

Public Schools of
Petoskey



Year Ended
June 30, 2017

Financial
Statements and
Single Audit Act
Compliance

PUBLIC SCHOOLS OF PETOSKEY

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-11
Basic Financial Statements	
District-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds	14-15
Reconciliation of Fund Balances of Governmental Funds to Net Position of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	17-18
Reconciliation of Net Changes in Fund Balances of Governmental Funds to Change in Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	20
Statement of Fiduciary Assets and Liabilities - Agency Fund	21
Notes to Financial Statements	22-40
Required Supplementary Information	
MPSERS Cost-Sharing Multiple-Employer Plan:	
Schedule of the District's Proportionate Share of the Net Pension Liability	41
Schedule of District Contributions	42
Combining and Individual Fund Financial Statements and Schedules	
Combining Balance Sheet - Nonmajor Governmental Funds	43
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	44
Balance Sheet - General Fund	45
Schedule of Revenues - General Fund	46
Schedule of Operating Expenditures - General Fund	47-50
Balance Sheet - Food Service Special Revenue Fund	51
Statement of Revenues, Expenditures and Changes in Fund Balances - Food Service Special Revenue Fund	52
Combining Balance Sheet Schedule - Capital Project Funds	53-54
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Capital Projects Funds	55-56
Combining Balance Sheet Schedule - Debt Service Fund	57-58
Combining Schedule of Debt Service Revenues, Expenditures and Changes in Fund Balances - Debt Service Fund	59-60
Statement of Changes in Assets and Liabilities - Agency Fund	61-64

PUBLIC SCHOOLS OF PETOSKEY

Table of Contents

	<u>Page</u>
Other Supplementary Information (Unaudited)	
Schedules of Bond Indebtedness	65-67
Schedules of Other Installment Debt	68
Property Tax Information	69
Ten-Year Summary of Enrollment	70
Ten-Year Summary of General Fund Expenditures, Student Enrollment and Per Pupil Costs	71
Single Audit Act Compliance	
Independent Auditors' Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	72
Schedule of Expenditures of Federal Awards	73-75
Notes to Schedule of Expenditures of Federal Awards	76
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	77-78
Independent Auditor's Report on Compliance for the Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	79-80
Schedule of Findings and Questioned Costs	81-83
Summary Schedule of Prior Audit Findings	84



INDEPENDENT AUDITORS' REPORT

October 16, 2017

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, 2017, 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, 2017, and the respective changes in financial position, and the budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 16, 2017 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.

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

This page intentionally left blank.

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, 2017. 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, 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 financial perspective of the District as a whole. At June 30, 2017, the District reported a net position of \$17,678,255. The table below provides a summary of the District's net position as of June 30:

	Net Position		
	Governmental Activities		Percent Change
	2017	2016	
Assets			
Current and other assets	\$10,003,005	\$15,901,474	-37.09%
Capital assets, net	64,465,342	60,359,516	6.80%
	<u>74,468,347</u>	<u>76,260,990</u>	<u>-2.35%</u>
Deferred outflows of resources	<u>5,866,826</u>	<u>4,978,331</u>	<u>17.85%</u>
Liabilities			
Current and other liabilities	43,588,956	43,124,810	1.08%
Long-term liabilities	18,883,818	22,913,636	-17.59%
	<u>62,472,774</u>	<u>66,038,446</u>	<u>-5.40%</u>
Deferred inflows of resources	<u>184,144</u>	<u>121,343</u>	<u>51.75%</u>
Net position			
Net investment in capital assets	46,257,989	41,647,937	11.07%
Restricted	1,649,804	3,759,965	-56.12%
Unrestricted (deficit)	(30,229,538)	(30,328,370)	-0.33%
Total net position	<u>\$17,678,255</u>	<u>\$15,079,532</u>	<u>17.23%</u>

Net investment in capital assets 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 \$1.6 million 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 \$30.2 million represents the accumulated results of the current and all past years' operations. This deficit includes the impact of the Governmental Accounting Standards Board requirement to report the District's portion of the net pension liability on its statement of net position. Absent this net pension liability, the unrestricted net position of the district would be a positive \$7.7 million. 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 ended June 30:

	Change in Net Position		
	Governmental Activities		Percent
	2017	2016	Change
Program revenues			
Charges for services	\$ 825,502	\$ 809,504	1.98%
Operating grants	4,779,157	5,922,538	-19.31%
Capital grants	588,271	5,922,538	-90.07%
General revenues			
Property taxes	21,002,002	20,724,473	1.34%
Unrestricted state aid	7,053,576	6,280,225	12.31%
Other	189,531	203,025	-6.65%
Total revenues	<u>34,438,039</u>	<u>39,862,303</u>	<u>-13.61%</u>
Expenses			
Instruction	19,512,588	19,387,812	0.64%
Supporting services	7,728,358	7,919,287	-2.41%
Community services	11,996	8,531	40.62%
Food services	908,359	914,224	-0.64%
Athletics	592,283	586,444	1.00%
Interest on long-term debt	529,454	651,507	-18.73%
Bond issuance costs	-	10,116	-100.00%
Unallocated depreciation	2,556,278	2,441,623	4.70%
Total expenses	<u>31,839,316</u>	<u>31,919,544</u>	<u>-0.25%</u>
Increase in net position	<u>2,598,723</u>	<u>7,942,759</u>	<u>-67.28%</u>
Net position:			
Beginning of year	<u>21,002,070</u>	<u>13,059,311</u>	<u>60.82%</u>
End of year	<u>\$23,600,793</u>	<u>\$21,002,070</u>	<u>12.37%</u>

Of the District's total revenues available to operate the District, 2.40% or approximately \$826,000 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 18.22% or approximately \$6.3 million.

The State foundation allowance accounted for 20.48% or approximately \$7.1 million 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 2.1% is mainly due to a decrease in reimbursements from the State for prior year property tax abatements.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Local property taxes, of approximately \$21 million or 60.98% of total revenue, supported the remaining portion of the governmental activities. Property tax revenue increased by 1.3% due to taxable value increases. 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 \$1.9 million of the \$21.0 million 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 the above table shows the financial support of each functional area required during the year. In comparison to the prior year, expenses remained consistent. The overall decrease was attributable to a reduction in bond interest expense of approximately \$122,000. This decrease was offset by an increase of instructional expenses of approximately \$125,000. Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for approximately \$19.5 million or 61.28% of total expenses. Support services cost approximately \$7.8 million or 24.27% 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 \$2.6 million or a 28.64% increase compared to 2016. Overall, revenue increased 1.47%, while expenses decreased 0.25%. 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 \$4.4 million, which is a decrease of approximately \$5.1 million from the prior year. The Athletic Complex capital projects funds reported a fund balance decrease of approximately \$3.5 million due to finishing construction of a new athletic stadium complex. Approximately \$6.7 million related to infrastructure projects was reported as capital outlay in the General Fund, Sinking Fund, Athletic Complex Fund, Building and Site Fund, and the 2012 Technology Bond Capital Projects Fund.

Of the combined governmental fund balances, 4.08% or approximately \$294,000 constitutes unassigned fund balance, which is available for spending at the District's discretion. District management has assigned approximately \$2.3 million of fund balance to indicate planned uses of these funds. Of the assigned fund balance, approximately \$119,000 has been set aside to recognize the fund balance accumulated by the efforts of the Athletic department and supporters, and approximately \$613,000 for capital projects. Management has assigned another \$1.6 million as the minimum amount necessary to avoid borrowing for cash flow purposes. Approximately \$1.7 million is restricted fund balance to indicate that it is not available for spending at the District's discretion. Of the restricted fund balance, approximately \$1 million is earmarked for capital improvements, approximately \$574,000 is earmarked for payments on long-term debt and \$41,000 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 \$1.7 million, while total fund balance was approximately \$2 million. 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 7.42% 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 \$47,000 during the current fiscal year. This decrease is significantly less than the original budgeted decrease of \$928,000 due to better than expected pupil count and modest expenditure reductions implemented during the year.

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 \$600,000 less than the final amended budget, a variance of 2.15%. 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 \$1.1 million less than the final amended budget, a variance of 3.81%. Approximately \$600,000 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 modest expenditure reductions designed to bring resource usage in line with expected revenues.

Capital Asset and Debt Administration

Capital Assets. By June 30, 2017, the District had invested approximately \$100.6 million 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 \$6.7 million or 7.11% 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 the construction of McDougal Road, Northmen Drive, and technology equipment. Construction-in-progress consists mainly of the construction of the Athletic Complex, with completion expected in early fiscal year 2018.

