



**Public Schools of Petoskey**

*A Special Place for Everyone*

**FINANCIAL STATEMENTS  
AND SINGLE AUDIT ACT COMPLIANCE**

**FOR THE YEAR ENDED JUNE 30, 2011**

# PUBLIC SCHOOLS OF PETOSKEY

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## INDEPENDENT AUDITORS' REPORT

October 14, 2011

Board of Education  
Public Schools of Petoskey  
Petoskey, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Public Schools of Petoskey* (the "District") as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011, on our consideration of the District's internal control over financial reporting and 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 the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The other supplementary information included on pages 53-55 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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 listed in the table of contents, except for the information included on pages 53-55 which is unaudited, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## 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, 2011. Please read it in conjunction with the District's financial statements, which immediately follows this section.

### Overview of the Financial Statements

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

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

- The first two statements are the *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status. These statements present an aggregate view of the District's finances and a longer-term view of those finances.
- The next statements are *fund financial statements* that focus on individual parts 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, and the Debt Service Fund, with all other funds presented in one column as Nonmajor Funds.

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

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

The two District-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

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 assets 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, athletics, and food services. Property taxes, Unrestricted state aid, State grants, and Federal grants finance most of these activities.

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

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

The fund financial statements are formatted to comply with the legal requirements of the Michigan Department of Education's Bulletin 1022. In the State of Michigan, 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 2005 refunding bonds, Durant bonds, and two land contracts.
- Special Revenue Fund – consisting of the Food Service Fund.
- Capital Projects Funds – consisting of the Sinking Fund, Roof Repair Fund and Building & Site Fund.

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

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



## District-wide financial analysis

As stated earlier, the summary of net assets provides the perspective of the District as a whole. The District's net assets increased 7.35% to approximately \$36,574,000 as a result of operations in the current year. Table 1 provides a summary of the District's net assets as of June 30, 2011, and June 30, 2010:

**Public Schools of Petoskey**  
**Condensed Statement of Net Assets**  
**Table 1**

	<u>Governmental Activities</u> <u>2011</u>	<u>2010</u>	<u>Percentage</u> <u>Change</u>
<b>Assets</b>			
Current assets	\$ 11,392,333	\$ 10,387,297	9.68%
Deferred bond refunding costs	457,515	514,705	(11.11%)
Capital assets, net of accumulated depreciation	<u>46,505,769</u>	<u>47,228,548</u>	<u>(1.53%)</u>
<b>Total assets</b>	<b><u>58,355,617</u></b>	<b><u>58,130,550</u></b>	<b><u>0.39%</u></b>
<b>Liabilities</b>			
Current liabilities	3,870,404	4,115,621	(5.96%)
Premium on bond refunding	373,509	420,199	(11.11%)
Long-term liabilities	<u>17,537,697</u>	<u>19,524,724</u>	<u>(10.18%)</u>
<b>Total liabilities</b>	<b><u>21,781,610</u></b>	<b><u>24,060,544</u></b>	<b><u>(9.47%)</u></b>
Invested in capital assets, net of related debt	29,694,803	28,618,615	3.76%
Restricted	3,797,950	3,464,101	9.64%
Unrestricted	<u>3,081,254</u>	<u>1,987,290</u>	<u>55.05%</u>
<b>Total net assets</b>	<b><u>\$ 36,574,007</u></b>	<b><u>\$ 34,070,006</u></b>	<b><u>7.35%</u></b>

Capital assets net of related debt, approximately \$29,695,000, is the original cost of the District's capital assets, less depreciation, less the long-term debt outstanding used to finance the acquisition of those assets. This debt will be repaid mainly from voter-approved property taxes collected as the debt and interest payments come due. Restricted net assets of approximately \$3,798,000 are shown separately to recognize legal constraints from debt covenants and enabling legislation. These constraints limit the District's ability to use those net assets for day-to-day operations.

The remaining amount of net assets of approximately \$3,081,000 is unrestricted and represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations of the District as a whole are reported in the statement of activities, summarized in Table 2, which shows the changes in net assets for fiscal year 2011 and 2010.

**Public Schools of Petoskey**  
**Condensed Statement of Change in Net Assets**  
**Table 2**

	<u>Governmental Activities</u>		<u>Percentage</u>
	<u>2011</u>	<u>2010</u>	<u>Change</u>
<b>Revenue</b>			
Program Revenues			
Charges for services	\$ 751,739	\$ 709,869	5.90%
Grants and contributions	4,513,737	5,384,848	(16.18%)
General Revenues			
Property taxes	19,546,617	20,752,638	(5.81%)
State foundation allowance	5,587,801	4,331,760	29.00%
Other	335,859	219,341	53.13%
<b>Total revenues</b>	<b><u>30,735,753</u></b>	<b><u>31,398,456</u></b>	<b><u>(2.11%)</u></b>
<b>Expenses</b>			
Instruction	16,908,930	17,485,598	(3.30%)
Supporting services	7,232,749	7,304,958	(0.99%)
Community services	25,248	38,593	(34.58%)
Food services	992,625	999,884	(0.73%)
Athletics	549,148	600,604	(8.57%)
Interest on long-term debt	819,660	881,218	(6.99%)
Unallocated depreciation	1,703,392	1,641,636	3.76%
<b>Total expenses</b>	<b><u>28,231,752</u></b>	<b><u>28,952,491</u></b>	<b><u>(2.49%)</u></b>
<b>Increase in net assets</b>	<b><u>\$ 2,504,001</u></b>	<b><u>\$ 2,445,965</u></b>	<b><u>2.37%</u></b>

Of the District's total revenues available to operate the District, 2.45% or approximately \$750,000 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 14.69% or approximately \$4,514,000.

Local property taxes, of approximately \$19,547,000 or 63.60% of total revenue, supported the remaining portion of the governmental activities. Property tax revenue declined by 5.81% due to the declines in property valuations experienced all across the region. 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 \$1,840,000 of the \$19,547,000 in tax revenue is generated by a special millage specifically for capital expenditures. The proceeds and expenditures of this special millage are accounted for exclusively in the District's Sinking Fund. This special millage was renewed by voters in May 2005, and will expire on December 31, 2011.

