

Public Schools of
Petoskey



Year Ended
June 30, 2016

Financial
Statements and
Single Audit Act
Compliance

PUBLIC SCHOOLS OF PETOSKEY

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INDEPENDENT AUDITORS' REPORT

October 10, 2016

Board of Education
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, 2016, 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, 2016, 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 and the schedules for the pension plan, as listed in the table of contents, 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.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are 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 10, 2016 on our consideration of the Public Schools of Petoskey, Michigan internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Rehmann Johnson LLC

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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, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which comprise three components: 1) District-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

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, the Athletic Complex 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* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The *statement of net position* presents information on all of the District assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. 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 *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

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." Expenditures 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 2016 refunding bonds, 2015 refunding bonds, 2012 Technology bonds, 2005 refunding bonds, and a land contract.
- . Special Revenue Fund - consisting of the Food Service Fund.
- . Capital Project Funds - consisting of the Sinking Fund, Technology Bonds Fund, Building & Site Fund, and the Athletic Complex 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.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

District-Wide Financial Analysis

As stated earlier, the statement of net position provides the perspective of the District as a whole. At June 30, 2016, the District reported a net position of \$15,079,532. The table below provides a summary of the District's net position as of June 30, 2016, and June 30, 2015:

	Net Position		
	Governmental Activities		Percent Change
	2016	2015	
Assets			
Current and other assets	\$15,901,474	\$20,088,600	-20.84%
Capital assets, net	60,359,516	52,028,629	16.01%
	<u>76,260,990</u>	<u>72,117,229</u>	<u>5.75%</u>
Deferred outflows of resources	<u>4,978,331</u>	<u>4,846,350</u>	<u>100.00%</u>
Liabilities			
Current and other liabilities	43,124,810	37,337,593	15.50%
Long-term liabilities	22,913,636	23,018,766	-0.46%
	<u>66,038,446</u>	<u>60,356,359</u>	<u>9.41%</u>
Deferred inflows of resources	<u>121,343</u>	<u>3,547,909</u>	<u>100.00%</u>
Net position			
Net investment in capital assets	41,647,937	38,630,548	7.81%
Restricted	3,759,965	3,270,616	14.96%
Unrestricted (deficit)	<u>(30,328,370)</u>	<u>(28,841,853)</u>	<u>5.15%</u>
Total net position	<u><u>\$15,079,532</u></u>	<u><u>\$13,059,311</u></u>	<u><u>15.47%</u></u>

Net investment in capital assets, approximately \$42,244,000, 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 \$3,185,000 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, a deficit of approximately \$30,349,000 represents the accumulated results of the current and all past years' operations. The deficit in 2015 and 2016 is a result of the requirement to report the District's net pension liability on its statement of net position due to the implementation of GASB 68 effective June 30, 2015. The operating results of the General Fund will also have a significant impact on the change in unrestricted net position from year to year.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

The following condensed financial information was derived from the District-wide statement of activities and reflects how the District's net position changed during the fiscal year:

	Change in Net Position		
	Governmental Activities		Percent
	2016	2015	Change
Program revenues			
Charges for services	\$ 809,504	\$ 797,502	1.50%
Grants and contributions	5,922,538	5,146,505	15.08%
General revenues			
Property taxes	20,724,473	19,806,126	4.64%
Unrestricted state aid	6,280,225	7,003,795	-10.33%
Other	203,025	137,947	47.18%
Total revenues	<u>33,939,765</u>	<u>32,891,875</u>	<u>3.19%</u>
Expenses			
Instruction	19,387,812	17,747,686	9.24%
Supporting services	7,919,287	7,428,766	6.60%
Community services	8,531	8,471	0.71%
Food services	914,224	931,269	-1.83%
Athletics	586,444	558,509	5.00%
Interest on long-term debt	651,507	386,541	68.55%
Bond issuance costs	10,116	181,834	100.00%
Unallocated depreciation	2,441,623	2,407,909	1.40%
Total expenses	<u>31,919,544</u>	<u>29,650,985</u>	<u>7.65%</u>
Increase in net position	<u>2,020,221</u>	<u>3,240,890</u>	<u>-37.66%</u>
Net position:			
Beginning of year	13,059,311	41,284,582	-68.37%
Restatement	-	(31,466,161)	-100.00%
	<u>13,059,311</u>	<u>9,818,421</u>	<u>33.01%</u>
End of year	<u>\$15,079,532</u>	<u>\$13,059,311</u>	<u>15.47%</u>

Of the District's total revenues available to operate the District, 2.38% or approximately \$810,000 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 17.45% or approximately \$5,923,000.

The State foundation allowance accounted for 18.50% or approximately \$6,280,000 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 decrease of 10.0% is mainly due to a decrease in student enrollment of 30 students. This is an expected decrease in enrollment and was factored into the budget.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Local property taxes, of approximately \$20,724,000 or 61.06% of total revenue, supported the remaining portion of the governmental activities. Property tax revenue increased by 4.64% due to taxable value increases in the district as well as an increase in a debt service millage rate. 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 \$1,876,000 of the \$20,724,000 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. Of the overall increase of 7.65%, approximately half is due to increased bond interest expense, pension costs and compensation cost increases. Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for approximately \$19,388,000 or 60.74% of total expenses. Support services cost approximately \$7,919,000 or 24.81% 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 \$2,020,000 or a 37.66% decrease from fiscal 2015 increase in net position of approximately \$3,241,000. Overall, revenue increased 3.19%, while expenses increased by 7.65%. It should be noted that under the accrual basis of accounting, property taxes collected for debt service are recognized as revenue, while only interest on the debt is recognized as expense. The increase in net position differs from the change in fund balance and a reconciliation appears later in the financial statements.

Financial Analysis of the District's Funds

As noted earlier, the District uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide, and may provide more insight in the District's overall financial health. As the District completed this year, the governmental funds reported a combined fund balance of approximately \$9,528,000, which is a decrease of approximately \$5,467,000 from the prior year. The Athletic Complex capital projects funds reported a fund balance decrease of approximately \$5,145,000 resulting from the construction of the sports complex. Approximately \$5,352,000 related to infrastructure projects was reported as capital outlay in the Sinking Fund, Building and Site Fund and the 2012 Technology Bond Capital Projects Fund.

Of the combined governmental fund balances, 4.08% or approximately \$389,000 constitutes unassigned fund balance, which is available for spending at the District's discretion. District management has assigned approximately \$2,254,000 of fund balance to indicate planned uses of these funds. Of the assigned fund balance, approximately \$78,000 has been set aside to recognize the fund balance accumulated by the efforts of the Athletic department and supporters, and approximately \$576,000 for capital projects. Management has assigned another \$1,600,000 as the minimum amount necessary to avoid borrowing for cash flow purposes. Approximately \$6,773,000 is restricted fund balance to indicate that it is not available for spending at the District's discretion. Of the restricted fund balance, approximately \$6,152,000 is earmarked for capital improvements, approximately \$596,000 is earmarked for payments on long-term debt and \$25,000 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 \$1,678,000, while total fund balance was approximately \$2,088,000. 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 7.68% of total General Fund expenditures.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

The fund balance of the District's General Fund decreased by approximately \$239,000 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.

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 \$531,000 less than the final amended budget, a variance of 1.93%. The actual revenue was under budget mainly due to state and federal grant awards not being spent in the time frame anticipated.
- . The District's General Fund expenditures were approximately \$1,008,000 less than the final amended budget, a variance of 3.71%. Approximately \$531,000 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. 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, 2016, the District had invested approximately \$93,901,000 in a broad range of capital assets, including school buildings, land, athletic facilities, furniture, and equipment. This represents a net increase (including all additions and disposals) of approximately \$10,772,000 or 12.96% from last year. More detailed information about capital assets is available in Note 7 to the financial statements.

This year's major capital asset additions include a district-wide video surveillance system and a new phone system. Construction-in-progress is attributable mainly to the construction of the Athletic Complex and the construction of McDougal Road and Northmen Drive.

	Capital Assets (Net of Depreciation)	
	2016	2015
Land	\$ 3,384,351	\$ 3,384,351
Construction in progress	13,617,652	3,820,724
Buildings and improvements	40,534,220	41,958,690
Furniture and equipment	2,823,293	2,864,864
Total capital assets, net	\$60,359,516	\$52,028,629

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Debt Administration. At year-end, the District had approximately \$22,914,000 in general obligation bonds and other long-term debt outstanding - a decrease of .46% from last year - as shown in the below table. The net decrease is due to the issuance of the 2016 school building and site bonds offset by the scheduled annual principal payments made throughout the year. 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	
	2016	2015
General obligation bonds	\$22,123,798	\$21,897,240
Other long-term debt	789,838	1,121,526
Total long-term debt	\$22,913,636	\$23,018,766

In fiscal 2004, the District 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 \$151,000.