	Capital Assets (Net of Depreciation)	
	2017	2016
Land	\$ 3,384,351	\$ 3,384,351
Construction in progress	18,491,771	13,617,652
Buildings and improvements	39,608,020	40,534,220
Furniture and equipment	2,981,200	2,823,293
Total capital assets, net	\$64,465,342	\$60,359,516

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Debt Administration. At year-end, the District had approximately \$18.9 million in general obligation bonds and other long-term debt outstanding - a decrease of 17.59% from last year - as shown in the table below. The net decrease is due to 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	
	June 30, 2017	June 30, 2016
General obligation bonds	\$16,680,667	\$22,123,798
Other long-term debt	2,203,151	789,838
Total long-term debt	<u>\$18,883,818</u>	<u>\$22,913,636</u>

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 \$91,000.

Factors Bearing on the District's Future

We considered many factors when setting the District's 2017-2018 fiscal year budget, including anticipated increases of state and federal funding, decreasing enrollment, 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 80% 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 2017-2018, we assumed a reduction of twenty-nine (29) 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 2017-18, the District saw a foundation allowance of \$7,511, which was \$120 more and 1.6% higher than in 2016-2017. A January 2016 Michigan House Fiscal Agency report notes that school revenues, adjusted for inflation, are 6% less today than in 2000. The uncertainty of student foundation funding levels, as well as funding for other K-12 education programs, reflects the economic difficulties faced by the State of Michigan, as well as the budget priorities of the state's legislators.

Demographic projections indicate that enrollment is likely to decrease over the next several years. This past year, a loss of 54 residents students was offset by the enrollment of 53 non-resident students under the District's Schools of Choice program. Schools of choice student comprise approximately 16% of the total district student enrollment. While the schools of choice program may continue to offset to anticipated losses to a degree, based upon 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 2016-2017 combined with an expected use of fund balance this year were part of a multi-year financial plan enacted three years ago. Over the past decade, the district has trimmed its budget by almost \$5 million, in response to financial pressures. The district anticipates further modest use of fund balance going into 2017-2018. We believe the 2017-2018 foundation allowance will increase by \$120 to \$7,631 but student enrollment will decline by 29 students. Due to these offsetting factors, the district anticipates \$385,000 more revenue for the year. We also assume that our costs will increase by approximately \$1.7 million due to staff contract provisions, retirement costs, and health care cost increases. The anticipated shortfall is expected to place our fund balance in a range between \$700K to \$1.1 million by the end of the 2017-2018 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.

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 has placed a ballot issue on the November 7, 2017 election requesting voters to approve a property tax increase that, if successful, is estimated to generate \$1.7 million for operational purposes, beginning in fiscal year 2018-19.

The District's labor contract with the Petoskey Education Association, which represents the District's teachers, was settled in July 2017, and will expire in August 2018. 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, 2017

Assets	
Cash and cash equivalents	\$ 3,136,509
Investments	4,555,765
Receivables	2,190,771
Prepays and other current assets	119,960
Capital assets not being depreciated	21,876,122
Capital assets being depreciated, net	<u>42,589,220</u>
Total assets	<u>74,468,347</u>
Deferred outflows of resources	
Deferred pension amounts	<u>5,866,826</u>
Liabilities	
Accounts payable and accrued liabilities	4,756,945
Unearned revenue	941,172
Long-term liabilities:	
Due within one year	4,171,774
Due in more than one year	14,712,044
Net pension liability	<u>37,890,839</u>
Total liabilities	<u>62,472,774</u>
Deferred inflows of resources	
Deferred pension amounts	<u>184,144</u>
Net position	
Net investment in capital assets	46,257,989
Restricted for:	
Capital outlay	1,074,781
Debt service	441,032
Food service	133,991
Unrestricted deficit	<u>(30,229,538)</u>
Total net position	<u><u>\$ 17,678,255</u></u>

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

PUBLIC SCHOOLS OF PETOSKEY

Statement of Activities

For the Year Ended June 30, 2017

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction	\$ 19,512,588	\$ 112,591	\$ 4,153,443	\$ -	\$ (15,246,554)
Supporting services	7,728,358	46,401	72,670	-	(7,609,287)
Community services	11,996	-	-	-	(11,996)
Food services	908,359	450,958	473,691	-	16,290
Athletics	592,283	215,552	79,353	588,271	290,893
Interest on long-term debt	529,454	-	-	-	(529,454)
Unallocated depreciation	2,556,278	-	-	-	(2,556,278)
Total governmental activities	\$ 31,839,316	\$ 825,502	\$ 4,779,157	\$ 588,271	(25,646,386)
General revenues					
Property taxes - operations					15,650,383
Property taxes - debt service					3,460,804
Property taxes - sinking fund					1,890,815
Unrestricted state aid					7,053,576
Unrestricted investment earnings					52,912
Other					136,619
Total general revenues					28,245,109
Change in net position					2,598,723
Net position, beginning of year					15,079,532
Net position, end of year					\$ 17,678,255

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

This page intentionally left blank.

FUND FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

Governmental Funds

June 30, 2017

	General Fund	Sinking Fund	Athletic Complex Fund
Assets			
Cash and cash equivalents	\$ 396,791	\$ 1,498,176	\$ 65,631
Investments	3,222,112	5,226	1,274,027
Accounts receivable	90,206	-	-
Due from other funds	1,287	-	-
Due from other governments	2,054,013	-	-
Other assets	27,000	-	-
Total assets	\$ 5,791,409	\$ 1,503,402	\$ 1,339,658
Liabilities			
Accounts payable	\$ 479,186	\$ -	\$ -
Contracts payable	-	467,293	1,300,986
Salaries payable	1,525,194	-	-
Accrued liabilities	825,384	-	-
Due to other funds	-	-	-
Unearned revenue	921,196	-	-
Total liabilities	3,750,960	467,293	1,300,986
Fund balances			
Nonspendable:			
Inventory	7,685	-	-
Prepaid items	19,315	-	-
Restricted:			
Food service	-	-	-
Debt service	-	-	-
Capital outlay	-	1,036,109	38,672
Assigned:			
Athletics	119,349	-	-
Capital outlay	-	-	-
Subsequent years' expenditures	1,600,000	-	-
Unassigned	294,100	-	-
Total fund balances	2,040,449	1,036,109	38,672
Total liabilities and fund balances	\$ 5,791,409	\$ 1,503,402	\$ 1,339,658

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



Debt Service Fund	Nonmajor Funds	Total Governmental Funds
\$ 520,039	\$ 655,872	\$ 3,136,509
54,400	-	4,555,765
-	31,685	121,891
-	-	1,287
-	14,867	2,068,880
-	92,960	119,960
<u>\$ 574,439</u>	<u>\$ 795,384</u>	<u>\$ 10,004,292</u>
\$ -	\$ 25,495	\$ 504,681
-	-	1,768,279
-	-	1,525,194
-	-	825,384
-	1,287	1,287
-	19,976	941,172
<u>-</u>	<u>46,758</u>	<u>5,565,997</u>
-	7,960	15,645
-	85,000	104,315
-	41,031	41,031
574,439	-	574,439
-	-	1,074,781
-	-	119,349
-	614,635	614,635
-	-	1,600,000
-	-	294,100
<u>574,439</u>	<u>748,626</u>	<u>4,438,295</u>
<u>\$ 574,439</u>	<u>\$ 795,384</u>	<u>\$ 10,004,292</u>

PUBLIC SCHOOLS OF PETOSKEY

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2017

Fund balances - total governmental funds	\$ 4,438,295
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 funds.	
Capital assets not being depreciated	21,876,122
Capital assets being depreciated, net	42,589,220
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds and land contract payable	(18,155,358)
Unamortized bond premiums, net	(90,667)
Accrued interest on bonds payable	(133,407)
Compensated absences payable	(637,793)
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	(37,890,839)
Deferred outflows of resources related to the net pension liability	5,866,826
Deferred inflows of resources related to the net pension liability	(184,144)
Net position of governmental activities	<u>\$ 17,678,255</u>

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

This page intentionally left blank.