The State foundation allowance accounted for 18.18% or approximately \$5,588,000 of the revenue available. This revenue is determined by a formula that incorporates pupil headcount, the annual per pupil allowance, and the non-homestead property taxable values of the District. The increase of 29.00% is mainly due to the restoration of \$170 per pupil funding that had been reduced in 2010, and

offset by the equal loss of federal American Recovery and Reinvestment Act funds. In 2010, the State had used the federal ARRA funds as a dollar-for-dollar offset against its reduction of the foundation allowance. For 2011, the federal ARRA funds were no longer available, and the State restored the \$170 per pupil cut, essentially keeping gross funding level across the two years.

The expense portion of Table 2 shows the financial support of each functional area required during the year. The overall decrease of 2.49% is due to deliberate budget reductions designed to help balance the District finances over the next few years. Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for approximately \$16,909,000 or 59.89% of total expenses. Support services cost approximately \$7,233,000 or 25.62% 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 assets of approximately \$2,504,000 or a 2.37% increase from the fiscal 2010 increase in net assets of approximately \$2,446,000. Overall, revenue decreased 2.11%, while expenses decreased by 2.49%. 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 assets 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 \$7,500,000, which is an increase of approximately \$1,300,000 from the prior year. Approximately \$908,000 of this increase is in the Sinking Fund, designated for upcoming construction projects.

Of the combined governmental fund balances, 2.64% or approximately \$198,000 constitutes *unassigned fund balance*, which is available for spending at the District's discretion. District management has assigned approximately \$3,245,000 as *assigned fund balance* to indicate planned uses of these funds. Of the assigned fund balance, approximately \$92,000 has been set aside to recognize the fund balance accumulated by the efforts of the Athletic department and supporters. Management has assigned approximately another \$2,404,000 against subsequent year expenditures, in anticipation of declines in state and federal funding. Also, approximately \$748,000 has been assigned for construction activities already planned or in progress. Approximately \$3,773,000 is *restricted fund balance* to indicate that it is not available for spending at the District's discretion. Of the restricted fund balance, approximately \$3,402,000 is earmarked for capital improvements and approximately \$371,000 is earmarked for payments on long-term debt. The remaining fund balance is designated as *non-spendable fund balance*, and is earmarked for inventory, prepaid items and real estate held for sale.

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 \$2,496,000, while total fund balance was approximately \$2,877,000. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 11.52% of total General Fund expenditures and transfers.

The fund balance of the District's General Fund increased by approximately \$213,000 during the current fiscal year, mainly due to management instituted budget cuts designed to bring spending levels within anticipated revenues. See the above discussion relative to District-wide governmental activities.

### **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 schedule 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 \$257,000 less than the final amended budget, a variance of (1.00)%. The actual revenue was under budget mainly due to some federal awards not being spent in the time frame anticipated.
- The District's General Fund expenditures were approximately \$617,000 less than the final amended budget, a variance of (2.41)%. The reduction of actual expenditures under budget is due to cost saving programs implemented throughout the year and due to some federal awards not being spent in the time frame anticipated.

### **Capital Asset and Debt Administration**

**Capital Assets.** By June 30, 2011, the District had invested approximately \$74,880,000 in a broad range of capital assets, including school buildings, land, athletic facilities, furniture, and equipment. This represents a net increase (including all additions and disposals) of approximately \$980,000 or 1.33% from last year. More detailed information about capital assets is available in Note III C to the financial statements.

This year's capital asset additions include HVAC replacement, gym improvements, as well as lighting and roofing replacement. Construction-in-progress is attributable mainly to Middle School Auditorium renovation. The disposals include the sale of a parcel of land.

**Public Schools of Petoskey  
Capital Assets  
Table 3**

	<u>2011</u>	<u>2010</u>
Land	\$ 3,384,351	\$ 3,394,351
Construction-in-progress	727,930	449,494
Buildings	62,841,985	62,129,808
Furniture and equipment	<u>7,927,755</u>	<u>7,927,755</u>
 Total capital assets	 74,882,021	 73,901,408
 Less accumulated depreciation	 <u>28,376,252</u>	 <u>26,672,860</u>
 <b>Net capital assets</b>	 <b><u>\$ 46,505,769</u></b>	 <b><u>\$ 47,228,548</u></b>

**Debt.** At year-end, the District had approximately \$17,540,000 in general obligation bonds and other long-term debt outstanding – a reduction of 10.18% from last year – as shown in Table 4. More detailed information about the District’s long-term debt is presented in Note III F to the financial statements, and in the Other Supplemental Information section.

**Public Schools of Petoskey  
Long-Term Debt  
Table 4**

	<u>2011</u>	<u>2010</u>
General obligation bonds	\$ 15,855,000	\$ 17,540,000
Other general obligation debt	<u>1,682,697</u>	<u>1,984,724</u>
 <b>Total long-term debt</b>	 <b><u>\$ 17,537,697</u></b>	 <b><u>\$ 19,524,724</u></b>

In 2006, the District entered into a land contract for the purchase of land in the amount of \$700,000. The balance on the contract was approximately \$545,000 at June 30, 2011. In 2004, the District also entered into a land contract for the purchase of land. The original amount of the 2004 land contract was \$700,000, and the remaining balance at year end is approximately \$411,000.

**Factors Bearing on the District’s Future**

We considered many factors when setting the District’s 2011-12 fiscal year budget, including the anticipated loss of significant amounts of state and federal funding.

Approximately 81% of total General Fund revenues are from the foundation allowance. 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. We encountered a loss of 45 students from September 2010 to September 2011, which was a larger loss than anticipated. In setting the budget for 2011-12, we assumed a further reduction of 15 students.

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 2010-11, the District saw a foundation allowance of \$7,146. While this State funding was \$170 higher than in 2009-10, it was offset by the equal loss of Federal ARRA funding. Essentially, school funding has remained static over the past two years.

Going into the budget planning cycle for 2011-12, we believe the foundation allowance will stay level at \$7,146. We also assume that the Federal Stimulus funds which expired in June 2010 will not be renewed. However, to offset the flat State funding along with the loss of Federal Stimulus funds, the District has held onto federal Edujobs funds from last year to use in the upcoming year. In order to address increased inflationary costs, the District cut approximately \$750,000 in expenses from the 2011-12 budget. These cuts were made through a combination of measures that mostly affected non-educational areas, and included some limited work force reduction. The combination of expected results in pupil count, reductions and offsets in funding, and increases in expenditures results in our 2011-12 budget showing an approximate decrease of approximately \$860,000 in ending fund balance. This planned decrease will reduce the fund balance to approximately 8.08% of expenditures, which is slightly above the minimum level required to meet cash flow requirements without borrowing. At this time, no additional cost-savings measures are anticipated as the year begins.

