3,244	5,432
Ottawa Kindergarten	116	-	-	116
Sheridan Elementary				
Sheridan 3rd Grade	812	1,785	2,197	400
Sheridan 4th Grade	987	1,066	1,071	982
Sheridan 5th Grade	159	247	244	162
Sheridan Garden Fund	109	-	-	109
Sheridan School	15,645	10,398	11,252	14,791
Sheridan Student Council	62	416	378	100
Girls on the run	-	1,655	445	1,210
Petoskey Middle School				
6th Grade Club	536	28,614	27,169	1,981
7th Grade Club	2,243	7,108	6,621	2,730
8th Grade Club	5,675	10,376	9,339	6,712
Builder's Club	190	224	-	414

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2014

	Balances July 1, 2013	Receipts	Disbursements	Balances June 30, 2014
Petoskey Middle School (continued)				
Middle School Adventure Education	\$ 1,602	\$ -	\$ -	\$ 1,602
Middle School Art Club	834	-	-	834
Middle School Athletics	198	375	375	198
Middle School Celebration Garden	216	-	-	216
Middle School Ecology Club	548	2,100	2,076	572
Middle School Fall Play	2,952	3,585	3,411	3,126
Middle School Photo Club	141	-	-	141
Middle School Student Council	2,217	1,747	1,443	2,521
Middle School Student Special needs	7,040	-	-	7,040
Middle School Yearbook	1,783	7,520	7,190	2,113
Middle School Greenhouse	73	-	-	73
Middle School Washington DC Trip	2,176	3,407	2,269	3,314
Middle School Wood Shop	367	265	-	632
Middle School Youth In Government	1,168	9,888	10,885	171
Middle School Book Fair	189	-	157	32
Middle School Fund	10,869	2,779	1,048	12,600
Middle School Store	494	6,979	6,565	908
Middle School Science Club Fund	-	600	590	10
Middle School Box Tops for Education	-	575	150	425
Middle School Special Needs Counseling	284	435	300	419
Petoskey Middle School Athletics				
Middle School Dance	25	264	-	289
Middle School Enrichment	15,601	10,076	22,490	3,187
Middle School Football	4,064	2,274	2,455	3,883
Middle School Track	3,056	4,108	3,183	3,981
Middle School Volleyball	2,820	20	-	2,840
Middle School Boys Basketball	136	-	-	136
Middle School Girls Basketball	681	-	-	681
Petoskey High School				
Auto Shop Tool Fund	50	-	-	50
Building Trades Fund	913	2,000	1,760	1,153
Business Club	163	-	-	163
Blue Crew	-	954	450	504
Class of 2012	-	1,500	1,500	-
Class of 2013	81	843	924	-
Class of 2014	2,935	3,600	5,532	1,003
Class of 2015	959	5,682	3,814	2,827
Class of 2016	3,800	-	2,250	1,550
Class of 2017	-	24	147	(123)
Communications/ Renaissance Program	-	50	50	-
DECA	927	22,251	21,645	1,533
Debate Club	6,479	8,928	5,726	9,681
Drafting	594	-	112	482
FCCLA	788	3,526	3,815	499
Forensics	374	-	-	374
French Club	372	537	-	909
Future Farmers of America	1,960	87	655	1,392
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, 2014