PUBLIC SCHOOLS OF PETOSKEY

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2017

	General Fund	Sinking Fund	Athletic Complex Fund
Revenues			
Local sources:			
Property taxes	\$ 15,142,056	\$ 1,890,815	\$ -
Payment in lieu of taxes	508,327	-	-
Charges for services	112,591	-	-
Rent income	-	-	-
Interest	23,430	4,972	12,753
Athletics	294,905	-	-
Other income	102,066	-	-
State sources	9,369,061	-	-
Federal sources	457,566	-	-
Interdistrict sources	1,453,062	-	-
Contributions	-	364,969	250,877
Total revenues	27,463,064	2,260,756	263,630
Expenditures			
Current:			
Instruction	19,166,735	-	-
Supporting services	8,205,190	-	-
Community services	11,162	-	-
Food services	-	-	-
Other	-	8,630	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Capital outlay	127,342	2,300,239	3,787,593
Total expenditures	27,510,429	2,308,869	3,787,593
Revenues under expenditures	(47,365)	(48,113)	(3,523,963)
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	(1,062,730)	-
Total other financing sources (uses)	-	(1,062,730)	-
Net change in fund balances	(47,365)	(1,110,843)	(3,523,963)
Fund balances, beginning of year	2,087,814	2,146,952	3,562,635
Fund balances, end of year	\$ 2,040,449	\$ 1,036,109	\$ 38,672

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



Debt Service Fund	Nonmajor Funds	Total Governmental Funds
\$ 3,460,804	\$ -	\$ 20,493,675
-	-	508,327
-	450,958	563,549
-	46,401	46,401
9,819	3,163	54,137
-	-	294,905
-	-	102,066
-	39,694	9,408,755
-	433,997	891,563
-	-	1,453,062
-	-	615,846
<u>3,470,623</u>	<u>974,213</u>	<u>34,432,286</u>
-	-	19,166,735
-	-	8,205,190
-	-	11,162
-	907,158	907,158
13,294	12,649	34,573
3,800,249	-	3,800,249
741,580	-	741,580
-	440,177	6,655,351
<u>4,555,123</u>	<u>1,359,984</u>	<u>39,521,998</u>
<u>(1,084,500)</u>	<u>(385,771)</u>	<u>(5,089,712)</u>
1,062,730	-	1,062,730
-	-	(1,062,730)
<u>1,062,730</u>	<u>-</u>	<u>-</u>
(21,770)	(385,771)	(5,089,712)
<u>596,209</u>	<u>1,134,397</u>	<u>9,528,007</u>
<u>\$ 574,439</u>	<u>\$ 748,626</u>	<u>\$ 4,438,295</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, 2017

Net change in fund balances - total governmental funds \$ (5,089,712)

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 and gains on disposal of capital assets are not reported in the governmental funds.

Capital assets purchased/constructed	6,673,351
Donated capital assets	2,500
Depreciation expense	(2,556,278)
Gain on disposal of capital assets	13,747

Repayment of debt principal is an expenditure in the governmental funds, but a reduction in long-term liabilities in the statement of net position.

Principal payments on debt and land contracts	3,968,440
---	-----------

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 funds.

Amortization of bond premium	60,249
Change in net pension liability and related deferred amounts	(430,895)
Change in the accrual for compensated absences	1,129
Change in accrued interest payable on bonds	(16,314)

Change in net position of governmental activities	<u>\$ 2,626,217</u>
---	---------------------

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

This page intentionally left blank.

PUBLIC SCHOOLS OF PETOSKEY

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 15,829,396	\$ 16,152,761	\$ 16,183,375	\$ 30,614
State sources	9,490,539	9,823,505	9,369,061	(454,444)
Federal sources	632,685	616,902	457,566	(159,336)
Interdistrict sources	1,367,364	1,475,963	1,453,062	(22,901)
Total revenues	27,319,984	28,069,131	27,463,064	(606,067)
Expenditures				
Current:				
Instruction:				
Basic programs	14,335,605	14,665,570	14,654,575	(10,995)
Added needs	5,167,083	5,281,520	4,621,626	(659,894)
Supporting services:				
Pupil services	795,827	774,610	679,400	(95,210)
Instructional staff services	921,381	850,526	737,158	(113,368)
General administration	483,025	490,763	499,348	8,585
School administration	1,791,441	1,781,324	1,736,084	(45,240)
Business services	665,908	673,598	604,754	(68,844)
Operations and maintenance	2,120,455	2,145,001	2,061,626	(83,375)
Pupil transportation services	1,280,909	1,284,978	1,266,371	(18,607)
Staff/personnel services	72,715	72,134	71,140	(994)
Support services - other	595,871	561,495	567,185	5,690
Community services:				
Community activities	1,467	3,275	536	(2,739)
Non-public school pupils	15,916	14,799	10,626	(4,173)
Total expenditures	28,247,603	28,599,593	27,510,429	(1,089,164)
Net change in fund balance	(927,619)	(530,462)	(47,365)	483,097
Fund balance, beginning of year	2,087,814	2,087,814	2,087,814	-
Fund balance, end of year	\$ 1,160,195	\$ 1,557,352	\$ 2,040,449	\$ 483,097

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, 2017

Assets	
Cash and cash equivalents	\$ 391,642
Investments	425,000
Receivables	<u>19,312</u>
Total assets	<u>\$ 835,954</u>
Liabilities	
Due to student groups	\$ 426,571
Scholarships payable	241,802
Due to others	<u>167,581</u>
Total liabilities	<u>\$ 835,954</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, 2017.

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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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.

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.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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.

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, 2017.

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 acquisition cost 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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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.

Salaries payable and accrued employee benefits

A liability is recorded at June 30, 2017 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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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 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. The Capital Projects Fund included capital project activities funded with bonds issued after May 1, 1994. For the athletic complex capital project, the school district has complied with the applicable provisions of Section 1351a of the Revised School Code.

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 Chief Financial Officer 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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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.

Use of estimates

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

2. BUDGETARY INFORMATION

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

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

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, 2017, the District incurred expenditures in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General fund			
General administration	\$ 490,763	\$ 499,348	\$ 8,585
Support services - other	561,495	567,185	5,690

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

3. DEPOSITS AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of June 30, 2017:

	Totals
Statement of Net Position	
Cash and cash equivalents	\$ 3,136,509
Investments	4,555,765
Statement of Fiduciary Assets and Liabilities	
Agency funds	
Cash and cash equivalents	391,642
Investments	425,000
	<hr/>
Total	<u>\$ 8,508,916</u>
Deposits and investments	
Bank deposits:	
Checking / savings accounts	\$ 3,527,771
Certificates of deposit:	
Maturing in less than one year	425,000
Investments	4,555,765
Cash on hand	380
	<hr/>
Total	<u>\$ 8,508,916</u>

Michigan law authorizes the District to deposit and invest in:

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

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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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 June 30, 2017, the District had the following investments:

	Maturity	Amortized Cost	Rating
Michigan Liquid Asset Fund	n/a	\$ 4,555,765	S&P - AAAM

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

Investment and Deposit Risk

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

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, approximately \$4,357,000 of the District's bank balance of approximately \$4,857,000 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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

4. RECEIVABLES

Accounts receivables as of June 30, 2017, are comprised of the following:

	Amount
Accounts receivable	\$ 90,206
Due from other governments	<u>2,054,013</u>
	<u>\$ 2,144,219</u>

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2017, are comprised of the following:

	Amount
Accounts payable	\$ 504,681
Construction contracts	1,768,279
Payroll and other related benefits	2,350,578
Interest	<u>133,407</u>
	<u>\$ 4,756,945</u>

6. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2017, was as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 1,287	\$ -
Nonmajor Funds	<u>-</u>	<u>1,287</u>
	<u>\$ 1,287</u>	<u>\$ 1,287</u>

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, 2017, interfund transfers consisted of the following:

	Transfers in	Transfers out
Sinking Fund	\$ -	\$ 1,062,730
Debt Service Fund	1,062,730	-
	<u>\$ 1,062,730</u>	<u>\$ 1,062,730</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, 2017:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,384,351	\$ -	\$ -	\$ -	\$ 3,384,351
Construction-in-progress	13,617,652	5,881,598	-	(1,007,479)	18,491,771
	<u>17,002,003</u>	<u>5,881,598</u>	<u>-</u>	<u>(1,007,479)</u>	<u>21,876,122</u>
Capital assets, being depreciated:					
Buildings and improvements	69,421,942	-	-	713,918	70,135,860
Furniture and equipment	7,477,399	794,253	(20,798)	293,561	8,544,415
	<u>76,899,341</u>	<u>794,253</u>	<u>(20,798)</u>	<u>1,007,479</u>	<u>78,680,275</u>
Less accumulated depreciation for:					
Buildings and improvements	(28,887,722)	(1,640,118)	-	-	(30,527,840)
Furniture and equipment	(4,654,106)	(916,160)	7,051	-	(5,563,215)
	<u>(33,541,828)</u>	<u>(2,556,278)</u>	<u>7,051</u>	<u>-</u>	<u>(36,091,055)</u>
Total capital assets being depreciated, net	<u>43,357,513</u>	<u>(1,762,025)</u>	<u>(13,747)</u>	<u>1,007,479</u>	<u>42,589,220</u>
Governmental activities capital assets, net	<u>\$ 60,359,516</u>	<u>\$ 4,119,573</u>	<u>\$ (13,747)</u>	<u>\$ -</u>	<u>\$ 64,465,342</u>