The District's labor contract with the Petoskey Education Association, which represents the District's teachers, was settled in June 2011, and will expire in August 2013. The District's labor contract with the Petoskey Educational Support Personnel Association, which represents the District's support personnel, was settled in June 2011, and will expire in August 2013.

### **Contacting the School District's Financial Management**

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 ASSETS GOVERNMENTAL ACTIVITIES

JUNE 30, 2011

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<b>Assets</b>	
Cash and cash equivalents	\$ 5,247,998
Investments	4,373,724
Receivables	1,486,829
Other current assets	283,782
Deferred bond refunding costs	457,515
Capital assets not being depreciated	4,112,281
Capital assets being depreciated, net	<u>42,393,488</u>
<b>Total assets</b>	<b><u>58,355,617</u></b>
<b>Liabilities</b>	
Accounts payable and accrued expenditures	3,645,282
Unearned revenue	225,122
Long-term liabilities	
Premium on bond refunding	373,509
Due within one year	1,973,046
Due in more than one year	<u>15,564,651</u>
<b>Total liabilities</b>	<b><u>21,781,610</u></b>
<b>Net assets</b>	
Invested in capital assets, net of related debt	29,694,803
Restricted for capital outlay	3,402,127
Restricted for debt service	370,823
Unrestricted	<u>3,106,254</u>
<b>Total net assets</b>	<b><u>\$ 36,574,007</u></b>

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

**PUBLIC SCHOOLS OF PETOSKEY**

**STATEMENT OF ACTIVITIES  
GOVERNMENTAL ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2011**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expense) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	
<b>Governmental activities</b>				
Instruction	\$ 16,908,930	\$ 148,206	\$ 3,803,073	\$ (12,957,651)
Supporting services	7,232,749	39,770	1,484	(7,191,495)
Community services	25,248	-	-	(25,248)
Food services	992,625	387,207	637,667	32,249
Athletics	549,148	176,556	71,513	(301,079)
Interest on long-term debt	819,660	-	-	(819,660)
Unallocated depreciation	1,703,392	-	-	(1,703,392)
<b>Total governmental activities</b>	<b>\$ 28,231,752</b>	<b>\$ 751,739</b>	<b>\$ 4,513,737</b>	<b>(22,966,276)</b>
<b>General revenues</b>				
Property taxes - operations				17,099,795
Property taxes - debt service				2,446,822
Unrestricted state aid				5,587,801
Unrestricted investment earnings				40,176
Gain on sale of capital assets				188,911
Other				106,772
<b>Total general revenues</b>				<b>25,470,277</b>
<b>Change in net assets</b>				<b>2,504,001</b>
Net assets, beginning of year				34,070,006
<b>Net assets, end of year</b>				<b>\$ 36,574,007</b>

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

## **FUND FINANCIAL STATEMENTS**

**PUBLIC SCHOOLS OF PETOSKEY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**JUNE 30, 2011**

	<u>General</u>	<u>Sinking</u>	<u>Debt Service</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 610,841	\$ 3,530,779	\$ 317,045	\$ 789,333	\$ 5,247,998
Investments	4,105,071	214,875	53,778	-	4,373,724
Accounts receivable	46,162	-	-	-	46,162
Due from other governmental units	1,419,407	-	21,260	-	1,440,667
Other assets	182,013	-	-	101,769	283,782
<b>Total assets</b>	<b>\$ 6,363,494</b>	<b>\$ 3,745,654</b>	<b>\$ 392,083</b>	<b>\$ 891,102</b>	<b>\$ 11,392,333</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 262,871	\$ -	\$ -	\$ 39,764	\$ 302,635
Contracts payable	-	343,527	-	-	343,527
Salaries payable	1,890,738	-	-	-	1,890,738
Accrued expenses	989,444	-	-	-	989,444
Deferred revenue	343,888	-	21,260	1,234	366,382
<b>Total liabilities</b>	<b>3,486,941</b>	<b>343,527</b>	<b>21,260</b>	<b>40,998</b>	<b>3,892,726</b>
<b>Fund balances</b>					
Non-spendable					
Inventory	15,306	-	-	101,769	117,075
Prepaid items	46,707	-	-	-	46,707
Real-estate held for sale	120,000	-	-	-	120,000
Restricted					
Debt service	-	-	370,823	-	370,823
Capital outlay - special revenue fund	-	3,402,127	-	-	3,402,127
Assigned					
Athletics	91,947	-	-	-	91,947
Capital outlay - capital project funds	-	-	-	745,396	745,396
Capital outlay - special revenue fund	-	-	-	2,939	2,939
Subsequent year expenditures	2,404,265	-	-	-	2,404,265
Unassigned	198,328	-	-	-	198,328
<b>Total fund balances</b>	<b>2,876,553</b>	<b>3,402,127</b>	<b>370,823</b>	<b>850,104</b>	<b>7,499,607</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,363,494</b>	<b>\$ 3,745,654</b>	<b>\$ 392,083</b>	<b>\$ 891,102</b>	<b>\$ 11,392,333</b>

Continued...

**PUBLIC SCHOOLS OF PETOSKEY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**JUNE 30, 2011**

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**Reconciliation of fund balances on the balance sheet for governmental funds to net assets of governmental activities on the statement of net assets**

**Fund balances - total governmental funds** **\$ 7,499,607**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Add	- capital assets	74,882,021
Deduct	- accumulated depreciation	(28,376,252)

The focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add	- long term deferred assets	141,260
-----	-----------------------------	---------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Add	- deferred bond refunding costs, net of amortization	457,515
Deduct	- premium on bond refunding, net of amortization	(373,509)
Deduct	- bonds and other long-term liabilities	(16,832,226)
Deduct	- employee incentives	(135,350)
Deduct	- accrued interest on bonds payable	(118,938)
Deduct	- compensated absences	(570,121)