Factors Bearing on the District's Future

We considered many factors when setting the District's 2016-2017 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 89% 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 2016-2017, we assumed a reduction of fifty-two (52) students based on the predictions of an independent pupil enrollment statistician, and a \$120 increase in the Foundation allowance and related performance funding based on State budget documents.

Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect the revenues to fund its appropriation to school districts. For fiscal year 2015-16, the District saw a foundation allowance of \$7,391, which was \$265 more than in 2014-2015. This revenue increase of 3.7% returned the District to the same level of funding last provided by the State in 2010-11. Since 2010-11, the State reduced their funding of the foundation allowance or provided only marginal increases, which has been a significant factor in the District's annual use of fund balance and on-going cost-cutting measures. This past year, a loss of 26 students contributed to the negative direction of the 2014-2015 budget, but we were able to implement cost-savings measures early in the year to offset the revenue loss. Based on our statistician's recommendations, we anticipate slightly declining K-12 enrollment that mirrors the state-wide trend for the next several years.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Modest budget cuts in 2015-2016 combined with an expected use of fund balance this year were part of a multi-year financial plan enacted three years ago. The district anticipates further modest use of fund balance going into 2016-2017. We believe the 2016-2017 foundation allowance will increase by \$120 to \$7,511 but student enrollment will decline by 52 students. Due to these offsetting factors, the district anticipates \$166,000 less revenue for the year. We also assume that our costs will increase by approximately \$46,000 due to staff contract provisions, retirement costs, and health care cost increases offset by modest budget cuts. The anticipated shortfall is expected to place our fund balance in a range between \$1.1 to \$1.6 million by the end of the 2016-2017 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 2016-2017 budget falls within these parameters.

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 one to two 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 the short-term 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 2015, and will expire in August 2017. The District's labor contract with the Petoskey Educational Support Personnel Association, which represents the District's support personnel, was settled in August 2015, and will expire in August 2018.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

Statement of Net Position

June 30, 2016

Assets	
Cash and cash equivalents	\$ 10,034,482
Investments	3,972,983
Receivables	1,782,106
Prepays and other current assets	111,903
Capital assets not being depreciated	17,002,003
Capital assets being depreciated, net	<u>43,357,513</u>
Total assets	<u>76,260,990</u>
Deferred outflows of resources	
Deferred pension amounts	<u>4,978,331</u>
Liabilities	
Accounts payable and accrued liabilities	5,498,204
Unearned revenue	992,356
Long-term liabilities:	
Due within one year	4,028,689
Due in more than one year	18,884,947
Net pension liability	<u>36,634,250</u>
Total liabilities	<u>66,038,446</u>
Deferred inflows of resources	
Deferred pension amounts	<u>121,343</u>
Net position	
Net investment in capital assets	41,647,937
Restricted for:	
Capital outlay	3,164,881
Debt service	478,616
Food service	116,468
Unrestricted (deficit)	<u>(30,328,370)</u>
Total net position	<u>\$ 15,079,532</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, 2016

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction	\$ 19,387,812	\$ 115,279	\$ 4,657,187	\$ -	\$ (14,615,346)
Supporting services	7,919,287	45,332	248,420	-	(7,625,535)
Community services	8,531	-	-	-	(8,531)
Food services	914,224	450,484	471,873	-	8,133
Athletics	586,444	198,409	58,825	486,233	157,023
Interest on long-term debt	651,507	-	-	-	(651,507)
Bond issuance costs	10,116	-	-	-	(10,116)
Unallocated depreciation	2,441,623	-	-	-	(2,441,623)
Total governmental activities	<u>\$ 31,919,544</u>	<u>\$ 809,504</u>	<u>\$ 5,436,305</u>	<u>\$ 486,233</u>	<u>(25,187,502)</u>
General revenues					
Property taxes - operations					15,230,480
Property taxes - debt service					3,618,314
Property taxes - sinking fund					1,875,679
Unrestricted state aid					6,280,225
Unrestricted investment earnings					35,863
Other					<u>167,162</u>
Total general revenues					<u>27,207,723</u>
Change in net position					2,020,221
Net position, beginning of year					<u>13,059,311</u>
Net position, end of year					<u>\$ 15,079,532</u>

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

FUND FINANCIAL STATEMENTS

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PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

Governmental Funds

June 30, 2016

	General Fund	Sinking Fund	Athletic Complex Fund
Assets			
Cash and cash equivalents	\$ 88,331	\$ 3,339,552	\$ 4,669,279
Investments	3,913,777	5,189	-
Accounts receivable	46,593	-	-
Due from other funds	77,456	-	130,911
Due from other governments	1,685,468	-	-
Other assets	20,407	-	-
Total assets	\$ 5,832,032	\$ 3,344,741	\$ 4,800,190
Liabilities			
Accounts payable	\$ 449,811	\$ -	\$ -
Contracts payable	-	1,056,261	1,237,555
Salaries payable	1,502,127	-	-
Accrued liabilities	822,711	-	-
Due to other funds	-	141,528	-
Unearned revenue	969,569	-	-
Total liabilities	3,744,218	1,197,789	1,237,555
Fund balances			
Nonspendable:			
Inventory	11,547	-	-
Prepaid items	8,860	-	-
Restricted:			
Food service	-	-	-
Debt service	-	-	-
Capital outlay - capital project funds	-	2,146,952	3,562,635
Assigned:			
Athletics	78,468	-	-
Capital outlay	-	-	-
Subsequent years' expenditures	1,600,000	-	-
Unassigned	388,939	-	-
Total fund balances	2,087,814	2,146,952	3,562,635
Total liabilities and fund balances	\$ 5,832,032	\$ 3,344,741	\$ 4,800,190

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



Debt Service Fund	Nonmajor Funds	Total Governmental Funds
\$ 531,575	\$ 1,405,745	\$ 10,034,482
54,017	-	3,972,983
-	31,092	77,685
10,617	-	218,984
-	18,953	1,704,421
-	91,496	111,903
<u>\$ 596,209</u>	<u>\$ 1,547,286</u>	<u>\$ 16,120,458</u>
\$ -	\$ 312,646	\$ 762,457
-	-	2,293,816
-	-	1,502,127
-	-	822,711
-	77,456	218,984
-	22,787	992,356
<u>-</u>	<u>412,889</u>	<u>6,592,451</u>
-	6,496	18,043
-	85,000	93,860
-	24,972	24,972
596,209	-	596,209
-	441,999	6,151,586
-	-	78,468
-	575,930	575,930
-	-	1,600,000
-	-	388,939
<u>596,209</u>	<u>1,134,397</u>	<u>9,528,007</u>
<u>\$ 596,209</u>	<u>\$ 1,547,286</u>	<u>\$ 16,120,458</u>

PUBLIC SCHOOLS OF PETOSKEY

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2016

Fund balances - total governmental funds	\$ 9,528,007
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements.	
Capital assets not being depreciated	17,002,003
Capital assets being depreciated, net	43,357,513
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(36,634,250)
Deferred outflows related to the net pension liability	4,978,331
Deferred inflows related to the net pension liability	(121,343)
Long-term 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	(1,793,798)
Bonds and land contract payable	(20,480,916)
Accrued interest on bonds payable	(117,093)
Compensated absences	(638,922)
Net position of governmental activities	<u>\$ 15,079,532</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, 2016

	General Fund	Sinking Fund	Athletic Complex Fund
Revenues			
Local sources:			
Property taxes	\$ 14,726,397	\$ 1,875,679	\$ -
Payment in lieu of taxes	504,083	-	-
Charges for services	115,279	-	-
Rent income	-	-	-
Interest	11,394	1,747	13,411
Athletics	257,234	-	-
Other income	154,559	-	-
State sources	9,391,033	-	-
Federal sources	444,884	-	-
Interdistrict sources	1,349,915	-	-
Contributions	-	275,585	210,648
Total revenues	26,954,778	2,153,011	224,059
Expenditures			
Current:			
Instruction	18,894,715	-	-
Supporting services	8,249,155	-	-
Community services	8,360	-	-
Food services	-	-	-
Other	-	14,952	-
Debt service:			
Principal	-	-	-
Bond issuance costs	-	-	-
Interest	-	-	-
Capital outlay	42,009	4,551,920	5,368,818
Total expenditures	27,194,239	4,566,872	5,368,818
Revenues over (under) expenditures	(239,461)	(2,413,861)	(5,144,759)
Other financing sources (uses)			
Bond proceeds	-	-	-
Transfers in	-	2,999,383	-
Transfers out	-	(66,427)	-
Total other financing sources (uses)	-	2,932,956	-
Net change in fund balances	(239,461)	519,095	(5,144,759)
Fund balances, beginning of year	2,327,275	1,627,857	8,707,394
Fund balances, end of year	\$ 2,087,814	\$ 2,146,952	\$ 3,562,635