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, 2017:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Installment Debt					
General obligation bonds	\$ 20,330,000	\$ -	\$ (3,740,000)	\$ 16,590,000	\$ 3,880,000
Land contract	150,916	-	(60,249)	90,667	63,332
Total installment debt	20,480,916	-	(3,800,249)	16,680,667	3,943,332
Other long-term liabilities					
Premium on bonds	1,793,798	-	(228,440)	1,565,358	228,442
Compensated absences	638,922	16,318	(17,447)	637,793	-
Total other long-term liabilities	2,432,720	16,318	(245,887)	2,203,151	228,442
Total long-term liabilities	\$ 22,913,636	\$ 16,318	\$ (4,046,136)	\$ 18,883,818	\$ 4,171,774

Long-term debt at June 30, 2017, includes the following:

General Obligation Bonds

2012 technology bonds due in annual installments ranging from \$640,000 to \$1,225,000 plus interest of 2.00%; final payment due May 2020.	\$ 2,595,000
2015 school building & site refunding bonds due in annual installments ranging from \$1,305,000 to \$2,275,000 plus interest ranging from 4.00% to 5.00%; final payment due May 2024.	11,950,000
2016 school building & site bonds are due in annual installments ranging from \$1,000,000 and \$1,045,000 plus interest ranging from 1.15% to 1.30%; final payment due May 2019.	2,045,000
Premium on bonds	90,667
Total general obligation bonds	16,680,667

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.	\$ 90,667
Compensated absences	<u>637,793</u>
Total other long-term liabilities	<u>728,460</u>
Total long-term debt	<u><u>\$ 17,409,127</u></u>

Debt service requirements on installment debt

The annual requirements to service the bonds and land contract outstanding to maturity, including principal and interest, are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 3,943,332	\$ 632,080	\$ 4,575,412
2019	4,077,336	493,028	4,570,364
2020	2,530,000	350,750	2,880,750
2021	1,435,000	261,000	1,696,000
2022	1,500,000	189,250	1,689,250
2023-2024	<u>3,194,999</u>	<u>150,000</u>	<u>3,344,999</u>
Total	<u>\$ 16,680,667</u>	<u>\$ 2,076,108</u>	<u>\$ 18,756,775</u>

Interest expense charged to governmental activities in fiscal 2017 was \$529,454.

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 recognized as current property tax revenue to the extent that they are collected during the year or within 60 days after year end.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

10. RETIREMENT PLAN

Plan Description

The Michigan Public School Employees' Retirement System (the "System" or MPSERS) is 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.

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 for 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 member 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, 2016 valuation will be amortized over a 20-year period for the 2016 fiscal year.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

The table below summarizes pension contribution rates in effect for fiscal year 2017:

Benefit Structure	Member Rates	Employer Rates
Basic	0.0% - 4.0%	18.95% - 19.03%
Member Investment Plan (MIP)	3.0% - 7.0%	18.95% - 19.03%
Pension Plus	3.0% - 6.4%	17.73% - 18.40%
Defined Contribution	0.0%	14.56% - 15.27%

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2017 was \$3,555,982.

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

At June 30, 2017, the District reported a liability of \$37,890,839 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. 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, 2016, the District's proportion was 0.15187%, which was an increase of 0.00189% from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$3,897,645. At June 30, 2017, 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	\$ 472,220	\$ 89,802	\$ 382,418
Changes in assumptions	592,394	-	592,394
Net difference between projected and actual earnings on pension plan investments	629,745	-	629,745
Changes in proportion and differences between employer contributions and proportionate share of contributions	936,034	94,342	841,692
	<u>2,630,393</u>	<u>184,144</u>	<u>2,446,249</u>
District contributions subsequent to the measurement date	3,236,433	-	3,236,433
Total	<u>\$ 5,866,826</u>	<u>\$ 184,144</u>	<u>\$ 5,682,682</u>

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Deferred outflows of resources of \$3,236,433 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, 2018. 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
2018	\$ 584,563
2019	535,039
2020	1,136,362
2021	<u>190,285</u>
Total	<u>\$ 2,446,249</u>

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, 2015 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)	7.0%
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, 2016, is based on the results of an actuarial valuation date of September 30, 2015, 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, 2016, 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 the 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	\$ 48,793,863	\$ 37,890,839	\$ 26,698,541

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, 2017, the District reported a payable of \$500,811 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2017.

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 prefunded 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 5.69% 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 \$1,194,874 for the year ended June 30, 2017.

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 34% of the District's general fund revenue during the 2017 fiscal year.

12. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2017, was as follows:

	Governmental Activities
Capital assets:	
Capital assets not being depreciated	\$ 21,876,122
Capital assets being depreciated, net	<u>42,589,220</u>
	64,465,342
Less related debt:	
Noncurrent liabilities:	
Due within one year	(4,171,774)
Due in more than one year	(14,712,044)
Add back: compensated absences	<u>637,793</u>
Net investment in capital assets	<u><u>\$ 46,219,317</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, 2017.

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 four fiscal years.

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

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

14. SUBSEQUENT EVENTS

In 2017, the Michigan Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) to be used in the system's annual actuarial valuation for the non-hybrid defined benefit pensions plan from 8.0% to 7.5% effective for the 2016 valuation and following. The September 30, 2016 annual actuarial valuation report will be used to establish the employer contribution for the fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarially computed employer contributions and the net pension liability are expected to increase as a result of lowering the assumed investment rate of return.



This page intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC SCHOOLS OF PETOSKEY

Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,		
	2015	2016	2017
District's proportionate share of the net pension liability	\$32,093,122	\$ 36,634,250	\$ 37,890,839
District's proportion of the net pension liability	0.14570%	0.14999%	0.15187%
District's covered-employee payroll	\$12,742,819	\$ 12,460,245	\$ 12,848,982
District's proportionate share of the net pension liability as a percentage of its covered payroll	251.85%	294.01%	294.89%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%	63.27%

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 MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of District Contributions

	Year Ended June 30,		
	2015	2016	2017
Contractually required contribution	\$ 3,024,425	\$ 3,375,387	\$ 3,555,982
Contributions in relation to the contractually required contribution	<u>(3,024,425)</u>	<u>(3,375,387)</u>	<u>(3,555,982)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$12,850,648	\$ 12,337,346	\$ 12,296,962
Contributions as a percentage of covered payroll	23.54%	27.36%	28.92%

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

This page intentionally left blank.

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

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2017

	Special Revenue Fund	Capital Project Funds		Total
	Food Service	Building and Site	Technology Bonds	
Assets				
Cash and cash equivalents	\$ 39,950	\$ 615,922	\$ -	\$ 655,872
Accounts receivable	31,685	-	-	31,685
Due from other governmental units	14,867	-	-	14,867
Other assets	92,960	-	-	92,960
Total assets	<u>\$ 179,462</u>	<u>\$ 615,922</u>	<u>\$ -</u>	<u>\$ 795,384</u>
Liabilities				
Accounts payable	\$ 25,495	\$ -	\$ -	\$ 25,495
Due to other funds	-	1,287	-	1,287
Unearned revenue	19,976	-	-	19,976
Total liabilities	<u>45,471</u>	<u>1,287</u>	<u>-</u>	<u>46,758</u>
Nonspendable:				
Inventory	7,960	-	-	7,960
Prepaid items	85,000	-	-	85,000
Restricted:				
Food service	41,031	-	-	41,031
Assigned - capital outlay	-	614,635	-	614,635
Total fund balances	<u>133,991</u>	<u>614,635</u>	<u>-</u>	<u>748,626</u>
Total liabilities and fund balances	<u>\$ 179,462</u>	<u>\$ 615,922</u>	<u>\$ -</u>	<u>\$ 795,384</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended June 30, 2017