	Balances July 1, 2013	Receipts	Disbursements	Balances June 30, 2014
Petoskey High School (continued)				
Guidance Dept Testing	\$ 4,492	\$ 35,382	\$ 33,163	\$ 6,711
HOSA	12	-	-	12
High School Art Club	2,759	-	-	2,759
High School Fall Play	212	5,825	3,488	2,549
High School Journalism	15	-	-	15
High School Learning Center	834	-	-	834
High School Quiz Bowl Team	458	600	661	397
High School Spring Musical	102	8,746	6,908	1,940
High School Steel Drum Band	-	37,631	37,854	(223)
High School Student Council	1,974	5,314	6,671	617
High School Vocal	427	7,517	1,970	5,974
High School Yearbook	1,925	20,804	21,855	874
High School Social Studies Club	26	-	-	26
High School Fund	250	2,169	1,564	855
Hospitality Foods Tip Fund	234	1,013	500	747
Indian Education/Unity Trip	280	-	-	280
Key Club	2,095	158	606	1,647
Model UN/H.S. Enrichment	3,963	12,941	13,767	3,137
National Honor Society	1,430	1,251	1,461	1,220
Petoskey High School Papermakers	2,569	4,957	6,217	1,309
Robotics	723	45,595	31,486	14,832
Renaissance Fund	-	2,305	1,976	329
Science Class	429	502	626	305
Skateboarding Club	91	-	-	91
Spanish Club	516	-	-	516
High School Special Needs Counseling	250	400	-	650
High School 8th & 9th Transition Fund	-	7,000	-	7,000
World History Trip Fund	450	1,540	1,533	457
High School Athletics				
Athletic Hall Of Fame	563	1,923	1,301	1,185
Athletic miscellaneous fundraisers	2,509	1,611	-	4,120
Boys Basketball	2,898	10,846	10,712	3,032
Boys Golf	708	3,850	1,264	3,294
Boys Tennis	2,733	3,370	4,163	1,940
Dance	11	-	-	11
Girls Basketball	612	3,333	2,416	1,529
Girls Golf	2,373	3,041	1,479	3,935
Girls Tennis	3,731	17,779	16,090	5,420
Girls Track	466	721	594	593
Girls Softball	-	6,290	-	6,290
High School Baseball	38	140	-	178
High School Boys Soccer	(326)	580	504	(250)
High School Cross Country	4,096	13,746	11,737	6,105
High School Football	45	2,500	2,865	(320)
High School Girls Soccer	279	60	-	339
High School Hockey	35,251	82,958	74,364	43,845
Northmen Club	629	-	-	629
Pay To Participate Donations	1,650	-	-	1,650
High School Ski Team	-	2,160	2,160	-
Cross Country Ski Club	-	675	-	675
Turcott Field Fundraiser	-	6,025	4,522	1,503
Volleyball	4,186	7,263	2,534	8,915

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund
For the Year Ended June 30, 2014

	Balances July 1, 2013	Receipts	Disbursements	Balances June 30, 2014
High School Athletics (continued)				
Wrestling	\$ 3,720	\$ 11,799	\$ 12,107	\$ 3,412
Boys Track	454	30	450	34
Pink Game	832	15,988	16,039	781
District-Wide Accounts				
Elementary Enrichment	807	7,512	5,383	2,936
Elementary Enrichment Play	12,284	8,347	6,862	13,769
Elementary Music Fund	500	2,089	1,336	1,253
Student Reserve	21,789	1,720	2,700	20,809
Total due to student groups	260,007	635,920	565,495	330,432
Scholarships payable				
Doris Reber - Class of 1932 Scholarship	208,092	801	-	208,893
Eric Greyerbiehl Memorial Fund	1,382	-	300	1,082
McClutchey Memorial Scholarship	5,007	20	-	5,027
Midshipmen Scholarship	7,275	28	150	7,153
Vaughn Memorial Scholarship	16,514	64	300	16,278
Wil Moyer Music Scholarship	757	-	450	307
Future Sports Complex Donations	-	5,925	-	5,925
Memorial Scholarship - Scott Sweany	-	325	-	325
Duane Hasse Memorial Fund	1,507	-	-	1,507
Total scholarships payable	240,534	7,163	1,200	246,497
Due to others				
Carol Hansen Memorial Fund	8,536	829	9,365	-
Central PTO	27,913	36,926	32,708	32,131
High School Staff Fund	362	177	177	362
Kathy Robinson Memorial Fund	96	-	-	96
Lincoln PTO	3,076	35,484	34,396	4,164
Maintenance Fund	96	1,625	619	1,102
Northmen Night	416	54,897	54,359	954
Ottawa PTO Board Fund	12,992	31,480	28,023	16,449
PEF Grants - Central	300	544	844	-
PEF Grants - High School	-	3,231	2,931	300
PEF Grants - Lincoln	416	1,606	2,022	-
PEF Grants - Middle School	199	608	807	-
PEF Grants - Ottawa	694	148	842	-
PEF Grants - Sheridan	-	661	661	-
PEF Grants - ACT/SAT Seminar	68	1,085	1,151	2
PEF Grants - District	-	153	113	40
Petoskey Family Fund	16,707	7,121	2,150	21,678
Robert Motely Memorial Fund	106	-	-	106
Senior Parent Committee	1,675	25,084	25,302	1,457
Spitler Building Pop Fund	313	111	85	339
Due to Primary Government	39,763	206,313	237,836	8,240
Total due to others	113,728	408,083	434,391	87,420
Totals	\$ 614,269	\$ 1,051,166	\$ 1,001,086	\$ 664,349