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



Debt Service Fund	Nonmajor Funds	Total Governmental Funds
\$ 3,618,314	\$ -	\$ 20,220,390
-	-	504,083
-	450,484	565,763
-	45,332	45,332
7,287	4,627	38,466
-	-	257,234
-	-	154,559
-	37,499	9,428,532
-	434,374	879,258
-	-	1,349,915
-	-	486,233
<u>3,625,601</u>	<u>972,316</u>	<u>33,929,765</u>
-	-	18,894,715
-	-	8,249,155
-	-	8,360
-	911,115	911,115
24,955	4,833	44,740
2,612,319	-	2,612,319
10,117	-	10,117
914,061	-	914,061
-	799,763	10,762,510
<u>3,561,452</u>	<u>1,715,711</u>	<u>42,407,092</u>
<u>64,149</u>	<u>(743,395)</u>	<u>(8,477,327)</u>
3,010,000	-	3,010,000
66,427	-	3,065,810
(2,999,383)	-	(3,065,810)
<u>77,044</u>	<u>-</u>	<u>3,010,000</u>
141,193	(743,395)	(5,467,327)
<u>455,016</u>	<u>1,877,792</u>	<u>14,995,334</u>
<u>\$ 596,209</u>	<u>\$ 1,134,397</u>	<u>\$ 9,528,007</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, 2016

Net change in fund balances - total governmental funds \$ (5,467,327)

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. In addition, donated capital assets are not reported in the governmental funds.

Capital assets purchased/constructed	10,762,510
Depreciation expense	(2,441,623)
Donated capital assets	10,000

Debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but a reduction in long-term liabilities in the statement of net position.

Issuance of long-term debt	(3,010,000)
Principal payments on debt and land contracts	2,612,319
Early retirement incentive payments	300,002

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.

Amortization of bond premium	228,442
Change in net pension liability and related deferred amounts	(982,581)
Change in the accrual for compensated absences	(25,633)
Change in accrued interest payable on bonds	34,112

Change in net position of governmental activities	<u>\$ 2,020,221</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, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 15,417,216	\$ 15,678,277	\$ 15,768,946	\$ 90,669
State sources	9,523,492	9,805,319	9,391,033	(414,286)
Federal sources	699,861	637,059	444,884	(192,175)
Interdistrict sources	1,278,735	1,365,376	1,349,915	(15,461)
Total revenues	26,919,304	27,486,031	26,954,778	(531,253)
Expenditures				
Current:				
Instruction:				
Basic programs	14,378,463	14,451,285	14,351,052	(100,233)
Added needs	4,915,397	5,061,355	4,543,663	(517,692)
Supporting services:				
Pupil services	804,481	823,244	766,526	(56,718)
Instructional staff services	913,185	864,276	753,270	(111,006)
General administration	463,071	466,861	444,829	(22,032)
School administration	1,782,562	1,744,204	1,691,519	(52,685)
Business services	562,458	750,637	714,741	(35,896)
Operations and maintenance	2,182,945	2,042,574	2,045,065	2,491
Pupil transportation services	1,311,176	1,247,312	1,195,669	(51,643)
Support services - central	93,314	84,152	80,858	(3,294)
Athletic activities	609,468	567,436	556,678	(10,758)
Community services				
Community services direction	5,702	12,660	4,893	(7,767)
Non-public school pupils	21,352	4,732	3,467	(1,265)
Capital outlay	83,694	81,604	42,009	(39,595)
Total expenditures	28,127,268	28,202,332	27,194,239	(1,008,093)
Net change in fund balance	(1,207,964)	(716,301)	(239,461)	476,840
Fund balance, beginning of year	2,327,275	2,327,275	2,327,275	-
Fund balance, end of year	\$ 1,119,311	\$ 1,610,974	\$ 2,087,814	\$ 476,840

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, 2016

Assets	
Cash and cash equivalents	\$ 451,162
Investments	425,000
Receivable	<u>225</u>
Total assets	<u>\$ 876,387</u>
Liabilities	
Due to student groups	\$ 412,223
Scholarships payable	333,282
Due to others	<u>130,882</u>
Total liabilities	<u>\$ 876,387</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, 2016.

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*. 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. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

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 *Athletic Complex Fund* is used to account for capital project activities funded with the 2016 School building & site 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* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects that comprise, or are expected to comprise a substantial portion of the fund's total reported inflows.

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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 amortized cost.

Receivables and payables

The District follows the practice of recording revenues that have been earned but not yet received as receivables at year end. 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, 2016.

Prepays and other current 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 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 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

Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District reports deferred outflows of resources related to the net pension liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date. More detailed information on pension-related deferred outflows of resources can be found in Note 10.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Salaries payable and accrued employee benefits

A liability is recorded at June 30, 2016 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.

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 2015 Refunding Bonds, reported as a component of the debt service fund, and the Sinking Fund include 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 and in the Athletic Complex Fund, respectively.

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

Deferred inflows of resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District's deferred inflows of resources are related to pension costs. More detailed information can be found in Note 10.

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of estimates

The preparation of financial statements in conformity with 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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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.

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2016, the District incurred expenditures in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund			
Operations and maintenance	\$ 2,042,574	\$ 2,045,065	\$ 2,491

3. DEPOSITS AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of June 30, 2016:

	Totals
Statement of Net Position	
Cash and cash equivalents	\$ 10,034,482
Investments	3,972,983
Statement of Fiduciary Assets and Liabilities	
Agency funds	
Cash and cash equivalents	451,162
Investments	425,000
Total	<u>\$ 14,883,627</u>
Deposits and investments	
Bank deposits:	
Checking / savings accounts	\$ 10,485,344
Certificates of deposit:	
Maturing in less than one year	425,000
Investments	3,972,983
Cash on hand	300
Total	<u>\$ 14,883,627</u>

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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.

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	Amortized Cost	Rating
Michigan Liquid Asset Fund	n/a	\$ 3,972,983	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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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, approximately \$10,800,000 of the District's bank balance of approximately \$11,300,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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 96 percent due from other governmental units and 4 percent due from customers.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are 56 percent due to vendors, 27 percent salaries payable, and 17 percent other accrued liabilities.

6. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2016, was as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 77,456	\$ -
Sinking Fund	-	141,528
Athletic Complex Fund	130,911	-
Debt Service Fund	10,617	-
Nonmajor Funds	-	77,456
	<u>\$ 218,984</u>	<u>\$ 218,984</u>

The Agency Fund owes the General Fund \$46,593 at June 30, 2016.

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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

For the year ended June 30, 2016, interfund transfers consisted of the following:

	Transfers in	Transfers out
Sinking Fund	\$ 2,999,383	\$ 66,427
Debt Service Fund	<u>66,427</u>	<u>2,999,383</u>
	<u>\$ 3,065,810</u>	<u>\$ 3,065,810</u>

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, 2016:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,384,351	\$ -	\$ -	\$ -	\$ 3,384,351
Construction-in-progress	<u>3,820,724</u>	<u>10,107,685</u>	<u>-</u>	<u>(310,757)</u>	<u>13,617,652</u>
	<u>7,205,075</u>	<u>10,107,685</u>	<u>-</u>	<u>(310,757)</u>	<u>17,002,003</u>
Capital assets, being depreciated:					
Buildings and improvements	69,217,649	63,998	-	140,295	69,421,942
Furniture and equipment	<u>6,706,110</u>	<u>600,827</u>	<u>-</u>	<u>170,462</u>	<u>7,477,399</u>
	<u>75,923,759</u>	<u>664,825</u>	<u>-</u>	<u>310,757</u>	<u>76,899,341</u>
Less accumulated depreciation for:					
Buildings and improvements	(27,258,959)	(1,628,763)	-	-	(28,887,722)
Furniture and equipment	<u>(3,841,246)</u>	<u>(812,860)</u>	<u>-</u>	<u>-</u>	<u>(4,654,106)</u>
	<u>(31,100,205)</u>	<u>(2,441,623)</u>	<u>-</u>	<u>-</u>	<u>(33,541,828)</u>
Total capital assets being depreciated, net	<u>44,823,554</u>	<u>(1,776,798)</u>	<u>-</u>	<u>310,757</u>	<u>43,357,513</u>
Governmental activities capital assets, net	<u>\$ 52,028,629</u>	<u>\$ 8,330,887</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,359,516</u>

Unallocated depreciation expense of \$2,441,623 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, 2016:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Installment Debt					
General obligation bonds	\$ 19,875,000	\$ 3,010,000	\$ (2,555,000)	\$ 20,330,000	\$ 3,740,000
Premium on bonds	2,022,240	-	(228,442)	1,793,798	228,440
Total bond payable	21,897,240	3,010,000	(2,783,442)	22,123,798	3,968,440
Other long-term liabilities					
Land contract	208,235	-	(57,319)	150,916	60,249
Early retirement incentives	300,002	-	(300,002)	-	-
Compensated absences	613,289	96,371	(70,738)	638,922	-
Total other long-term liabilities	1,121,526	96,371	(428,059)	789,838	60,249
Total long-term liabilities	\$ 23,018,766	\$ 3,106,371	\$ (3,211,501)	\$ 22,913,636	\$ 4,028,689