	Special Revenue Fund	Capital Project Funds		Total
	Food Service	Building and Site	Technology Bonds	
Revenues				
Local sources:				
Charges for services	\$ 450,958	\$ -	\$ -	\$ 450,958
Rent income	-	46,401	-	46,401
Interest	32	1,906	1,225	3,163
State sources	39,694	-	-	39,694
Federal sources	433,997	-	-	433,997
Total revenues	<u>924,681</u>	<u>48,307</u>	<u>1,225</u>	<u>974,213</u>
Expenditures				
Current:				
Food services	907,158	-	-	907,158
Other	-	2,396	10,253	12,649
Capital outlay	-	7,206	432,971	440,177
Total expenditures	<u>907,158</u>	<u>9,602</u>	<u>443,224</u>	<u>1,359,984</u>
Net change in fund balances	17,523	38,705	(441,999)	(385,771)
Fund balances, beginning of year	<u>116,468</u>	<u>575,930</u>	<u>441,999</u>	<u>1,134,397</u>
Fund balances, end of year	<u>\$ 133,991</u>	<u>\$ 614,635</u>	<u>\$ -</u>	<u>\$ 748,626</u>

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

General Fund

June 30, 2017

(With Comparative Totals as of June 30, 2016)

	2017	2016
Assets		
Cash and cash equivalents	\$ 396,791	\$ 88,331
Investments	3,222,112	3,913,777
Accounts receivable	90,206	1,159
Due from other funds	1,287	124,049
Due from other governmental units	2,054,013	1,684,309
Other assets	27,000	20,407
Total assets	\$ 5,791,409	\$ 5,832,032
Liabilities		
Accounts payable	\$ 479,186	\$ 449,811
Salaries payable	1,525,194	1,502,127
Accrued liabilities	825,384	822,711
Unearned revenue	921,196	969,569
Total liabilities	3,750,960	3,744,218
Fund balances		
Nonspendable:		
Inventory	7,685	11,547
Prepaid items	19,315	8,860
Assigned:		
Athletics	119,349	78,468
Subsequent years' expenditures	1,600,000	1,600,000
Unassigned	294,100	388,939
Total fund balances	2,040,449	2,087,814
Total liabilities and fund balances	\$ 5,791,409	\$ 5,832,032

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Revenues

General Fund

For the Year Ended June 30, 2017

(With Comparative Totals For the Year Ended June 30, 2016)

	2017	2016
Revenues		
Local Sources		
Property taxes	\$ 15,142,056	\$ 14,726,397
Payment in lieu of taxes	508,327	504,083
Charges for services	112,591	115,279
Interest	23,430	11,394
Athletics	294,905	257,234
Other income	102,066	154,559
Total local sources	16,183,375	15,768,946
State sources		
State aid - foundation allowance:		
Discretionary payment	6,077,191	6,074,718
Prior year adjustments	59,331	205,507
Special education headlee obligation	855,314	803,134
State aid - other unrestricted grants:		
Financial analytic tools	-	2,423
Early literacy	30,360	28,875
Wellness	21,000	84,000
Dual enrollment	10,380	-
State aid - restricted grants:		
At-risk	453,687	448,841
MPSERS cost offset	1,789,128	1,610,413
Data collection	72,670	72,568
Technological infrastructure	-	51,654
First robotics	-	8,900
Total state sources	9,369,061	9,391,033
Federal sources		
Title I	314,829	284,358
Title II	92,303	127,017
Title IX	45,388	31,514
Other	5,046	1,995
Total federal sources	457,566	444,884
Interdistrict sources		
Vocational education - millage	602,532	416,396
Vocational education - added cost	32,561	126,863
Expense reimbursements	817,969	806,656
Total interdistrict sources	1,453,062	1,349,915
Total revenues	\$ 27,463,064	\$ 26,954,778

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2017

(With Comparative Totals For the Year Ended June 30, 2016)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
Instruction					
Basic programs					
Elementary	\$ 3,707,902	\$ 2,593,251	\$ 175,097	\$ 91,381	\$ -
Middle school	1,990,230	1,335,961	92,071	94,644	-
High school	2,365,992	1,671,468	511,031	25,547	-
Total basic programs	8,064,124	5,600,680	778,199	211,572	-
Added needs					
Special education	1,293,517	891,903	425,300	2,405	-
Compensatory education	156,013	117,981	429,181	17,257	-
Vocational education	505,113	367,284	49,710	256,496	109,466
Total added needs	1,954,643	1,377,168	904,191	276,158	109,466
Total instruction	10,018,767	6,977,848	1,682,390	487,730	109,466
Supporting services					
Pupil services					
Guidance services	294,294	222,742	-	3,349	-
Health services	-	-	101,857	21,076	-
Other	20,317	8,666	7,099	-	-
Total pupil services	314,611	231,408	108,956	24,425	-
Instructional staff services					
Improvement of instruction	64,881	38,722	23,183	-	-
Library	52,315	58,181	64,398	29,923	-
Technology assisted instruction	109,119	76,488	3,061	-	-
Supervision	111,938	70,217	2,257	1,517	-
Academic student assessment	-	-	-	30,958	-
Total instructional staff services	338,253	243,608	92,899	62,398	-



Total	
2017	2016

\$ 6,567,631	\$ 6,569,659
3,512,906	3,533,906
<u>4,574,038</u>	<u>4,247,487</u>
<u>14,654,575</u>	<u>14,351,052</u>

2,613,125	2,595,998
720,432	718,094
<u>1,288,069</u>	<u>1,229,571</u>
<u>4,621,626</u>	<u>4,543,663</u>
<u>19,276,201</u>	<u>18,894,715</u>

520,385	510,073
122,933	215,047
<u>36,082</u>	<u>41,406</u>
<u>679,400</u>	<u>766,526</u>

126,786	127,200
204,817	203,961
188,668	193,088
185,929	202,083
<u>30,958</u>	<u>26,938</u>
<u>737,158</u>	<u>753,270</u>

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2017

(With Comparative Totals For the Year Ended June 30, 2016)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
General administration					
Board of education	\$ -	\$ -	\$ 64,826	\$ 1,310	\$ -
Executive administration	186,211	124,700	114,023	8,278	-
Total general administration	186,211	124,700	178,849	9,588	-
School administration					
Office of the principal	984,415	685,294	36,709	29,666	-
Business services					
Fiscal services	259,067	179,681	19,271	146,735	-
Operations and maintenance	296,515	217,614	834,071	695,550	17,876
Transportation	-	-	1,266,371	-	-
Staff/personnel services	37,252	33,888	-	-	-
Athletic activities	207,657	101,558	163,935	94,035	-
Total supporting services	2,623,981	1,817,751	2,701,061	1,062,397	17,876
Community services					
Community services direction	-	-	-	536	-
Non-public school pupils	6,465	2,577	1,561	23	-
Total community services	6,465	2,577	1,561	559	-
Total expenditures	\$ 12,649,213	\$ 8,798,176	\$ 4,385,012	\$ 1,550,686	\$ 127,342



Total	
2017	2016

\$ 66,136	\$ 54,052
<u>433,212</u>	<u>390,777</u>
499,348	444,829
<u>1,736,084</u>	<u>1,691,519</u>
<u>604,754</u>	<u>714,741</u>
<u>2,061,626</u>	<u>2,087,074</u>
<u>1,266,371</u>	<u>1,195,669</u>
<u>71,140</u>	<u>80,858</u>
<u>567,185</u>	<u>556,678</u>
<u>8,223,066</u>	<u>8,291,164</u>
536	4,893
<u>10,626</u>	<u>3,467</u>
<u>11,162</u>	<u>8,360</u>
<u>\$ 27,510,429</u>	<u>\$ 27,194,239</u>

Concluded

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

Food Service Special Revenue Fund

June 30, 2017

(With Comparative Totals as of June 30, 2016)

	2017	2016
Assets		
Cash and cash equivalents	\$ 39,950	\$ 111,173
Accounts receivable	31,685	31,092
Due from other governmental units	14,867	18,953
Other assets	92,960	91,496
Total assets	\$ 179,462	\$ 252,714
Liabilities		
Accounts payable	\$ 25,495	\$ 40,323
Due to other funds	-	73,136
Unearned revenue	19,976	22,787
Total liabilities	45,471	136,246
Fund balances		
Nonspendable - inventory	7,960	6,496
Nonspendable - prepaid items	85,000	85,000
Restricted	41,031	24,972
Total fund balances	133,991	116,468
Total liabilities and fund balances	\$ 179,462	\$ 252,714

PUBLIC SCHOOLS OF PETOSKEY

Statement of Revenues, Expenditures and Changes in Fund Balances

Food Service Special Revenue Fund
 For the Year Ended June 30, 2017
 (With Comparative Totals For the Year Ended June 30, 2016)