**Net assets of governmental activities** **\$ 36,574,007**

Concluded

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

**PUBLIC SCHOOLS OF PETOSKEY**

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>General</u>	<u>Sinking</u>	<u>Debt Service</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
Local sources					
Property taxes	\$ 14,772,141	\$ 1,842,610	\$ 2,446,822	\$ -	\$ 19,061,573
Revenue in lieu of taxes	485,044	-	-	-	485,044
Charges for services	122,118	-	-	387,207	509,325
Tuition	26,088	-	-	-	26,088
Rent income	-	-	-	39,770	39,770
Interest	11,084	18,660	5,486	4,946	40,176
Athletics	248,069	-	-	-	248,069
Other income	119,683	-	743	-	120,426
State sources	6,768,438	-	11,396	55,555	6,835,389
Federal sources	940,478	-	-	582,112	1,522,590
Interdistrict sources	1,681,958	-	-	-	1,681,958
<b>Total revenues</b>	<b>25,175,101</b>	<b>1,861,270</b>	<b>2,464,447</b>	<b>1,069,590</b>	<b>30,570,408</b>
<b>Expenditures</b>					
Current					
Instruction	17,061,247	-	-	-	17,061,247
Supporting services	7,875,627	-	-	-	7,875,627
Community services	25,248	-	-	-	25,248
Food services	-	-	-	992,625	992,625
Other	-	13,654	16,209	-	29,863
Capital outlay	-	806,370	-	81,934	888,304
Debt service					
Principal	-	-	1,777,707	-	1,777,707
Interest	-	-	818,517	-	818,517
<b>Total expenditures</b>	<b>24,962,122</b>	<b>820,024</b>	<b>2,612,433</b>	<b>1,074,559</b>	<b>29,469,138</b>
<b>Revenues over (under) expenditures</b>	<b>212,979</b>	<b>1,041,246</b>	<b>(147,986)</b>	<b>(4,969)</b>	<b>1,101,270</b>
<b>Other financing (uses) sources</b>					
Proceeds from sale of capital assets	-	-	-	198,911	198,911
Transfers in	-	-	132,853	-	132,853
Transfers out	-	(132,853)	-	-	(132,853)
<b>Total other financing (uses) sources</b>	<b>-</b>	<b>(132,853)</b>	<b>132,853</b>	<b>198,911</b>	<b>198,911</b>
<b>Net change in fund balances</b>	<b>212,979</b>	<b>908,393</b>	<b>(15,133)</b>	<b>193,942</b>	<b>1,300,181</b>
Fund balance, beginning of year, as restated	2,663,574	2,493,734	385,956	656,162	6,199,426
<b>Fund balances, end of year</b>	<b>\$ 2,876,553</b>	<b>\$ 3,402,127</b>	<b>\$ 370,823</b>	<b>\$ 850,104</b>	<b>\$ 7,499,607</b>

Continued...

**PUBLIC SCHOOLS OF PETOSKEY**

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2011**

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**Reconciliation of the statement of revenues, expenditures and change in fund balance of governmental funds to the statement of activities**

**Net change in fund balances - total governmental funds** **\$ 1,300,181**

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.

Add	- capital outlay	990,613
Deduct	- proceeds from sale of capital assets	(198,911)
Add	- gain on sale of capital assets	188,911
Deduct	- depreciation expense	(1,703,392)

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

Add	- amortization of bond premium	46,690
Deduct	- amortization of bond refunding cost	(57,190)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add	- principal payments on long-term liabilities	1,777,707
Add	- early retirement incentive payments	216,488

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds

Deduct	- payments received on long-term Durant Settlement receivable	(9,912)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Deduct	- increase in the accrual for compensated absences	(7,168)
Deduct	- reduction of the fair market value of long term deferred assets	(50,000)
Add	- decrease in accrued interest payable on bonds	9,984

**Change in net assets - governmental activities** **\$ 2,504,001**

Concluded

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

**PUBLIC SCHOOLS OF PETOSKEY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2011**

	Budget		Actual	Variance - Positive (Negative) Final Amended to Actual
	Original	Final Amended		
<b>Revenues</b>				
Local sources	\$ 15,605,060	\$ 15,904,166	\$ 15,784,227	\$ (119,939)
State sources	6,175,788	6,780,842	6,768,438	(12,404)
Federal sources	594,841	1,075,823	940,478	(135,345)
Interdistrict sources	1,542,380	1,671,198	1,681,958	10,760
<b>Total revenues</b>	<b>23,918,069</b>	<b>25,432,029</b>	<b>25,175,101</b>	<b>(256,928)</b>
<b>Expenditures</b>				
Education				
Instruction	16,925,966	17,273,726	17,061,247	212,479
Supporting services	7,569,766	8,265,989	7,875,627	390,362
Community services	36,410	39,316	25,248	14,068
<b>Total expenditures</b>	<b>24,532,142</b>	<b>25,579,031</b>	<b>24,962,122</b>	<b>616,909</b>
<b>Revenues (under) over expenditures</b>	<b>(614,073)</b>	<b>(147,002)</b>	<b>212,979</b>	<b>359,981</b>
<b>Other financing sources (uses)</b>				
Transfers in	35,000	-	-	-
<b>Net change in fund balance</b>	<b>(579,073)</b>	<b>(147,002)</b>	<b>212,979</b>	<b>359,981</b>
Fund balance, beginning of year, as restated	2,663,574	2,663,574	2,663,574	-
<b>Fund balance, end of year</b>	<b>\$ 2,084,501</b>	<b>\$ 2,516,572</b>	<b>\$ 2,876,553</b>	<b>\$ 359,981</b>

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, 2011**

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<b>Assets</b>	
Cash and cash equivalents	\$ 175,370
Investments	425,000
Accounts receivable	<u>1,498</u>
<b>Total assets</b>	<b><u><u>\$ 601,868</u></u></b>
<b>Liabilities</b>	
Due to student groups	\$ 194,965
Scholarships payable	259,455
Due to others	<u>147,448</u>
<b>Total liabilities</b>	<b><u><u>\$ 601,868</u></u></b>

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

## **NOTES TO THE FINANCIAL STATEMENTS**

# PUBLIC SCHOOLS OF PETOSKEY

## NOTES TO THE FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

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

#### B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2011.

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.

#### C. 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* as are the fiduciary fund financial statements. However, agency funds do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# PUBLIC SCHOOLS OF PETOSKEY

## NOTES TO THE FINANCIAL STATEMENTS

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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 60 days of the end of the current fiscal period or within one year for reimbursement type grants. 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 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 government.

The District reports the following major governmental funds:

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

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

The *Debt Service Fund* accounts for the property tax revenue collected and the payment of principal and interest on the District's outstanding debt.