Long-term debt at June 30, 2016, includes the following:

General Obligation Bonds

2012 technology bonds due in annual installments ranging from \$540,000 to \$1,225,000 plus interest ranging from 1.50% to 2.00%; final payment due May 2020.	\$ 3,135,000
2015 school building & site refunding bonds due in annual installments ranging from \$1,625,000 to \$2,235,000 plus interest ranging from 2.20% to 5.00%; final payment due May 2024.	14,185,000
2016 school building & site bonds are due in annual installments ranging from \$965,000 to \$1,045,000 plus interest ranging from 0.95% to 1.30%; final payment due May 2019.	3,010,000
Premium on bonds	<u>1,793,798</u>
Total general obligation bonds	<u>22,123,798</u>

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Other Long-term Liabilities

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 15, 2019.	\$ 150,916
Compensated absences	<u>638,922</u>
Total other long-term liabilities	<u>789,838</u>
Total long-term debt	<u><u>\$ 22,913,636</u></u>

Debt service requirements on installment debt

The annual requirements to service the bonds and land contracts outstanding to maturity, including principal, bond premium amortization, and interest, are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 4,028,689	\$ 743,767	\$ 4,772,456
2018	4,171,774	632,080	4,803,854
2019	4,305,780	493,028	4,798,808
2020	2,758,445	350,750	3,109,195
2021	1,655,006	261,000	1,916,006
2022-2024	<u>3,561,222</u>	<u>339,250</u>	<u>3,900,472</u>
Total	<u>\$ 20,480,916</u>	<u>\$ 2,819,875</u>	<u>\$ 23,300,791</u>

Interest expense charged to governmental activities in fiscal 2016 was \$651,509.

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. RETIREMENT PLAN

General Information about the Pension Plan

Plan Description. The District contributes to the Michigan Public School Employees' Retirement System (the "System" or MPSERS) a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions and Funded Status

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21-year period for the 2015 fiscal year.

The table below summarizes pension contribution rates in effect for fiscal year 2015.

Benefit Structure	Member Rates	Employer Rates
Basic	0.0% - 4.0%	22.52% - 23.07%
Member Investment Plan (MIP)	3.0% - 7.0%	22.52% - 23.07%
Pension Plus	3.0% - 6.4%	21.99%
Defined Contribution	0.0%	17.72% - 18.76%

The District's contribution to MPERS under all pension plans for the year ended June 30, 2016 was \$3,375,387.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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

At June 30, 2016, the District reported a liability of \$36,634,250 for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was 0.14999%, which was an increase of 0.00428% from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$3,311,622. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 121,343	\$ (121,343)
Changes in assumptions	902,013	-	902,013
Net difference between projected and actual earnings on pension plan investments	186,988	-	186,988
Changes in proportion and differences between employer contributions and proportionate share of contributions	799,797	-	799,797
	<u>1,888,798</u>	<u>121,343</u>	<u>1,767,455</u>
District contributions subsequent to the measurement date	3,089,533	-	3,089,533
	<u>3,089,533</u>	<u>-</u>	<u>3,089,533</u>
Total	<u>\$ 4,978,331</u>	<u>\$ 121,343</u>	<u>\$ 4,856,988</u>

The amount of \$3,089,533 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2017	\$ 318,044
2018	318,044
2019	269,135
2020	<u>862,232</u>
Total	<u>\$ 1,767,455</u>

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus plan (hybrid)	7.5%
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.90%	1.64%
Alternative investment pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.90%	0.09%
Real estate and infrastructure pools	10.00%	4.30%	0.43%
Absolute return pools	15.50%	6.00%	0.93%
Short-term investment pools	2.00%	0.00%	0.00%
	<u>100.00%</u>		5.90%
Inflation			<u>2.10%</u>
Investment rate of return			<u>8.00%</u>

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Sensitivity of District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension liability	\$ 47,230,939	\$ 36,634,250	\$ 27,700,807

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2016, the District reported a payable of \$456,219 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2016.

Pension and other postemployment benefit obligations are generally liquidated by the General Fund.

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. Employer contributions range from 2.71% to 6.83% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% 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% employee contribution into a personal tax-deferred account, which is matched by an additional 2% 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% 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 were declared unconstitutional by the Supreme Court. Such amounts will be refunded by MPSERS to each District, including interest, and will then be refunded to individual employees.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

The District's contributions to MPSERS for other postemployment benefits amounted to \$1,226,125 for the year ended June 30, 2016.

11. State of Michigan School Aid

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan school aid appropriation acts. State funding represented 35% of the District's general fund revenue during the 2016 fiscal year.

12 NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2016, was as follows:

	Governmental Activities
Capital assets:	
Capital assets not being depreciated	\$ 17,002,003
Capital assets being depreciated, net	43,357,513
	<u>60,359,516</u>
Less related debt:	
Noncurrent liabilities:	
Due within one year	(4,028,689)
Due in more than one year	(18,884,947)
Add back: unexpended bond proceeds	3,563,135
Add back: compensated absences	638,922
	<u>638,922</u>
Net investment in capital assets	<u><u>\$ 41,647,937</u></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, 2016.

The District had entered into construction contracts amounting to approximately \$16,500,000. As of June 30, 2016, approximately \$4,500,000 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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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.

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REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC SCHOOLS OF PETOSKEY

Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Proportionate Share of the Net Pension Liability

	Year Ended June 30,	
	2015	2016
District's proportionate share of the net pension liability	\$ 32,093,122	\$ 36,634,250
District's proportion of the net pension liability	0.1457%	0.1499%
District's covered-employee payroll	\$ 12,742,819	\$ 12,460,245
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	251.85%	294.01%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

PUBLIC SCHOOLS OF PETOSKEY

Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

Schedule of District Contributions

	Year Ended June 30,	
	2015	2016
Contractually required contribution	\$ 3,024,425	\$ 3,375,387
Contributions in relation to the contractually required contribution	<u>(3,024,425)</u>	<u>(3,375,387)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 12,850,648	\$ 12,337,346
Contributions as a percentage of covered employee payroll	23.54%	27.36%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2016

	Special Revenue Fund	Capital Project Funds		Total
	Food Service	Building and Site	Technology Bonds	
Assets				
Cash and cash equivalents	\$ 111,173	\$ 580,250	\$ 714,322	\$ 1,405,745
Accounts receivable	31,092	-	-	31,092
Due from other governmental units	18,953	-	-	18,953
Other assets	91,496	-	-	91,496
Total assets	<u>\$ 252,714</u>	<u>\$ 580,250</u>	<u>\$ 714,322</u>	<u>\$ 1,547,286</u>
Liabilities				
Accounts payable	\$ 40,323	\$ -	\$ 272,323	\$ 312,646
Due to other funds	73,136	4,320	-	77,456
Unearned revenue	22,787	-	-	22,787
Total liabilities	<u>136,246</u>	<u>4,320</u>	<u>272,323</u>	<u>412,889</u>
Nonspendable:				
Inventory	6,496	-	-	6,496
Prepaid items	85,000	-	-	85,000
Restricted:				
Food service	24,972	-	-	24,972
Capital outlay	-	-	441,999	441,999
Assigned - capital outlay	-	575,930	-	575,930
Total fund balances	<u>116,468</u>	<u>575,930</u>	<u>441,999</u>	<u>1,134,397</u>
Total liabilities and fund balances	<u>\$ 252,714</u>	<u>\$ 580,250</u>	<u>\$ 714,322</u>	<u>\$ 1,547,286</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended June 30, 2016

	Special Revenue Fund	Capital Project Funds		Total
	Food Service	Building and Site	Technology Bonds	
Revenues				
Local sources:				
Charges for services	\$ 450,484	\$ -	\$ -	\$ 450,484
Rent income	-	45,332	-	45,332
Interest	752	1,272	2,603	4,627
State sources	37,499	-	-	37,499
Federal sources	434,374	-	-	434,374
Total revenues	923,109	46,604	2,603	972,316
Expenditures				
Current:				
Food services	911,115	-	-	911,115
Other	-	4,833	-	4,833
Capital outlay	-	4,685	795,078	799,763
Total expenditures	911,115	9,518	795,078	1,715,711
Net change in fund balances	11,994	37,086	(792,475)	(743,395)
Fund balances, beginning of year	104,474	538,844	1,234,474	1,877,792
Fund balances, end of year	\$ 116,468	\$ 575,930	\$ 441,999	\$ 1,134,397