	2017	2016
Revenues		
Local sources:		
Charges for services:		
Lunch sales	\$ 172,589	\$ 171,675
Breakfast sales	8,138	8,762
Ala carte sales	270,231	270,047
Interest	32	752
State sources	39,694	37,499
Federal sources	433,997	434,374
	<hr/>	<hr/>
Total revenues	924,681	923,109
	<hr/>	<hr/>
Expenditures		
Current:		
Salaries	41,401	39,403
Employee benefits	31,398	34,276
Purchased services	380,496	394,841
Supplies, materials and other expenditures	83,294	64,108
Food costs	370,569	378,487
	<hr/>	<hr/>
Total expenditures	907,158	911,115
	<hr/>	<hr/>
Net change in fund balances	17,523	11,994
Fund balance, beginning of year	116,468	104,474
	<hr/>	<hr/>
Fund balance, end of year	<u>\$ 133,991</u>	<u>\$ 116,468</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Schedule

Capital Projects Funds

June 30, 2017

(With Comparative Totals as of June 30, 2016)

	Sinking Fund	Building and Site Fund	Technology Bonds Fund	Athletic Complex Fund
Assets				
Cash and cash equivalents	\$ 1,498,176	\$ 615,922	\$ -	\$ 65,631
Investments	5,226	-	-	1,274,027
Due from other funds	-	-	-	-
Total assets	\$ 1,503,402	\$ 615,922	\$ -	\$ 1,339,658
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	1,287	-	-
Contracts payable	467,293	-	-	1,300,986
Total liabilities	467,293	1,287	-	1,300,986
Fund balances				
Restricted - capital outlay	1,036,109	-	-	38,672
Assigned - capital outlay	-	614,635	-	-
Total fund balances	1,036,109	614,635	-	38,672
Total liabilities and fund balances	\$ 1,503,402	\$ 615,922	\$ -	\$ 1,339,658



Total	
2017	2016

\$ 2,179,729	\$ 9,303,403
1,279,253	5,189
-	130,911
<u>\$ 3,458,982</u>	<u>\$ 9,439,503</u>

\$ -	\$ 272,323
1,287	145,848
<u>1,768,279</u>	<u>2,293,816</u>
<u>1,769,566</u>	<u>2,711,987</u>

1,074,781	6,151,586
614,635	575,930
<u>1,689,416</u>	<u>6,727,516</u>
<u>\$ 3,458,982</u>	<u>\$ 9,439,503</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

Capital Projects Funds

For the Year Ended June 30, 2017

(With Comparative Totals For the Year Ended June 30, 2016)

	Sinking Fund	Building and Site Fund	Technology Bonds Fund	Athletic Complex Fund
Revenues				
Property taxes	\$ 1,890,815	\$ -	\$ -	\$ -
Rent income	-	46,401	-	-
Contributions	364,969	-	-	250,877
Interest	4,972	1,906	1,225	12,753
Total revenues	2,260,756	48,307	1,225	263,630
Expenditures				
Other	8,630	2,396	10,253	-
Capital outlay	2,300,239	7,206	432,971	3,787,593
Total expenditures	2,308,869	9,602	443,224	3,787,593
Revenues over (under) expenditures	(48,113)	38,705	(441,999)	(3,523,963)
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(1,062,730)	-	-	-
Total other financing sources (uses)	(1,062,730)	-	-	-
Net change in fund balances	(1,110,843)	38,705	(441,999)	(3,523,963)
Fund balances, beginning of year	2,146,952	575,930	441,999	3,562,635
Fund balances, end of year	\$ 1,036,109	\$ 614,635	\$ -	\$ 38,672



Total	
2017	2016
\$ 1,890,815	\$ 1,875,679
46,401	45,332
615,846	486,233
20,856	19,033
<u>2,573,918</u>	<u>2,426,277</u>
21,279	19,785
<u>6,528,009</u>	<u>10,720,501</u>
<u>6,549,288</u>	<u>10,740,286</u>
<u>(3,975,370)</u>	<u>(8,314,009)</u>
-	2,999,383
<u>(1,062,730)</u>	<u>(66,427)</u>
<u>(1,062,730)</u>	<u>2,932,956</u>
(5,038,100)	(5,381,053)
<u>6,727,516</u>	<u>12,108,569</u>
<u>\$ 1,689,416</u>	<u>\$ 6,727,516</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Schedule

Debt Service Fund

June 30, 2017

(With Comparative Totals as of June 30, 2016)

	Foster Land Contract	2012 Technology Bonds	2015 Refunding Bonds	2016 Building & Site Bonds
Assets				
Cash and cash equivalents	\$ -	\$ 41,132	\$ 478,907	\$ -
Investments	-	-	54,400	-
Due from other funds	-	-	-	-
Total assets	\$ -	\$ 41,132	\$ 533,307	\$ -
Fund balances				
Restricted	\$ -	\$ 41,132	\$ 533,307	\$ -

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



Total	
2017	2016

\$ 520,039	\$ 531,575
54,400	54,017
-	10,617

<u>\$ 574,439</u>	<u>\$ 596,209</u>
-------------------	-------------------

<u><u>\$ 574,439</u></u>	<u><u>\$ 596,209</u></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, 2017

(With Comparative Totals For the Year Ended June 30, 2016)

	Foster Land Contract	2012 Technology Bonds	2015 Refunding Bonds	2016 Building & Site Bonds
Revenues				
Local sources:				
Property taxes	\$ -	\$ 519,121	\$ 2,941,683	\$ -
Interest income	-	-	9,319	500
Total revenues	-	519,121	2,951,002	500
Expenditures				
Debt service:				
Principal	60,249	540,000	2,235,000	965,000
Interest	6,178	62,700	641,399	31,303
Bond issuance costs	-	-	-	-
Other	-	815	11,479	1,000
Total expenditures	66,427	603,515	2,887,878	997,303
Revenues over (under) expenditures	(66,427)	(84,394)	63,124	(996,803)
Other financing sources (uses)				
Bond proceeds	-	-	-	-
Transfers in	66,427	-	-	996,303
Transfers out	-	-	-	-
Total other financing sources (uses)	66,427	-	-	996,303
Net change in fund balances	-	(84,394)	63,124	(500)
Fund balances, beginning of year	-	125,526	470,183	500
Fund balances, end of year	\$ -	\$ 41,132	\$ 533,307	\$ -

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



Total	
2017	2016

\$ 3,460,804	\$ 3,618,314
9,819	7,287
<u>3,470,623</u>	<u>3,625,601</u>

3,800,249	2,612,319
741,580	914,061
-	10,117
13,294	24,955

<u>4,555,123</u>	<u>3,561,452</u>
<u>(1,084,500)</u>	<u>64,149</u>

-	3,010,000
1,062,730	66,427
-	(2,999,383)

<u>1,062,730</u>	<u>77,044</u>
------------------	---------------

(21,770)	141,193
<u>596,209</u>	<u>455,016</u>

<u>\$ 574,439</u>	<u>\$ 596,209</u>
-------------------	-------------------

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund
For the Year Ended June 30, 2017

	Balances July 1, 2016	Receipts	Disbursements	Balances June 30, 2017
Assets				
Cash	\$ 451,162	\$ 1,249,271	\$ 1,308,791	\$ 391,642
Investments	425,000	-	-	425,000
Accounts receivable	225	19,087	-	19,312
Total assets	\$ 876,387	\$ 1,268,358	\$ 1,308,791	\$ 835,954
Liabilities				
Due to student groups	\$ 412,223	\$ 760,201	\$ 745,853	\$ 426,571
Scholarships payable	240,525	1,642	365	241,802
Due to others	223,639	506,515	562,573	167,581
Total liabilities	\$ 876,387	\$ 1,268,358	\$ 1,308,791	\$ 835,954
The balances consist of the following:				
Deposits due to student groups				
Central Elementary				
Central 3rd Grade	\$ 39	\$ -	\$ -	\$ 39
Central 5th Grade	355	-	-	355
Central Library & Computer	1	-	1	-
Central School Fund	468	798	1,259	7
Central School Store	393	-	336	57
5th Grade Colonial Days	220	-	220	-
Central VanSlot STEAM	213	4,000	3,865	348
Central scholarship fund	164	-	164	-
Central book fair	-	6,984	6,139	845
Lincoln Elementary				
Lincoln School Fund	4,604	1,178	411	5,371
Lincoln Student Council	834	829	862	801
Ottawa Elementary				
Ottawa 4th Grade Field Trip	1,290	-	672	618
Ottawa 5th Grade Field Trip	5,126	13,098	11,413	6,811
Ottawa Field Trip Fund	1,338	2,989	3,927	400
Ottawa instructional supplies	7,873	4,308	5,452	6,729
Ottawa Learning Center	10	100	8	102
Ottawa Garden Club	2,676	4,380	3,526	3,530
Ottawa Popcorn Sales	4,376	4,749	4,308	4,817
Ottawa School Fund	4,297	1,126	1,528	3,895
Ottawa Kindergarten	116	1,204	1,217	103
Sheridan Elementary				
Sheridan 3rd Grade	262	3,702	3,463	501
Sheridan 4th Grade	1,346	597	384	1,559
Sheridan 5th Grade	402	1,355	289	1,468
Sheridan Garden Fund	108	-	-	108
Sheridan School	5,421	7,535	11,944	1,012
Sheridan Student Council	146	620	675	91
Girls on the run	1,112	1,000	434	1,678
Petoskey Middle School				
6th Grade Club	736	26,555	25,974	1,317
7th Grade Club	6,465	6,323	3,635	9,153
8th Grade Club	9,242	15,016	13,494	10,764
Builder's Club	854	1,309	1,501	662