Additionally, the District reports the following fund types:

The *Special Revenue Fund* accounts for the food service program sponsored by the District. Revenues in the food service program consist of federal awards and charges for services.

The *Capital Project Funds* account for the financial resources used for the acquisition or construction of major capital facilities.

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

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

# PUBLIC SCHOOLS OF PETOSKEY

## NOTES TO THE FINANCIAL STATEMENTS

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

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

### **D. Assets, liabilities and equity**

#### **1. Deposits and investments**

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

Investments are reported at fair value.

#### **2. Receivables and payables**

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 non-current portion of interfund loans). There were no interfund advance loans outstanding at June 30, 2011.

#### **3. Inventory and prepaid items**

Inventory is valued at the 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 rather than when purchased. Reported inventories are equally offset by non-spendable fund balance, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

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

#### **4. Capital assets**

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

# PUBLIC SCHOOLS OF PETOSKEY

## NOTES TO THE FINANCIAL STATEMENTS

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

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	5-50
Furniture and equipment	5-15

### 5. *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 government-wide financial statements for such amounts. No liability is recorded for accumulated vacation since hours earned do not vest.

### 6. *Long-term obligations*

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### 7. *Fund equity*

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

# PUBLIC SCHOOLS OF PETOSKEY

## NOTES TO THE FINANCIAL STATEMENTS

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

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

### II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. 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.

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

A reconciliation of cash and cash equivalents and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

<b>Statement of Net Assets</b>	
Cash and cash equivalents	\$ 5,247,998
Investments	<u>4,373,724</u>
<b>Total Statement of Net Assets</b>	<b><u>9,621,722</u></b>
<b>Statement of Fiduciary Net Assets</b>	
<b>Agency Funds</b>	
Cash and cash equivalents	175,370
Investments	<u>425,000</u>
<b>Total Statement of Fiduciary Net Assets</b>	<b><u>600,370</u></b>
<b>Total deposits and investments</b>	<b><u>\$10,222,092</u></b>

**PUBLIC SCHOOLS OF PETOSKEY**

**NOTES TO THE FINANCIAL STATEMENTS**

A reconciliation of cash and investments as shown in the financial statements to the District’s deposits and investments is as follows:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 5,847,968
Investments	4,373,724
Cash on hand	<u>400</u>
<b>Total deposits and investments</b>	<b><u>\$10,222,092</u></b>

Michigan law authorizes the District to deposit and invest in:

- (a) 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.
- (b) 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.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) 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.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

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

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

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Michigan Liquid Asset Fund	n/a	\$ 4,373,724	S&P – AAAM

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



# PUBLIC SCHOOLS OF PETOSKEY

## NOTES TO THE FINANCIAL STATEMENTS

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### **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, \$5,700,068 of the District's bank balance of \$6,200,068 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.

### **B. Receivables**

Receivables in the governmental activities are 97% due from other governments and 3% accounts receivable.

# PUBLIC SCHOOLS OF PETOSKEY

## NOTES TO THE FINANCIAL STATEMENTS

### C. Capital assets

Capital assets activity was as follows for the year ended June 30, 2011:

	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Balance June 30, 2011</b>
<b>Capital assets not being depreciated</b>					
Land	\$ 3,394,351	\$ -	\$ (10,000)	\$ -	\$ 3,384,351
Construction in process	449,494	727,930	-	(449,494)	727,930
<b>Total capital assets not being depreciated</b>	<b>3,843,845</b>	<b>727,930</b>	<b>(10,000)</b>	<b>(449,494)</b>	<b>4,112,281</b>
<b>Capital assets being depreciated</b>					
Buildings and improvements	62,129,808	262,683	-	449,494	62,841,985
Furniture and equipment	7,927,755	-	-	-	7,927,755
<b>Total capital assets being depreciated</b>	<b>70,057,563</b>	<b>262,683</b>	<b>-</b>	<b>449,494</b>	<b>70,769,740</b>
<b>Accumulated depreciation</b>					
Buildings and improvements	(19,776,079)	(1,447,532)	-	-	(21,223,611)
Furniture and equipment	(6,896,781)	(255,860)	-	-	(7,152,641)
<b>Total accumulated depreciation</b>	<b>(26,672,860)</b>	<b>(1,703,392)</b>	<b>-</b>	<b>-</b>	<b>(28,376,252)</b>
<b>Total capital assets being depreciated, net</b>	<b>43,384,703</b>	<b>(1,440,709)</b>	<b>-</b>	<b>449,494</b>	<b>42,393,488</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 47,228,548</b>	<b>\$ (712,779)</b>	<b>\$ (10,000)</b>	<b>\$ -</b>	<b>\$ 46,505,769</b>

Unallocated depreciation expense of \$1,703,392 was charged to the governmental activities.

### D. Accounts payable and accrued expenses

Accounts payable and accrued expenses are 8 percent vendors, 9 percent contracts, 52 percent salaries, and 31 percent accrued expenses.

# PUBLIC SCHOOLS OF PETOSKEY

## NOTES TO THE FINANCIAL STATEMENTS

### E. Interfund receivables, payables and transfers

The District reports interfund balances between certain funds. These interfund balances resulted primarily from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. As of June 30, 2011, there were no outstanding interfund receivables or payables.

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

For the year ended June 30, 2011, the District's Sinking Capital Project Fund transferred \$132,853 to the Debt Service Fund.