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

General Fund

June 30, 2016

(With Comparative Totals as of June 30, 2015)

	2016	2015
Assets		
Cash and cash equivalents	\$ 88,331	\$ 807,432
Investments	3,913,777	2,875,293
Accounts receivable	46,593	31,537
Due from other funds	77,456	2,941
Due from other governmental units	1,685,468	2,008,939
Other assets	20,407	14,990
Total assets	\$ 5,832,032	\$ 5,741,132
Liabilities		
Accounts payable	\$ 449,811	\$ 253,548
Salaries payable	1,502,127	1,529,180
Accrued liabilities	822,711	799,729
Due to other funds	-	5,608
Unearned revenue	969,569	825,792
Total liabilities	3,744,218	3,413,857
Fund balances		
Nonspendable:		
Inventory	11,547	7,269
Prepaid items	8,860	7,721
Assigned:		
Athletics	78,468	85,403
Subsequent years' expenditures	1,600,000	1,600,000
Unassigned	388,939	626,882
Total fund balances	2,087,814	2,327,275
Total liabilities and fund balances	\$ 5,832,032	\$ 5,741,132

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Revenues

General Fund

For the Year Ended June 30, 2016

(With Comparative Totals For the Year Ended June 30, 2015)

	2016	2015
Revenues		
Local Sources		
Property taxes	\$ 14,726,397	\$ 14,328,998
Payment in lieu of taxes	504,083	473,351
Charges for services	115,279	99,082
Interest	11,394	4,206
Athletics	257,234	241,601
Other income	154,559	112,832
Total local sources	15,768,946	15,260,070
State sources		
State aid - foundation allowance:		
Proposal A obligation	-	468,240
Discretionary payment	6,074,718	5,714,311
Prior year adjustments	205,507	129,558
Performance funding	-	174,157
Special education headlee obligation	803,134	748,652
State aid - other unrestricted grants:		
Financial analytic tools	2,423	-
Early literacy	28,875	-
Wellness	84,000	-
Best practice incentive	-	153,874
Equity payments	-	363,655
State aid - restricted grants:		
At-risk	448,841	371,015
MPSERS cost offset	1,610,413	1,261,563
Data collection	72,568	72,681
Technological infrastructure	51,654	34,227
First robotics	8,900	15,400
Total state sources	9,391,033	9,507,333
Federal sources		
Title I	284,358	346,488
Title II	127,017	70,959
Title IX	31,514	46,099
Other	1,995	9,751
Total federal sources	444,884	473,297
Interdistrict sources		
Vocational education - millage	416,396	440,960
Vocational education - added cost	126,863	103,595
Expense reimbursements	806,656	725,980
Total interdistrict sources	1,349,915	1,270,535
Total revenues	\$ 26,954,778	\$ 26,511,235

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2016

(With Comparative Totals For the Year Ended June 30, 2015)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
Instruction					
Basic programs					
Elementary	\$ 3,653,176	\$ 2,647,728	\$ 175,591	\$ 93,164	\$ -
Middle school	1,969,594	1,464,923	58,305	41,084	-
High school	2,278,349	1,595,236	342,349	31,553	-
Total basic programs	7,901,119	5,707,887	576,245	165,801	-
Added needs					
Special education	1,282,799	900,887	409,434	2,878	-
Compensatory education	169,001	122,064	406,150	20,879	-
Vocational education	527,197	374,826	72,011	255,537	-
Total added needs	1,978,997	1,397,777	887,595	279,294	-
Total instruction	9,880,116	7,105,664	1,463,840	445,095	-
Supporting services					
Pupil services					
Guidance services	285,801	219,928	-	4,344	-
Health services	-	-	214,837	210	-
Other	21,030	9,074	11,302	-	-
Total pupil services	306,831	229,002	226,139	4,554	-
Instructional staff services					
Improvement of instruction	65,863	34,490	26,847	-	-
Library	51,575	56,121	67,348	28,917	-
Technology assisted instruction	107,522	73,436	12,130	-	-
Supervision	122,850	76,292	1,743	1,198	-
Academic student assessment	-	-	-	26,938	-
Total instructional staff services	347,810	240,339	108,068	57,053	-



Total	
2016	2015

\$ 6,569,659	\$ 6,514,315
3,533,906	3,432,233
4,247,487	4,346,404
<u>14,351,052</u>	<u>14,292,952</u>

2,595,998	2,421,038
718,094	701,240
1,229,571	1,205,083
<u>4,543,663</u>	<u>4,327,361</u>

<u>18,894,715</u>	<u>18,620,313</u>
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510,073	535,614
215,047	186,956
41,406	47,100
<u>766,526</u>	<u>769,670</u>

127,200	69,352
203,961	196,718
193,088	259,579
202,083	191,552
26,938	24,688
<u>753,270</u>	<u>741,889</u>

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2016

(With Comparative Totals For the Year Ended June 30, 2015)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
General administration					
Board of education	\$ -	\$ -	\$ 51,746	\$ 2,306	\$ -
Executive administration	180,423	116,677	84,897	8,780	-
Total general administration	180,423	116,677	136,643	11,086	-
School administration					
Office of the principal	904,738	643,350	122,980	20,451	-
Business services					
Fiscal services	248,662	182,196	20,181	263,702	-
Operations and maintenance	289,869	220,666	863,912	670,618	42,009
Security services	-	-	-	-	-
Transportation	-	-	1,195,669	-	-
Support services - central	43,413	36,320	-	1,125	-
Athletic activities	209,112	104,464	156,916	86,186	-
Total supporting services	2,530,858	1,773,014	2,830,508	1,114,775	42,009
Community services					
Community services direction	2,338	1,782	-	773	-
Non-public school pupils	-	-	2,046	1,421	-
Total community services	2,338	1,782	2,046	2,194	-
Total operating expenditures	\$ 12,413,312	\$ 8,880,460	\$ 4,296,394	\$ 1,562,064	\$ 42,009



Total	
2016	2015

\$ 54,052	\$ 44,994
<u>390,777</u>	<u>365,127</u>
444,829	410,121
<u>1,691,519</u>	<u>1,744,292</u>
714,741	496,039
<u>2,087,074</u>	<u>2,106,277</u>
-	390
<u>1,195,669</u>	<u>1,216,062</u>
80,858	72,681
<u>556,678</u>	<u>566,026</u>
<u>8,291,164</u>	<u>8,123,447</u>
4,893	680
<u>3,467</u>	<u>7,791</u>
8,360	8,471
<u>\$ 27,194,239</u>	<u>\$ 26,752,231</u>

Concluded

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

Food Service Special Revenue Fund

June 30, 2016

(With Comparative Totals as of June 30, 2015)

	2016	2015
Assets		
Cash and cash equivalents	\$ 111,173	\$ 22,188
Accounts receivable	31,092	188
Due from other governmental units	18,953	16,283
Other assets	91,496	91,202
	<hr/>	<hr/>
Total assets	\$ 252,714	\$ 129,861
	<hr/>	<hr/>
Liabilities		
Accounts payable	\$ 40,323	\$ 25,387
Due to other funds	73,136	-
Unearned revenue	22,787	-
	<hr/>	<hr/>
Total liabilities	136,246	25,387
	<hr/>	<hr/>
Fund balances		
Nonspendable - inventory	6,496	6,202
Nonspendable - prepaid items	85,000	85,000
Restricted	24,972	13,272
	<hr/>	<hr/>
Total fund balances	116,468	104,474
	<hr/>	<hr/>
Total liabilities and fund balances	\$ 252,714	\$ 129,861
	<hr/>	<hr/>

PUBLIC SCHOOLS OF PETOSKEY

Statement of Revenues, Expenditures and Changes in Fund Balance

Food Service Special Revenue Fund

For the Year Ended June 30, 2016

(With Comparative Totals For the Year Ended June 30, 2015)

	2016	2015
Revenues		
Local sources:		
Charges for services:		
Lunch sales	\$ 171,675	\$ 169,421
Breakfast sales	8,762	8,422
Ala carte sales	270,047	265,865
Interest	752	775
State sources	37,499	42,390
Federal sources	434,374	448,911
Total revenues	923,109	935,784
Expenditures		
Current:		
Salaries	39,403	39,326
Employee benefits	34,276	29,736
Purchased services	394,841	406,222
Supplies, materials and other expenditures	64,108	71,108
Food costs	378,487	386,505
Total expenditures	911,115	932,897
Net change in fund balance	11,994	2,887
Fund balance, beginning of year	104,474	101,587
Fund balance, end of year	\$ 116,468	\$ 104,474

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet

Capital Projects Funds

June 30, 2016

(With Comparative Totals as of June 30, 2015)