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2017

	Balances July 1, 2016	Receipts	Disbursements	Balances June 30, 2017
Petoskey Middle School (continued)				
Middle School Adventure Education	\$ 164	\$ -	\$ -	\$ 164
Middle School Art Club	735	1,176	765	1,146
Middle School Enrichment	3,313	-	80	3,233
Middle School Celebration Garden	216	-	-	216
Middle School Ecology Club	626	1,330	1,511	445
Middle School Fall Play	4,989	4,367	6,593	2,763
Middle School Photo Club	104	-	-	104
Middle School Student Council	2,330	1,950	2,243	2,037
Middle School Student Special needs	6,972	124	103	6,993
Middle School Yearbook	2,740	4,249	3,492	3,497
Middle School Greenhouse	73	-	-	73
Middle School Washington DC Trip	3,110	6,954	6,391	3,673
Middle School Wood Shop	157	3,109	2,522	744
Middle School Youth In Government	3,023	6,093	5,280	3,836
Middle School Craft Club	(9)	24	15	-
Middle School Peer to Peer	-	189	189	-
Middle School Fund	16,509	1,246	1,620	16,135
Middle School Store	(34)	5,400	4,159	1,207
Middle School Science Club Fund	106	545	290	361
Middle School Box Tops for Education	891	658	50	1,499
Middle School Student Caring Fund	-	500	-	500
Middle School Special Caring Fund	346	662	775	233
Youth Bridge Counselors	-	88	88	-
Petoskey Middle School Athletics				
Middle School Dance	147	120	233	34
Middle School Vocal	1,343	1,081	710	1,714
Middle School Athletics	15	-	-	15
Middle School Football	1,353	420	1,700	73
Middle School Track	4,791	4,785	7,544	2,032
Middle School Volleyball	2,177	1,984	1,389	2,772
Middle School Boys Basketball	366	1,061	-	1,427
Middle School Girls Basketball	81	1,100	102	1,079
Petoskey High School				
Auto Shop Tool Fund	99	-	-	99
Building Trades Fund	367	2,712	2,249	830
Business Club	525	-	-	525
Blue Crew	517	-	-	517
Class of 2016	2,216	-	2,216	-
Class of 2017	2,886	250	250	2,886
Class of 2018	(771)	7,621	4,385	2,465
Class of 2019	347	853	853	347
Class of 2020	-	1,208	-	1,208
DECA	8,321	66,291	58,841	15,771
Debate Club	7,748	3,062	6,104	4,706
Drafting	-	181	181	-
FCCLA	499	-	-	499
Forensics	5	100	100	5
French Club	159	-	-	159
Future Farmers of America	1,895	321	344	1,872
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, 2017

	Balances July 1, 2016	Receipts	Disbursements	Balances June 30, 2017
Petoskey High School (continued)				
Guidance Dept Testing	\$ 5,487	\$ 28,030	\$ 29,819	\$ 3,698
HOSA	12	-	-	12
High School Art Club	2,759	-	-	2,759
High School Fall Play	599	8,771	7,440	1,930
High School Journalism	5	-	-	5
High School Learning Center	834	-	-	834
High School Quiz Bowl Team	542	-	-	542
High School Spring Musical	1,330	15,600	15,057	1,873
High School Steel Drum Band	467	31,029	31,496	-
High School Student Council	1,466	4,214	5,018	662
High School Vocal	10,169	38,721	47,217	1,673
High School Yearbook	11,766	9,405	10,421	10,750
High School Fund	1,731	2,158	2,542	1,347
High School Youth in Government	2,445	-	2,445	-
Hospitality Foods Tip Fund	1,012	896	62	1,846
Indian Education/Unity Trip	280	50	50	280
Key Club	1,868	232	638	1,462
Model UN/H.S. Enrichment	1,011	8,211	9,159	63
National Honor Society	1,399	1,068	1,388	1,079
Petoskey High School Papermakers	1,459	-	-	1,459
Robotics	34,533	68,902	62,565	40,870
Renaissance Fund	838	-	584	254
Science Class	162	106	105	163
Skateboarding Club	91	-	-	91
Spanish Club	516	-	-	516
High School Special Needs Counseling	1,842	400	829	1,413
High School 8th & 9th Transition Fund	3,585	-	1,289	2,296
STEM Projects	256	-	8	248
Freshman Mentor Fund	1,204	1,309	1,310	1,203
World History Trip Fund	23	1,829	1,790	62
Academic World Quest	-	50	48	2
PE Class Fund	-	2,143	2,143	-
Reach Higher Grant	-	7,492	7,492	-
High School Athletics				
Athletic Hall Of Fame	1,378	792	1,147	1,023
Track & Stadium Improvements	4,120	-	4,120	-
Northmen Fund	1,940	54,079	4,208	51,811
Boys Basketball	13,631	7,679	14,403	6,907
Boys Golf	909	2,988	1,743	2,154
Boys Tennis	1,933	10,194	10,059	2,068
Girls Basketball	2,915	4,429	4,826	2,518
Girls Golf	3,585	139	1,116	2,608
Girls Tennis	5,519	15,696	13,858	7,357
Girls Track	2,428	3,326	4,731	1,023
Girls Softball	(10)	35,463	27,741	7,712
High School Baseball	178	-	-	178
High School Boys Soccer	-	789	789	-
High School Cross Country	5,267	4,624	5,575	4,316
High School Football	13,622	3,115	5,155	11,582
High School Hockey	55,695	78,271	106,218	27,748
Pay To Participate Donations	1,650	-	200	1,450
Cross Country Ski Club	336	1,966	2,302	-
Cheerleading	1,500	8,025	6,879	2,646
High School/Middle School Ski Team	-	4,143	4,143	-

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund
For the Year Ended June 30, 2017

	Balances July 1, 2016	Receipts	Disbursements	Balances June 30, 2017
High School Athletics (continued)				
Volleyball	\$ 6,054	65	\$ 1,517	\$ 4,602
Wrestling	4,905	7,988	6,724	6,169
Boys Track	194	435	70	559
Pink Game	12,693	11,609	16,139	8,163
Weight Room Improvements	2,208	4,565	4,808	1,965
Bowling	-	10,920	5,314	5,606
District-Wide Accounts				
Elementary Enrichment	3,601	6,077	6,520	3,158
Elementary Enrichment Play	9,201	7,295	10,281	6,215
Elementary Music Fund	1,250	1,190	1,132	1,308
Student Reserve	19,364	2,154	2,752	18,766
Total due to student groups	412,223	760,201	745,853	426,571
Scholarships payable				
Doris Reber - Class of 1932 Scholarship	209,897	799	-	210,696
Eric Greyerbiehl Memorial Fund	731	1	-	732
McClutchey Memorial Scholarship	5,873	20	-	5,893
Midshipmen Scholarship	7,216	28	-	7,244
Vaughn Memorial Scholarship	16,122	64	-	16,186
Wil Moyer Music Scholarship	146	730	365	511
Memorial Scholarship - Scott Sweany	540	-	-	540
Total scholarships payable	240,525	1,642	365	241,802
Due to others				
Central PTO	40,084	24,682	28,689	36,077
High School Staff Fund	544	90	119	515
Lincoln PTO	11,540	33,776	35,871	9,445
Maintenance Fund	715	746	970	491
Northmen Night	855	69,715	69,673	897
Ottawa PTO Board Fund	8,352	37,646	32,269	13,729
PEF Grants - Central	148	1,727	1,875	-
PEF Grants - High School	672	3,824	3,838	658
PEF Grants - Lincoln	-	1,288	1,288	-
PEF Grants - Middle School	89	10,958	10,958	89
PEF Grants - Ottawa	-	332	332	-
PEF Grants - Sheridan	-	1,938	1,938	-
PEF Grants - ACT/SAT Seminar	-	1,061	1,061	-
PEF Grants - District	-	7,268	7,268	-
Petoskey Family Fund	16,844	11,833	4,000	24,677
Robert Motely Memorial Fund	106	-	-	106
Senior Parent Committee	4,109	32,975	34,388	2,696
Spitler Building Pop Fund	231	1,202	1,010	423
Future Sports Complex Donations	92,757	-	92,757	-
Due to Primary Government	46,593	265,454	234,269	77,778
Total due to others	223,639	506,515	562,573	167,581
Totals	\$ 876,387	\$ 1,268,358	\$ 1,308,791	\$ 835,954