### F. Long-Term Debt

Long-term debt of the District consists of the following:

	<u>Balance July 1, 2010</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance June 30, 2011</u>	<u>Due Within One Year</u>
<b>Bonds payable</b>					
General obligation	\$ 17,540,000	\$ -	\$ (1,685,000)	\$ 15,855,000	\$ 1,735,000
Durant resolution	<u>31,172</u>	<u>-</u>	<u>(9,912)</u>	<u>21,260</u>	<u>10,383</u>
<b>Total bonds payable</b>	<b><u>17,571,172</u></b>	<b><u>-</u></b>	<b><u>(1,694,912)</u></b>	<b><u>15,876,260</u></b>	<b><u>1,745,383</u></b>
<b>Other liabilities</b>					
Land contracts	1,038,761	-	(82,795)	955,966	87,031
Early retirement incentives	351,838	-	(216,488)	135,350	135,348
Compensated absences	<u>562,953</u>	<u>7,168</u>	<u>-</u>	<u>570,121</u>	<u>5,284</u>
<b>Total other liabilities</b>	<b><u>1,953,552</u></b>	<b><u>7,168</u></b>	<b><u>(299,283)</u></b>	<b><u>1,661,437</u></b>	<b><u>227,663</u></b>
<b>Total long-term liabilities</b>	<b><u>\$ 19,524,724</u></b>	<b><u>\$ 7,168</u></b>	<b><u>\$ (1,994,195)</u></b>	<b><u>\$ 17,537,697</u></b>	<b><u>\$ 1,973,046</u></b>

# PUBLIC SCHOOLS OF PETOSKEY

## NOTES TO THE FINANCIAL STATEMENTS

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Long-term debt at June 30, 2011, includes the following:

### General Obligation Bonds

2005 refunding bonds due in annual installments ranging from \$1,685,000 to \$2,125,000 with interest ranging from 3.50% to 5.00%; final payment due May 2019. \$ 15,855,000

### Durant Resolution Bond

1998 series, school improvement bonds due in annual installments ranging from \$9,912 to \$10,877 with interest charged at 4.76%. These bonds are self-liquidating. The principal and interest is payable solely through annual appropriations by the State of Michigan. If the legislature fails to appropriate the funds, the District is under no obligation for payment. Final payment is due May 15, 2013. 21,260

**Total bonds** **15,876,260**

### Other Liabilities

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 1, 2022. 545,038

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 15, 2019. 410,928

Early retirement incentives 135,350

Compensated absences 570,121

**Total long-term debt** **\$ 17,537,697**

# PUBLIC SCHOOLS OF PETOSKEY

## NOTES TO THE FINANCIAL STATEMENTS

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### Debt service requirements

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,967,762	\$ 754,834	\$ 2,722,596
2013	1,927,361	663,137	2,590,498
2014	1,976,165	594,064	2,570,229
2015	2,071,085	495,145	2,566,230
2016	2,176,257	391,473	2,567,730
2017-2021	6,810,834	578,521	7,389,355
2022	<u>38,112</u>	<u>638</u>	<u>38,750</u>
<b>Total</b>	<b><u>\$ 16,967,576</u></b>	<b><u>\$ 3,477,812</u></b>	<b><u>\$ 20,445,388</u></b>

Interest and paying agent fees paid were \$819,660 for the year ended June 30, 2011.

Compensated absences are generally liquidated by the General Fund.

## IV. OTHER INFORMATION

### A. Risk management

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

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

### B. 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

# PUBLIC SCHOOLS OF PETOSKEY

## NOTES TO THE FINANCIAL STATEMENTS

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Fund of the applicable County. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year-end, if any.

### C. Defined benefit pension plan

#### Plan Description

The District contributes to the Michigan Public School Employees Retirement System (“MPERS”), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides survivor and disability benefits, to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report can be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, PO Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

#### Funding Policy

Member contribution rates vary based on date of hire and certain voluntary elections. Member Investment Plan (“MIP”) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.90% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rates: 3.00% of the first \$5,000; 3.60% of \$5,001 through \$15,000; 4.30% of all wages over \$15,000. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3.00% of the first \$5,000; 3.60% of \$5,001 through \$15,000; 6.40% of all wages over \$15,000. Basic Plan members make no contributions. Members first enrolled on or after July 1, 2010 are enrolled in the Pension Plus Plan which contains a defined contribution component. Member contributions are matched at a rate of 50% by the employer, up to a maximum of one percent of gross wages. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rates for the year ended June 30, 2011 as a percentage of payroll ranged from 16.94% to 20.66% for MIP members and 15.44% to 19.16% for Pension Plus members. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District’s contributions to MPERS under all retirement plans for the years ended June 30, 2011, 2010, and 2009, were \$3,473,860, \$2,605,638, and \$2,707,543 respectively, equal to the required contributions for each year.

# PUBLIC SCHOOLS OF PETOSKEY

## NOTES TO THE FINANCIAL STATEMENTS

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### **Other Postemployment Benefits**

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.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

### **D. 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.

### **E. Commitments and contingencies**

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. 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, 2011.

During fiscal year 2011, the District had entered into a construction contract amounting to approximately \$2,000,000. The contract is for renovations to the middle school auditorium. As of June 30, 2011, approximately \$640,000 was recorded as construction-in-progress related to these projects.

# PUBLIC SCHOOLS OF PETOSKEY

## NOTES TO THE FINANCIAL STATEMENTS

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### F. Net assets invested in capital assets, net of related debt

The composition of net assets invested in capital assets, net of related debt as of June 30, 2011, was as follows:

Capital assets, not being depreciated	\$ 4,112,281
Capital assets, net of depreciation	42,393,488
Noncurrent liabilities	
Due within one year	(1,973,046)
Due in more than one year	(15,564,651)
Add back: early retirement incentives	135,350
Add back: Durant bonds	21,260
Add back: compensated absences	<u>570,121</u>
	<b><u>\$ 29,694,803</u></b>

### G. Restatement

The District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the current year. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The District's beginning General Fund fund balance was restated by an increase of \$92,691, with a corresponding decrease to the District's Nonmajor Governmental Funds beginning fund balance, due to the elimination of the Athletic Fund which is now combined with the General Fund.

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

**PUBLIC SCHOOLS OF PETOSKEY**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS**

**JUNE 30, 2011**

	<b>Special Revenue Fund</b>	<b>Capital Project Funds</b>	<b>Total Nonmajor Governmental Funds</b>	
	<b>Food Service</b>	<b>Roof Repair</b>	<b>Building and Site</b>	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 43,937	\$ 13,702	\$ 731,694	\$ 789,333
Inventory	101,769	-	-	101,769
<b>Total assets</b>	<b>\$ 145,706</b>	<b>\$ 13,702</b>	<b>\$ 731,694</b>	<b>\$ 891,102</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 39,764	\$ -	\$ -	\$ 39,764
Deferred revenue	1,234	-	-	1,234
<b>Total liabilities</b>	<b>40,998</b>	<b>-</b>	<b>-</b>	<b>40,998</b>
<b>Fund balances</b>				
Non-spendable - inventory	101,769	-	-	101,769
Assigned - capital outlay	2,939	13,702	731,694	748,335
<b>Total fund balances</b>	<b>104,708</b>	<b>13,702</b>	<b>731,694</b>	<b>850,104</b>
<b>Total liabilities and fund balances</b>	<b>\$ 145,706</b>	<b>\$ 13,702</b>	<b>\$ 731,694</b>	<b>\$ 891,102</b>