	Sinking Fund	Building and Site Fund	Technology Bonds Fund	Athletic Complex Fund
Assets				
Cash and cash equivalents	\$ 3,339,552	\$ 580,250	\$ 714,322	\$ 4,669,279
Investments	5,189	-	-	-
Accounts receivable	-	-	-	-
Due from other funds	-	-	-	130,911
Total assets	\$ 3,344,741	\$ 580,250	\$ 714,322	\$ 4,800,190
Liabilities				
Accounts payable	\$ -	\$ -	\$ 272,323	\$ -
Due to other funds	141,528	4,320	-	-
Contracts payable	1,056,261	-	-	1,237,555
Total liabilities	1,197,789	4,320	272,323	1,237,555
Fund balances				
Restricted - capital outlay	2,146,952	-	441,999	3,562,635
Assigned - capital outlay	-	575,930	-	-
Total fund balances	2,146,952	575,930	441,999	3,562,635
Total liabilities and fund balances	\$ 3,344,741	\$ 580,250	\$ 714,322	\$ 4,800,190



Total	
2016	2015

\$ 9,303,403	\$ 13,570,272
5,189	215,139
-	8,064
<u>130,911</u>	<u>517,156</u>

<u>\$ 9,439,503</u>	<u>\$ 14,310,631</u>
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\$ 272,323	\$ 58,804
145,848	542,432
<u>2,293,816</u>	<u>1,600,826</u>

<u>2,711,987</u>	<u>2,202,062</u>
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6,151,586	11,569,725
<u>575,930</u>	<u>538,844</u>

<u>6,727,516</u>	<u>12,108,569</u>
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<u>\$ 9,439,503</u>	<u>\$ 14,310,631</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, 2016

(With Comparative Totals For the Year Ended June 30, 2015)

	Sinking Fund	Building and Site Fund	Technology Bonds Fund	Athletic Complex Fund
Revenues				
Property taxes	\$ 1,875,679	\$ -	\$ -	\$ -
Rent income	-	45,332	-	-
Contributions	275,585	-	-	210,648
Interest	1,747	1,272	2,603	13,411
Total revenues	2,153,011	46,604	2,603	224,059
Expenditures				
Capital outlay	4,551,920	4,685	795,078	5,368,818
Other	14,952	4,833	-	-
Total expenditures	4,566,872	9,518	795,078	5,368,818
Revenues over (under) expenditures	(2,413,861)	37,086	(792,475)	(5,144,759)
Other financing sources (uses)				
Transfers in	2,999,383	-	-	-
Transfers out	(66,427)	-	-	-
Total other financing sources (uses)	2,932,956	-	-	-
Net change in fund balances	519,095	37,086	(792,475)	(5,144,759)
Fund balances, beginning of year	1,627,857	538,844	1,234,474	8,707,394
Fund balances, end of year	\$ 2,146,952	\$ 575,930	\$ 441,999	\$ 3,562,635



Total	
2016	2015

\$ 1,875,679	\$ 1,823,976
45,332	64,195
486,233	356,750
19,033	16,160
<u>2,426,277</u>	<u>2,261,081</u>

10,720,501	5,209,825
19,785	3,058
<u>10,740,286</u>	<u>5,212,883</u>

<u>(8,314,009)</u>	<u>(2,951,802)</u>
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2,999,383	9,947,787
(66,427)	(505,835)
<u>2,932,956</u>	<u>9,441,952</u>

<u>(5,381,053)</u>	<u>6,490,150</u>
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12,108,569	5,618,419
<u>12,108,569</u>	<u>5,618,419</u>

<u>\$ 6,727,516</u>	<u>\$ 12,108,569</u>
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PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Schedule

Debt Service Fund

June 30, 2016

(With Comparative Totals as of June 30, 2015)

	2005 Refunding Bonds	Foster Land Contract	2012 Technology Bonds	2015 Refunding Bonds	2016 Refunding Bonds
Assets					
Cash and cash equivalents	\$ -	\$ -	\$ 125,526	\$ 406,049	\$ -
Investments	-	-	-	54,017	-
Due from other funds	-	-	-	10,117	500
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,526</u>	<u>\$ 470,183</u>	<u>\$ 500</u>
Fund balances					
Restricted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,526</u>	<u>\$ 470,183</u>	<u>\$ 500</u>

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



Total	
2016	2015
\$ 531,575	\$ 373,191
54,017	53,882
<u>10,617</u>	<u>27,943</u>
<u>\$ 596,209</u>	<u>\$ 455,016</u>
<u>\$ 596,209</u>	<u>\$ 455,016</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Schedule of Debt Service Activities and Changes in Fund Balances

Debt Service Fund

For the Year Ended June 30, 2016

(With Comparative Totals For the Year Ended June 30, 2015)

	2005 Refunding Bonds	Foster Land Contract	2012 Technology Bonds	2015 Refunding Bonds	2016 Refunding Bonds
Revenues					
Local sources:					
Property taxes	\$ -	\$ -	\$ 568,856	\$ 3,049,458	\$ -
Interest income	-	-	-	7,287	-
Total revenues	-	-	568,856	3,056,745	-
Expenditures					
Principal	-	57,319	480,000	2,075,000	-
Interest	-	9,108	72,300	832,653	-
Bond issuance costs	-	-	-	-	10,117
Other	-	-	24,455	500	-
Total expenditures	-	66,427	576,755	2,908,153	10,117
Revenues over (under) expenditures	-	(66,427)	(7,899)	148,592	(10,117)
Other financing sources (uses)					
Bond proceeds	-	-	-	-	3,010,000
Bond premium	-	-	-	-	-
Payment to refunded debt escrow agent	-	-	-	-	-
Transfers in	-	66,427	-	321,591	-
Transfers out	(321,591)	-	-	-	(2,999,383)
Total other financing sources (uses)	(321,591)	66,427	-	321,591	10,617
Net change in fund balances	(321,591)	-	(7,899)	470,183	500
Fund balances, beginning of year	321,591	-	133,425	-	-
Fund balances, end of year	\$ -	\$ -	\$ 125,526	\$ 470,183	\$ 500

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

Eliminations	Total	
	2016	2015
\$ -	\$ 3,618,314	\$ 3,179,801
-	7,287	3,974
-	<u>3,625,601</u>	<u>3,183,775</u>
-	2,612,319	2,913,053
-	914,061	385,726
-	10,117	181,833
-	<u>24,955</u>	<u>13,815</u>
-	<u>3,561,452</u>	<u>3,494,427</u>
-	<u>64,149</u>	<u>(310,652)</u>
-	3,010,000	16,260,000
-	-	1,980,059
-	-	(8,627,439)
(321,591)	66,427	1,022,835
<u>321,591</u>	<u>(2,999,383)</u>	<u>(10,464,787)</u>
-	<u>77,044</u>	<u>170,668</u>
-	141,193	(139,984)
-	<u>455,016</u>	<u>595,000</u>
<u>\$ -</u>	<u>\$ 596,209</u>	<u>\$ 455,016</u>

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2016

	Balances July 1, 2015	Receipts	Disbursements	Balances June 30, 2016
Assets				
Cash	\$ 302,564	\$ 1,061,692	\$ 913,094	\$ 451,162
Investments	425,000	-	-	425,000
Accounts receivable	-	225	-	225
Total assets	\$ 727,564	\$ 1,061,917	\$ 913,094	\$ 876,387
Liabilities				
Due to student groups	\$ 341,878	\$ 714,905	\$ 644,560	\$ 412,223
Scholarships payable	271,945	63,487	2,150	333,282
Due to others	113,741	283,525	266,384	130,882
Total liabilities	\$ 727,564	\$ 1,061,917	\$ 913,094	\$ 876,387

The balances consist of the following:

Deposits due to student groups

Central Elementary

Central 3rd Grade	\$ 14	\$ 100	\$ 75	\$ 39
Central 5th Grade	338	1,506	1,489	355
Central Library & Computer	964	4,000	4,963	1
Central School Fund	15	2,348	1,895	468
Central School Store	487	-	94	393
5th Grade Colonial Days	220	-	-	220
Central VanSlot STEAM	-	4,000	3,787	213
Central scholarship fund	249	-	85	164

Lincoln Elementary

Lincoln School Fund	2,150	5,206	2,752	4,604
Lincoln Student Council	-	834	-	834

Ottawa Elementary

Ottawa 4th Grade Field Trip	384	5,273	4,367	1,290
Ottawa 5th Grade Field Trip	5,360	4,607	4,841	5,126
Ottawa Field Trip Fund	1,448	3,073	3,183	1,338
Ottawa instructional supplies	8,864	1,500	2,491	7,873
Ottawa Learning Center	10	-	-	10
Ottawa Garden	-	3,526	850	2,676
Ottawa Popcorn Sales	4,455	2,657	2,736	4,376
Ottawa School Fund	4,810	3,982	4,495	4,297
Ottawa Kindergarten	116	-	-	116