Concluded

OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Bond Indebtedness (Unaudited)

For the Year Ended June 30, 2017

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>2,335,000</u>
Balance outstanding - June 30, 2017	<u>\$ 2,595,000</u>

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
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>\$ 57,750</u>	<u>\$ 57,750</u>	<u>\$ 2,595,000</u>	<u>\$ 2,710,500</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, 2017

Purpose	2015 School Building & Site Refunding Bonds
Date of issue	February 25, 2015
Rate of interest	4.00% to 5.00%
Original obligation	\$ 16,260,000
Amount previously paid	<u>4,310,000</u>
Balance outstanding - June 30, 2017	<u>\$ 11,950,000</u>

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
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>\$ 959,250</u>	<u>\$ 959,250</u>	<u>\$ 11,950,000</u>	<u>\$ 13,868,500</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, 2017

Purpose	2016 School Building & Site Bonds
Date of issue	June 2, 2016
Rate of interest	1.15% to 1.30%
Original obligation	\$ 3,010,000
Amount previously paid	<u>965,000</u>
Balance outstanding - June 30, 2017	<u><u>\$ 2,045,000</u></u>

Fiscal Year	May 1, Interest	May 1, Principal	Annual Requirements
2017-2018	\$ 25,085	\$ 1,000,000	\$ 1,025,085
2018-2019	13,585	1,045,000	1,058,585
	<u>\$ 38,670</u>	<u>\$ 2,045,000</u>	<u>\$ 2,083,670</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, 2017

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>609,333</u>
Balance outstanding - June 30, 2017	<u><u>\$ 90,667</u></u>

Fiscal Year	Interest	May 15, Principal	Annual Requirements
2017-2018	\$ 3,095	\$ 63,332	\$ 66,427
2018-2019	343	27,335	27,678
	<u>\$ 3,438</u>	<u>\$ 90,667</u>	<u>\$ 94,105</u>

PUBLIC SCHOOLS OF PETOSKEY

Property Tax Information (Unaudited) For the Year Ended June 30, 2017

Taxing District	Tax Levy	Collections and Other Reductions	Delinquent Property Taxes	Percentage of Current Year Levy Collected
Bear Creek Township	\$ 6,107,959	\$ 5,835,813	\$ 272,146	95.54%
Littlefield Township	76,252	75,074	1,178	98.46%
Little Traverse Township	494,353	465,229	29,124	94.11%
Resort Township	4,156,154	3,936,716	219,438	94.72%
Springvale Township	864,263	802,970	61,293	92.91%
City of Petoskey	7,159,279	6,952,150	207,129	97.11%
Chandler Township	112,535	104,716	7,819	93.05%
Hayes Township	50,578	48,110	2,468	95.12%
Melrose Township	1,286,869	1,176,312	110,557	91.41%
Total	\$ 20,308,242	\$ 19,397,090	\$ 911,152	95.51%
Allocated as follows				
General Fund	\$ 14,962,402	\$ 14,283,898	\$ 678,504	95.47%
Debt Service Fund	3,457,045	3,306,598	150,447	95.65%
Capital Project Funds	1,888,793	1,806,592	82,201	95.65%
Total allocated to all funds	\$ 20,308,240	\$ 19,397,088	\$ 911,152	95.51%

PUBLIC SCHOOLS OF PETOSKEY

Ten-Year Summary of Enrollment (Unaudited)

For the Year Ended June 30, 2017

Year	Special Education	Elementary School	Middle School	High School	Total	Non-Resident	Resident
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
2017	68	1,173	684	953	2,878	470	2,408

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, 2017**

Year	Expenditures and Transfers*	Enrollment	Expenditures Per Pupil
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
2017	27,510,429	2,878	9,559

* 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 16, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 16, 2017, 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.



This page intentionally left blank.

This page intentionally left blank.

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

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	161970	\$ 64,172
National school lunch - breakfast	10.553	MDE	171970	51,819
National school lunch section 11 all lunches	10.555	MDE	161960	316,711
National school lunch section 11 all lunches	10.555	MDE	171960	264,770
Non-cash assistance:				
Entitlement commodities	10.555	MDE	n/a	50,894
Bonus Commodities	10.555	MDE	n/a	18,141
Total U.S. Department of Agriculture				
U.S. Department of Education				
Title I, Part A - Improving Basic Programs	84.010	MDE	151530-1516	302,233
Title I, Part A - Improving Basic Programs	84.010	MDE	161530-1617	365,077
Indian Education	84.060A	Direct	15/16	38,484
Indian Education	84.060A	Direct	16/17	44,082
Title II, Part A - Improving Teacher Quality	84.367	MDE	160520-1516	157,956
Title II, Part A - Improving Teacher Quality	84.367	MDE	170520-1617	128,367
Total U.S. Department of Education				
U.S. Department of Health and Human Services				
Medicaid Cluster:				
Medicaid Outreach	93.778	ISD	15/16	1,995
Medicaid Outreach	93.778	ISD	16/17	5,046
Total Federal Financial Assistance				

See notes to schedule of expenditures of federal awards.

Accrued (Deferred) Revenue July 1, 2016	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2017	Accrued (Deferred) Revenue June 30, 2017
\$ -	\$ 6,036	\$ 58,136	\$ 6,036	\$ -
-	51,819	-	51,819	-
-	32,938	283,773	32,938	-
-	274,169	-	274,169	-
-	<u>364,962</u>	<u>341,909</u>	<u>364,962</u>	-
-	50,894	-	50,894	-
-	18,141	-	18,141	-
-	<u>69,035</u>	-	<u>69,035</u>	-
-	<u>433,997</u>	<u>341,909</u>	<u>433,997</u>	-
9,885	58,742	253,376	48,857	-
-	-	-	265,972	265,972
<u>9,885</u>	<u>58,742</u>	<u>253,376</u>	<u>314,829</u>	<u>265,972</u>
11,014	17,984	31,514	6,970	-
-	30,732	-	38,418	7,686
<u>11,014</u>	<u>48,716</u>	<u>31,514</u>	<u>45,388</u>	<u>7,686</u>
10,085	29,773	96,209	19,688	-
-	-	-	72,615	72,615
<u>10,085</u>	<u>29,773</u>	<u>96,209</u>	<u>92,303</u>	<u>72,615</u>
<u>30,984</u>	<u>137,231</u>	<u>381,099</u>	<u>452,520</u>	<u>346,273</u>
-	-	1,995	-	-
-	5,046	-	5,046	-
-	<u>5,046</u>	<u>1,995</u>	<u>5,046</u>	-
<u>\$ 30,984</u>	<u>\$ 576,274</u>	<u>\$ 725,003</u>	<u>\$ 891,563</u>	<u>\$ 346,273</u>

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

Reconciliation to grant section auditors' report

Current payments per the grant auditor report	\$	441,742
Plus		
Amounts passed through Charlevoix-Emmet Intermediate School District		5,046
Child nutrition revenue adjustment		11,735
Entitlement and bonus commodities		69,035
Direct award from Department of Education		48,716
		<hr/>
Total current year receipts per schedule of expenditures of federal awards	\$	<u>576,274</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 the Public Schools of Petoskey (the "District") under programs of the federal government for the year ended June 30, 2017. 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. 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. Total expenditures on the Schedule agree to total federal revenues on the Statement of Revenues, Expenditures and Changes in Fund Balances.

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



This page intentionally left blank.

**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 16, 2017

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, 2017, 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 16, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rehmann Loborn LLC

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

October 16, 2017

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, 2017. 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 the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the 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 the 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, 2017.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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.

The image shows a handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style. Below the signature, there is a small, faint number "1" centered under the text.

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2017

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>
10.553, 10.555	Child Nutrition Cluster	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, 2017

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, 2017

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, 2017

No findings in the prior year.

■ ■ ■ ■ ■