**PUBLIC SCHOOLS OF PETOSKEY**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Special Revenue Fund</u>	<u>Capital Project Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service</u>	<u>Roof Repair</u>	<u>Building and Site</u>	
<b>Revenues</b>				
Local sources				
Charges for services	\$ 387,207	\$ -	\$ -	\$ 387,207
Rent income	-	-	39,770	39,770
Interest	708	85	4,153	4,946
State sources	55,555	-	-	55,555
Federal sources	582,112	-	-	582,112
<b>Total revenues</b>	<b>1,025,582</b>	<b>85</b>	<b>43,923</b>	<b>1,069,590</b>
<b>Expenditures</b>				
Current				
Food services	992,625	-	-	992,625
Capital outlay	-	-	81,934	81,934
<b>Total expenditures</b>	<b>992,625</b>	<b>-</b>	<b>81,934</b>	<b>1,074,559</b>
<b>Revenues over (under) expenditures</b>	<b>32,957</b>	<b>85</b>	<b>(38,011)</b>	<b>(4,969)</b>
<b>Other financing sources</b>				
Proceeds from sale of capital assets	-	-	198,911	198,911
<b>Net change in fund balances</b>	<b>32,957</b>	<b>85</b>	<b>160,900</b>	<b>193,942</b>
Fund balances, beginning of year	71,751	13,617	570,794	656,162
<b>Fund balances, end of year</b>	<b>\$ 104,708</b>	<b>\$ 13,702</b>	<b>\$ 731,694</b>	<b>\$ 850,104</b>

**PUBLIC SCHOOLS OF PETOSKEY**

**BALANCE SHEET  
GENERAL FUND**

**JUNE 30, 2011  
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2010)**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 610,841	\$ 424,486
Investments	4,105,071	4,881,010
Accounts receivable	46,162	3,156
Due from other governmental units	1,419,407	805,323
Other assets	182,013	203,045
<b>Total assets</b>	<b>\$ 6,363,494</b>	<b>\$ 6,317,020</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 262,871	\$ 332,344
Salaries payable	1,890,738	2,005,458
Accrued expenses	989,444	917,775
Deferred revenue	343,888	397,869
<b>Total liabilities</b>	<b>3,486,941</b>	<b>3,653,446</b>
<b>Fund balance</b>		
Non-spendable		
Inventory	15,306	21,898
Prepaid items	46,707	11,147
Real-estate held for sale	120,000	170,000
Assigned		
Athletics	91,947	92,690
Subsequent year expenditures	2,404,265	2,367,839
Unassigned	198,328	-
<b>Total fund balance</b>	<b>2,876,553</b>	<b>2,663,574</b>
<b>Total liabilities and fund balance</b>	<b>\$ 6,363,494</b>	<b>\$ 6,317,020</b>

**PUBLIC SCHOOLS OF PETOSKEY**

**SCHEDULE OF REVENUES  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)**

	<u>2011</u>	<u>2010</u>
<b>Revenues</b>		
<b>Local Sources</b>		
Property taxes	\$ 14,772,141	\$ 15,770,556
Payment in lieu of taxes	485,044	1,151,696
Charges for services	122,118	52,082
Tuition	26,088	27,587
Interest	11,084	19,344
Athletics	248,069	193,537
Other local sources	<u>119,683</u>	<u>173,061</u>
<b>Total local sources</b>	<b><u>15,784,227</u></b>	<b><u>17,387,863</u></b>
<b>State sources</b>		
State school aid - LEA pupil deduct	(491,963)	-
State school aid - Headlee	5,829,864	4,273,592
State school aid - Prior year adjustments	164,195	43,244
State school aid - Special Education Headlee Obligation	739,511	785,042
State school aid - restricted grants	62,417	-
State school aid - other unrestricted grants	23,288	14,924
At-risk	<u>441,126</u>	<u>498,992</u>
<b>Total state sources</b>	<b><u>6,768,438</u></b>	<b><u>5,615,794</u></b>
<b>Federal sources</b>		
American Recovery and Reinvestment Act	442,194	907,646
Title I	359,288	359,728
Title II	63,669	102,678
Title IX	49,745	53,766
Other	<u>25,582</u>	<u>24,988</u>
<b>Total federal sources</b>	<b><u>940,478</u></b>	<b><u>1,448,806</u></b>
<b>Interdistrict sources</b>		
Vocational education - millage	487,443	948,199
Vocational education - added cost	102,137	83,791
Expense reimbursements	<u>1,092,378</u>	<u>978,574</u>
<b>Total interdistrict sources</b>	<b><u>1,681,958</u></b>	<b><u>2,010,564</u></b>
<b>Total revenues</b>	<b><u>\$ 25,175,101</u></b>	<b><u>\$ 26,463,027</u></b>

**PUBLIC SCHOOLS OF PETOSKEY**  
**SCHEDULE OF OPERATING EXPENDITURES**  
**GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2011**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)**

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies, Materials and Other Expenses</u>	<u>Capital Outlay</u>
<b>Instruction</b>					
<b>Basic programs</b>					
Elementary	\$ 3,578,127	\$ 2,132,317	\$ 148,913	\$ 117,132	\$ -
Middle school	1,908,993	1,102,605	66,043	21,246	-
High School	2,343,963	1,331,308	162,907	53,761	-
Summer school	5,592	1,428	2,370	60	-
<b>Total basic programs</b>	<b>7,836,675</b>	<b>4,567,658</b>	<b>380,233</b>	<b>192,199</b>	<b>-</b>
<b>Added needs</b>					
Special education	1,256,808	704,617	124,003	3,093	-
Compensatory education	290,411	192,086	309,989	28,683	-
Vocational education	587,985	317,497	52,956	216,354	-
<b>Total added needs</b>	<b>2,135,204</b>	<b>1,214,200</b>	<b>486,948</b>	<b>248,130</b>	<b>-</b>
<b>Total instruction</b>	<b>9,971,879</b>	<b>5,781,858</b>	<b>867,181</b>	<b>440,329</b>	<b>-</b>
<b>Supporting services</b>					
<b>Pupil services</b>					
Guidance services	361,443	189,889	-	7,153	-
Health services	-	-	150,060	93	-
Other	14,813	4,206	55,639	-	-
<b>Total pupil services</b>	<b>376,256</b>	<b>194,095</b>	<b>205,699</b>	<b>7,246</b>	<b>-</b>
<b>Instructional staff services</b>					
Improvement of instruction	1,400	396	40,532	13,641	-
Library	119,541	87,603	61,693	25,895	-
Technology assisted instruction	118,922	51,558	871	18,708	-
Supervision	122,080	56,560	1,618	3,603	-
Academic student assessment	-	-	-	29,064	-
<b>Total instructional staff services</b>	<b>361,943</b>	<b>196,117</b>	<b>104,714</b>	<b>90,911</b>	<b>-</b>