Sheridan Elementary

Sheridan 3rd Grade	950	2,097	2,785	262
Sheridan 4th Grade	1,156	549	359	1,346
Sheridan 5th Grade	57	470	125	402
Sheridan Garden Fund	108	-	-	108
Sheridan School	8,136	7,557	10,272	5,421
Sheridan Student Council	221	819	894	146
Girls on the run	1,150	1,103	1,141	1,112

Petoskey Middle School

6th Grade Club	1,790	24,794	25,848	736
7th Grade Club	4,675	7,881	6,091	6,465
8th Grade Club	8,536	12,422	11,716	9,242
Builder's Club	723	282	151	854

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund
For the Year Ended June 30, 2016

	Balances July 1, 2015	Receipts	Disbursements	Balances June 30, 2016
Petoskey Middle School (continued)				
Middle School Adventure Education	\$ 1,555	\$ -	\$ 1,391	\$ 164
Middle School Art Club	748	1,149	1,162	735
Middle School Enrichment	3,340	811	838	3,313
Middle School Celebration Garden	216	-	-	216
Middle School Ecology Club	466	1,914	1,754	626
Middle School Fall Play	4,316	6,100	5,427	4,989
Middle School Photo Club	104	-	-	104
Middle School Student Council	2,547	1,144	1,361	2,330
Middle School Student Special needs	6,972	-	-	6,972
Middle School Yearbook	309	6,826	4,395	2,740
Middle School Greenhouse	73	-	-	73
Middle School Washington DC Trip	3,321	2,325	2,536	3,110
Middle School Wood Shop	157	-	-	157
Middle School Youth In Government	88	6,115	3,180	3,023
Middle School Craft Club	-	90	99	(9)
Middle School Peer to Peer	-	50	50	-
Middle School Book Fair	32	-	32	-
Middle School Fund	15,594	1,806	891	16,509
Middle School Store	56	5,895	5,985	(34)
Middle School Science Club Fund	33	480	407	106
Middle School Box Tops for Education	1,236	100	445	891
Middle School Special Needs Counseling	515	-	169	346
Petoskey Middle School Athletics				
Middle School Dance	253	179	285	147
Middle School Vocal	253	2,047	957	1,343
Middle School Athletics	15	150	150	15
Middle School Football	3,796	1,727	4,170	1,353
Middle School Track	4,494	3,231	2,934	4,791
Middle School Volleyball	2,555	1,690	2,068	2,177
Middle School Boys Basketball	136	230	-	366
Middle School Girls Basketball	81	-	-	81
Petoskey High School				
Auto Shop Tool Fund	99	-	-	99
Building Trades Fund	2,579	854	3,066	367
Business Club	163	520	158	525
Blue Crew	517	-	-	517
Class of 2015	347	-	347	-
Class of 2016	3,554	-	1,338	2,216
Class of 2017	(597)	7,421	3,938	2,886
Class of 2018	-	-	771	(771)
Class of 2019	-	347	-	347
DECA	4,834	41,663	38,176	8,321
Debate Club	7,107	5,605	4,964	7,748
Drafting	217	1,076	1,293	-
FCCLA	499	-	-	499
Forensics	-	318	313	5
French Club	159	-	-	159
Future Farmers of America	1,636	370	111	1,895
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, 2016

	Balances July 1, 2015	Receipts	Disbursements	Balances June 30, 2016
Petoskey High School (continued)				
Guidance Dept Testing	\$ 7,787	\$ 37,147	\$ 39,447	\$ 5,487
HOSA	12	-	-	12
High School Art Club	2,759	-	-	2,759
High School Fall Play	1,692	4,165	5,258	599
High School Journalism	515	2,000	2,510	5
High School Learning Center	834	-	-	834
High School Quiz Bowl Team	554	-	12	542
High School Spring Musical	69	9,528	8,267	1,330
High School Steel Drum Band	-	66,631	66,164	467
High School Student Council	50	13,099	11,683	1,466
High School Vocal	1,199	16,690	7,720	10,169
High School Yearbook	6,225	8,623	3,082	11,766
High School Fund	1,034	3,100	2,403	1,731
High School Youth in Government	-	5,820	3,375	2,445
Hospitality Foods Tip Fund	1,304	984	1,276	1,012
Indian Education/Unity Trip	280	-	-	280
Key Club	2,085	149	366	1,868
Model UN/H.S. Enrichment	2,216	14,099	15,304	1,011
National Honor Society	1,011	809	421	1,399
Petoskey High School Papermakers	1,309	150	-	1,459
Robotics	19,160	82,983	67,610	34,533
Renaissance Fund	490	1,036	688	838
Science Class	282	105	225	162
Skateboarding Club	91	-	-	91
Spanish Club	516	-	-	516
High School Special Needs Counseling	650	1,573	381	1,842
High School 8th & 9th Transition Fund	5,785	-	2,200	3,585
STEM Projects	-	3,882	3,626	256
Freshmen Mentor Fund	-	1,237	33	1,204
World History Trip Fund	23	-	-	23
High School Athletics				
Athletic Hall Of Fame	2,153	750	1,525	1,378
Track & Stadium Improvements	4,120	-	-	4,120
Northmen Fund	1,412	648	120	1,940
Boys Basketball	6,987	11,482	4,838	13,631
Boys Golf	549	3,042	2,682	909
Boys Tennis	1,589	4,627	4,283	1,933
Dance	11	-	11	-
Girls Basketball	7,534	5,815	10,434	2,915
Girls Golf	2,483	1,800	698	3,585
Girls Tennis	5,798	18,375	18,654	5,519
Girls Track	648	3,262	1,482	2,428
Girls Softball	1,135	2,891	4,036	(10)
High School Baseball	178	-	-	178
High School Boys Soccer	(250)	683	433	-
High School Cross Country	6,390	2,455	3,578	5,267
High School Football	-	30,000	16,378	13,622
High School Girls Soccer	(279)	279	-	-
High School Hockey	50,214	88,769	83,288	55,695
Pay To Participate Donations	1,650	498	498	1,650
Cross Country Ski Club	1,433	2,332	3,429	336
Cheerleading	-	1,500	-	1,500
High School/Middle School Ski Team	-	2,604	2,604	-
Turcott Field Fundraiser	54	-	54	-

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2016

	Balances July 1, 2015	Receipts	Disbursements	Balances June 30, 2016
High School Athletics (continued)				
Volleyball	\$ 9,923	205	\$ 4,074	\$ 6,054
Wrestling	4,612	14,581	14,288	4,905
Boys Track	134	60	-	194
Pink Game	713	20,254	8,274	12,693
Weight Room Improvements	968	1,928	688	2,208
District-Wide Accounts				
Elementary Enrichment	3,416	6,542	6,357	3,601
Elementary Enrichment Play	13,100	8,166	12,065	9,201
Elementary Music Fund	1,220	880	850	1,250
Student Reserve	19,758	3,848	4,242	19,364
Total due to student groups	341,878	714,905	644,560	412,223
Scholarships payable				
Doris Reber - Class of 1932 Scholarship	208,893	1,004	-	209,897
Eric Greyerbiehl Memorial Fund	731	-	-	731
McClutchey Memorial Scholarship	5,848	25	-	5,873
Midshipmen Scholarship	7,181	35	-	7,216
Vaughn Memorial Scholarship	16,042	80	-	16,122
Wil Moyer Music Scholarship	496	200	550	146
Future Sports Complex Donations	30,757	62,000	-	92,757
Memorial Scholarship - Scott Sweany	490	50	-	540
Duane Hasse Memorial Fund	1,507	93	1,600	-
Total scholarships payable	271,945	63,487	2,150	333,282
Due to others				
Central PTO	35,206	35,855	30,977	40,084
High School Staff Fund	545	75	76	544
Kathy Robinson Memorial Fund	96	-	96	-
Lincoln PTO	6,160	33,011	27,631	11,540
Maintenance Fund	1,171	774	1,230	715
Northmen Night	181	58,704	58,030	855
Ottawa PTO Board Fund	9,462	30,825	31,935	8,352
PEF Grants - Central	320	4,118	4,290	148
PEF Grants - High School	-	4,184	3,512	672
PEF Grants - Lincoln	487	-	487	-
PEF Grants - Middle School	-	2,478	2,389	89
PEF Grants - Ottawa	500	716	1,216	-
PEF Grants - Sheridan	-	2,827	2,827	-
PEF Grants - ACT/SAT Seminar	2	-	2	-
PEF Grants - District	-	540	540	-
Petoskey Family Fund	23,925	1,719	8,800	16,844
Robert Motely Memorial Fund	106	-	-	106
Senior Parent Committee	4,228	31,564	31,683	4,109
Spitler Building Pop Fund	190	346	305	231
Due to Primary Government	31,162	75,789	60,358	46,593
Total due to others	113,741	283,525	266,384	130,882
Totals	\$ 727,564	\$ 1,061,917	\$ 913,094	\$ 876,387