Concluded

OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)

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PUBLIC SCHOOLS OF PETOSKEY

Schedule of Bond Indebtedness For the Year Ended June 30, 2014

Purpose	2012 Technology Bonds
Date of issue	June 21, 2012
Rate of interest	1.50% to 2.00%
Original obligation	\$ 4,930,000
Amount previously paid	<u>845,000</u>
Balance outstanding - June 30, 2014	<u>\$ 4,085,000</u>

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
2014-2015	\$ 39,675	\$ 39,675	\$ 470,000	\$ 549,350
2015-2016	36,150	36,150	480,000	552,300
2016-2017	31,350	31,350	540,000	602,700
2017-2018	25,950	25,950	640,000	691,900
2018-2019	19,550	19,550	730,000	769,100
2019-2020	12,250	12,250	1,225,000	1,249,500
	<u>\$ 164,925</u>	<u>\$ 164,925</u>	<u>\$ 4,085,000</u>	<u>\$ 4,414,850</u>

Call Provision

Bonds of this issue are not subject to redemption prior to maturity.

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Bond Indebtedness For the Year Ended June 30, 2014

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>10,955,000</u>
Balance outstanding - June 30, 2014	<u>\$ 10,415,000</u>

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
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>\$ 674,971</u>	<u>\$ 674,971</u>	<u>\$ 10,415,000</u>	<u>\$ 11,764,942</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 Other Installment Debt For the Year Ended June 30, 2014

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>281,475</u>
Balance outstanding - June 30, 2014	<u><u>\$ 418,525</u></u>

Fiscal Year	Interest	May 1, Principal	Annual Requirements
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>\$ 85,209</u>	<u>\$ 418,525</u>	<u>\$ 503,734</u>

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Other Installment Debt
For the Year Ended June 30, 2014

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>437,239</u>
Balance outstanding - June 30, 2014	<u><u>\$ 262,761</u></u>

Fiscal Year	Interest	May 15, Principal	Annual Requirements
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>\$ 30,626</u>	<u>\$ 262,761</u>	<u>\$ 293,387</u>

Concluded

PUBLIC SCHOOLS OF PETOSKEY

Property Tax Information (Unaudited) For the Year Ended June 30, 2014

Taxing District	Tax Levy	Collections and Other Reductions	Delinquent Personal Property Taxes	Percentage of Current Year Levy Collected
Bear Creek Township	\$ 5,705,447	\$ 5,425,375	\$ 280,072	95.09%
Littlefield Township	68,517	66,083	2,434	96.45%
Little Traverse Township	468,859	450,675	18,184	96.12%
Resort Township	3,751,119	3,500,711	250,408	93.32%
Springvale Township	854,050	795,853	58,197	93.19%
City of Petoskey	6,644,166	6,330,845	313,321	95.28%
Chandler Township	154,820	141,308	13,512	91.27%
Hayes Township	47,197	41,950	5,247	88.88%
Melrose Township	1,172,180	1,075,499	96,681	91.75%
Total	\$ 18,866,355	\$ 17,828,299	\$ 1,038,056	94.50%
Allocated as follows				
General Fund	\$ 13,951,195	\$ 13,169,848	\$ 781,347	94.40%
Debt Service Fund	3,123,498	2,959,436	164,062	94.75%
Capital Project Funds	1,791,662	1,699,015	92,647	94.83%
Total allocated to all funds	\$ 18,866,355	\$ 17,828,299	\$ 1,038,056	94.50%

PUBLIC SCHOOLS OF PETOSKEY

Ten-Year Summary of Enrollment (Unaudited)

For the Year Ended June 30, 2014

Year	Special Education	Elementary School	Middle School	High School	Total	Non-Resident	Resident
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
2014	64	1,258	657	969	2,949	391	2,558

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, 2014**

Year	Expenditures and Transfers*	Enrollment	Expenditures Per Pupil
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
2014	25,350,870	2,948.82	8,597

* General Fund expenditures and transfers only.