Concluded

OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Bond Indebtedness (Unaudited)

For the Year Ended June 30, 2016

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>1,795,000</u>
Balance outstanding - June 30, 2016	<u>\$ 3,135,000</u>

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
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>\$ 89,100</u>	<u>\$ 89,100</u>	<u>\$ 3,135,000</u>	<u>\$ 3,313,200</u>

Call Provision

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

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Bond Indebtedness (Unaudited) For the Year Ended June 30, 2016

Purpose	2015 School Building & Site Refunding Bonds
Date of issue	February 25, 2015
Rate of interest	2.20% to 5.00%
Original obligation	\$ 16,260,000
Amount previously paid	<u>2,075,000</u>
Balance outstanding - June 30, 2016	<u><u>\$ 14,185,000</u></u>

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
2016-2017	\$ 320,700	\$ 320,700	\$ 2,235,000	\$ 2,876,400
2017-2018	276,000	276,000	2,240,000	2,792,000
2018-2019	220,000	220,000	2,275,000	2,715,000
2019-2020	163,125	163,125	1,305,000	1,631,250
2020-2021	130,500	130,500	1,435,000	1,696,000
2021-2022	94,625	94,625	1,500,000	1,689,250
2022-2023	57,125	57,125	1,570,000	1,684,250
2023-2024	17,875	17,875	1,625,000	1,660,750
	<u>\$ 1,279,950</u>	<u>\$ 1,279,950</u>	<u>\$ 14,185,000</u>	<u>\$ 16,744,900</u>

Call Provision

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

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Bond Indebtedness (Unaudited)

For the Year Ended June 30, 2016

Purpose	2016 School Building & Site Bonds
Date of issue	June 2, 2016
Rate of interest	.95% to 1.30%
Original obligation	\$ 3,010,000
Amount previously paid	-
Balance outstanding - June 30, 2016	<u>\$ 3,010,000</u>

Fiscal Year	Interest	Principal	Annual Requirements
2016-2017	\$ 31,303	\$ 965,000	\$ 996,303
2017-2018	25,085	1,000,000	1,025,085
2018-2019	13,585	1,045,000	1,058,585
	<u>\$ 69,973</u>	<u>\$ 3,010,000</u>	<u>\$ 3,079,973</u>

Call Provision

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

Concluded

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Other Installment Debt (Unaudited)
 For the Year Ended June 30, 2016

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>549,084</u>
Balance outstanding - June 30, 2016	<u>\$ 150,916</u>

Fiscal Year	Interest	May 15, Principal	Annual Requirements
2016-2017	\$ 6,178	\$ 60,249	\$ 66,427
2017-2018	3,095	63,332	66,427
2018-2019	<u>343</u>	<u>27,335</u>	<u>27,678</u>
	<u>\$ 9,616</u>	<u>\$ 150,916</u>	<u>\$ 160,532</u>

PUBLIC SCHOOLS OF PETOSKEY

Property Tax Information (Unaudited) For the Year Ended June 30, 2016

Taxing District	Tax Levy	Collections and Other Reductions	Delinquent Personal Property Taxes	Percentage of Current Year Levy Collected
Bear Creek Township	\$ 6,055,110	\$ 5,759,347	\$ 295,763	95.12%
Littlefield Township	73,409	71,976	1,434	98.05%
Little Traverse Township	493,924	466,939	26,985	94.54%
Resort Township	4,048,885	3,880,048	168,837	95.83%
Springvale Township	865,210	796,919	68,291	92.11%
City of Petoskey	7,187,038	6,949,307	237,732	96.69%
Chandler Township	118,748	109,906	8,843	92.55%
Hayes Township	50,836	47,257	3,580	92.96%
Melrose Township	1,271,304	1,213,644	57,661	95.46%
Total	\$ 20,164,466	\$ 19,295,342	\$ 869,125	95.69%
Allocated as follows				
General Fund	\$ 14,668,185	\$ 14,043,319	\$ 624,866	95.74%
Debt Service Fund	3,622,720	3,461,241	161,479	95.54%
Capital Project Funds	1,873,561	1,790,216	83,345	95.55%
Total allocated to all funds	\$ 20,164,466	\$ 19,294,776	\$ 869,690	95.69%

PUBLIC SCHOOLS OF PETOSKEY

Ten-Year Summary of Enrollment (Unaudited)

For the Year Ended June 30, 2016

Year	Special Education	Elementary School	Middle School	High School	Total	Non-Resident	Resident
2007	76	1,244	660	1,027	3,007	341	2,666
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	2,552
2014	64	1,258	657	969	2,949	391	2,558
2015	61	1,193	669	987	2,910	412	2,498
2016	74	1,161	679	965	2,879	417	2,462

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, 2016**

Year	Expenditures and Transfers*	Enrollment	Expenditures Per Pupil
2007	\$ 24,725,450	3,007	\$ 8,223
2008	24,959,034	2,987	8,355
2009	25,666,499	2,975	8,628
2010	25,517,943	2,932	8,703
2011	24,962,122	2,887	8,646
2012	25,193,996	2,951	8,536
2013	25,549,194	2,929	8,721
2014	25,350,870	2,949	8,597
2015	26,752,231	2,910	9,193
2016	27,194,239	2,879	9,446

* General Fund expenditures and transfers only.

SINGLE AUDIT ACT COMPLIANCE

Independent Auditors' Report on the Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance

October 10, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 10, 2016, 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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) 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, 2016

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	151970	\$ 72,395
National school lunch - breakfast	10.553	MDE	161970	58,136
National school lunch section 11 all lunches	10.555	MDE	151960	319,809
National school lunch section 11 all lunches	10.555	MDE	161960	283,773
Non-cash assistance:				
Entitlement commodities	10.555	MDE	n/a	39,796
Bonus Commodities	10.555	MDE	n/a	13,481
Total U.S. Department of Agriculture				
U.S. Department of Education				
Title I, Part A - Improving Basic Programs	84.010	MDE	151530-1415	393,568
Title I, Part A - Improving Basic Programs	84.010	MDE	151530-1516	346,915
Indian Education	84.060A	Direct	14/15	46,099
Indian Education	84.060A	Direct	15/16	38,484
Title II, Part A - Improving Teacher Quality	84.367	MDE	150520-1415	85,619
Title II, Part A - Improving Teacher Quality	84.367	MDE	150520-1516	157,956
Total U.S. Department of Education				
U.S. Department of Health and Human Services				
Medicaid Outreach	93.778	ISD	14/15	4,917
Medicaid Outreach	93.778	ISD	15/16	1,995
Total Federal Financial Assistance				

See notes to schedule of expenditures of federal awards.

Accrued (Deferred) Revenue July 1, 2015	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2016	Accrued (Deferred) Revenue June 30, 2016
\$ -	\$ 7,458	\$ 64,937	\$ 7,458	\$ -
-	58,136	-	58,136	-
-	31,729	288,080	31,729	-
-	283,774	-	283,774	-
-	381,097	353,017	381,097	-
-	39,796	-	39,796	-
-	13,481	-	13,481	-
-	53,277	-	53,277	-
-	434,374	353,017	434,374	-
13,488	44,470	306,068	30,982	-
-	239,888	-	253,376	13,488
13,488	284,358	306,068	284,358	13,488
-	-	46,099	-	-
-	20,500	-	31,514	11,014
-	20,500	46,099	31,514	11,014
6,367	37,175	54,811	30,808	-
-	89,842	-	96,209	6,367
6,367	127,017	54,811	127,017	6,367
19,855	431,875	406,978	442,889	30,869
-	-	4,917	-	-
-	1,995	-	1,995	-
-	1,995	4,917	1,995	-
\$ 19,855	\$ 868,244	\$ 764,912	\$ 879,258	\$ 30,869

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

Reconciliation to grant section auditors' report

Current payments per the grant auditor report	\$	781,458
Plus		
Amounts passed through Charlevoix-Emmet Intermediate School District		1,995
Entitlement and bonus commodities		53,277
Direct award from Department of Education		<u>31,514</u>
Total current year receipts per schedule of expenditures of federal awards	\$	<u><u>868,244</u></u>

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, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

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.

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

3. 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 10, 2016

Honorable members of the Board of Education
of the 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, 2016, 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 10, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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 Lobson LLC". The signature is written in a cursive, flowing style.

Independent Auditors' Report on Compliance for Each Major Federal Program
and Internal Control over Compliance Required by the Uniform Guidance

October 10, 2016

Honorable members of the Board of Education
of the 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 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs 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 the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

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 2 CFR 200.516(a)? _____ yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
84.010	Title I, Part A - Improving Basic Programs	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

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, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

No financial statement findings.

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings and questioned costs

PUBLIC SCHOOLS OF PETOSKEY

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2016

No findings in the prior year.

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