SINGLE AUDIT ACT COMPLIANCE

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

October 13, 2014

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

We have audited 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 ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 13, 2014, 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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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PUBLIC SCHOOLS OF PETOSKEY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

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	131970	\$ 91,834
National school lunch - breakfast	10.553	MDE	141970	76,413
National school lunch section 4 all lunches	10.555	MDE	131960	351,640
National school lunch section 4 all lunches	10.555	MDE	141960	302,449
Non-cash assistance:				
Entitlement commodities	10.550	MDE	n/a	59,127
Total U.S. Department of Agriculture				
U.S. Department of Education				
Title I, Part A - Improving Basic Programs	84.010	MDE	131530-1213	332,749
Title I, Part A - Improving Basic Programs	84.010	MDE	131530-1314	369,606
Title II, Part A - Enhancing Education Through Technology				
	84.366A	MDE	131700-1213	11,352
Transition Services	84.048A	ISD	143520-14125	8,939
Indian Education	84.060A	Direct	12/13	49,894
Indian Education	84.060A	Direct	13/14	48,838
Title II, Part A - Improving Teacher Quality				
	84.367	MDE	130520-1213	62,261
Title II, Part A - Improving Teacher Quality	84.367	MDE	130520-1314	167,424
Total U.S. Department of Education				
U.S. Department of Health and Human Services				
Medicaid Outreach	93.778	ISD	12/13	4,551
Medicaid Outreach	93.778	ISD	13/14	3,608
Total Federal Financial Assistance				

See notes to schedule of expenditures of federal awards.

Accrued (Deferred) Revenue June 30, 2013	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2014	Accrued (Deferred) Revenue June 30, 2014
\$ -	\$ 9,466	\$ 82,368	\$ 9,466	\$ -
-	76,413	-	76,413	-
-	39,474	312,166	39,474	-
-	302,449	-	302,449	-
-	<u>427,802</u>	<u>394,534</u>	<u>427,802</u>	-
-	59,127	-	59,127	-
-	<u>486,929</u>	<u>394,534</u>	<u>486,929</u>	-
19,297	59,241	292,805	39,944	-
-	271,317	-	253,191	(18,126)
<u>19,297</u>	<u>330,558</u>	<u>292,805</u>	<u>293,135</u>	<u>(18,126)</u>
10,467	10,467	10,467	-	-
-	8,939	-	8,939	-
7,175	7,175	45,048	-	-
-	41,567	-	42,452	885
<u>7,175</u>	<u>48,742</u>	<u>45,048</u>	<u>42,452</u>	<u>885</u>
2,989	32,569	32,681	29,580	-
-	31,667	-	30,383	(1,284)
<u>2,989</u>	<u>64,236</u>	<u>32,681</u>	<u>59,963</u>	<u>(1,284)</u>
<u>39,928</u>	<u>462,942</u>	<u>381,001</u>	<u>404,489</u>	<u>(18,525)</u>
-	-	4,551	-	-
-	3,608	-	3,608	-
-	<u>3,608</u>	<u>4,551</u>	<u>3,608</u>	-
<u>\$ 39,928</u>	<u>\$ 953,479</u>	<u>\$ 780,086</u>	<u>\$ 895,026</u>	<u>\$ (18,525)</u>

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

Reconciliation to grant section auditors' report

Current payments per the grant auditor report	\$	780,900
Plus		
Amounts passed through Charlevoix-Emmet Intermediate School District		12,547
Entitlement and bonus commodities		59,127
Direct award from Department of Education		<u>42,452</u>
Total current year receipts per schedule of expenditures of federal awards	\$	<u><u>895,026</u></u>

Concluded

PUBLIC SCHOOLS OF PETOSKEY

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Public Schools of Petoskey (the "District") under programs of the federal government for the year ended June 30, 2014. 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, changes in net position or cash flows 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. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities. Spoilage and pilferage are included in expenditure amounts reported.

4. PASS-THROUGH AGENCIES

The District receives certain federal grant 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
ISD	Charlevoix-Emmet Intermediate School District
MDE	Michigan Department of Education



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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 13, 2014

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 ended June 30, 2014, 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 13, 2014.

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 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Rehmann Lohman 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 13, 2014

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 program for the year ended June 30, 2014. The District's major federal program is identified in the summary of auditors' 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 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, 2014.

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.

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive style with a small vertical line under the "n" in "Lobson".

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PUBLIC SCHOOLS OF PETOSKEY

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2014

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:

CFDA Number

Name of Federal Program or Cluster

84.010

Title I

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

X yes _____ no

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

No financial statement findings.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.