<b>Total</b>	
<b>2011</b>	<b>2010</b>
\$ 5,976,489	\$ 6,052,031
3,098,887	3,169,362
3,891,939	3,772,198
9,450	28,747
<b>12,976,765</b>	<b>13,022,338</b>
2,088,521	2,197,472
821,169	820,470
1,174,792	1,531,624
<b>4,084,482</b>	<b>4,549,566</b>
<b>17,061,247</b>	<b>17,571,904</b>
558,485	539,072
150,153	169,554
74,658	78,855
<b>783,296</b>	<b>787,481</b>
55,969	83,362
294,732	323,849
190,059	206,209
183,861	203,460
29,064	31,890
<b>753,685</b>	<b>848,770</b>

Continued...

**PUBLIC SCHOOLS OF PETOSKEY**  
**SCHEDULE OF OPERATING EXPENDITURES**  
**GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2011**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)**

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies, Materials and Other Expenses</u>	<u>Capital Outlay</u>
<b>General administration</b>					
Board of education	\$ -	\$ -	\$ 43,658	\$ 1,956	\$ -
Executive administration	177,856	87,022	116,673	8,868	-
<b>Total general administration</b>	<u>177,856</u>	<u>87,022</u>	<u>160,331</u>	<u>10,824</u>	<u>-</u>
<b>School administration</b>					
Office of the principal	<u>616,949</u>	<u>396,887</u>	<u>403,004</u>	<u>26,649</u>	<u>-</u>
<b>Business services</b>					
Fiscal services	<u>224,994</u>	<u>137,740</u>	<u>16,520</u>	<u>240,464</u>	<u>-</u>
<b>Transportation</b>	<u>-</u>	<u>-</u>	<u>1,112,013</u>	<u>-</u>	<u>-</u>
<b>Operations and maintenance</b>	<u>355,346</u>	<u>261,923</u>	<u>722,868</u>	<u>635,723</u>	<u>52,180</u>
<b>Support services - central</b>	<u>30,637</u>	<u>16,528</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Security services</b>	<u>-</u>	<u>-</u>	<u>52,909</u>	<u>-</u>	<u>-</u>
<b>Athletic activities</b>	<u>104,085</u>	<u>29,200</u>	<u>343,749</u>	<u>72,114</u>	<u>50,131</u>
<b>Total supporting services</b>	<u>2,248,066</u>	<u>1,319,512</u>	<u>3,121,807</u>	<u>1,083,931</u>	<u>102,311</u>
<b>Community services</b>					
Community services direction	3,591	2,893	4,705	7,773	-
Non-public school pupils	-	-	2,959	3,327	-
<b>Total community services</b>	<u>3,591</u>	<u>2,893</u>	<u>7,664</u>	<u>11,100</u>	<u>-</u>
<b>Total operating expenditures</b>	<u>\$ 12,223,536</u>	<u>\$ 7,104,263</u>	<u>\$ 3,996,652</u>	<u>\$ 1,535,360</u>	<u>\$ 102,311</u>



<b>Total</b>	
<b>2011</b>	<b>2010</b>
\$ 45,614	\$ 128,017
390,419	413,934
<b>436,033</b>	<b>541,951</b>
<b>1,443,489</b>	<b>1,550,446</b>
<b>619,718</b>	<b>488,928</b>
<b>1,112,013</b>	<b>1,082,424</b>
<b>2,028,040</b>	<b>1,954,950</b>
<b>47,165</b>	<b>-</b>
<b>52,909</b>	<b>51,892</b>
<b>599,279</b>	<b>600,604</b>
<b>7,875,627</b>	<b>7,907,446</b>
18,962	19,135
6,286	19,458
<b>25,248</b>	<b>38,593</b>
<b>\$ 24,962,122</b>	<b>\$ 25,517,943</b>

Concluded

**PUBLIC SCHOOLS OF PETOSKEY**  
**BALANCE SHEET**  
**FOOD SERVICE SPECIAL REVENUE FUND**

**JUNE 30, 2011**  
**(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2010)**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 43,937	\$ 23,385
Accounts receivable	-	25,000
Inventory	101,769	92,078
<b>Total assets</b>	<b>\$ 145,706</b>	<b>\$ 140,463</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities</b>		
Accounts payable	\$ 39,764	\$ 65,052
Deferred revenue	1,234	3,660
<b>Total liabilities</b>	<b>40,998</b>	<b>68,712</b>
<b>Fund balances</b>		
Non-spendable - inventory	101,769	92,078
Assigned - capital outlay	2,939	-
Unassigned (deficit)	-	(20,327)
<b>Total fund balances</b>	<b>104,708</b>	<b>71,751</b>
<b>Total liabilities and fund balances</b>	<b>\$ 145,706</b>	<b>\$ 140,463</b>

**PUBLIC SCHOOLS OF PETOSKEY**

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOOD SERVICE SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)**

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	<u>2011</u>	<u>2010</u>
<b>Revenues</b>		
Local sources		
Lunch sales	\$ 212,606	\$ 245,697
Breakfast sales	10,954	10,490
Ala carte sales	163,647	203,854
State sources	55,555	64,064
Federal sources	582,112	529,445
Interest income	708	542
	<u>1,025,582</u>	<u>1,054,092</u>
<b>Total revenues</b>	<b>1,025,582</b>	<b>1,054,092</b>
<b>Expenditures</b>		
Salaries	61,774	53,646
Employee benefits	50,570	54,986
Purchased services	400,943	402,900
Supplies, materials and other expenditures	78,243	102,951
Food costs	401,095	385,401
	<u>992,625</u>	<u>999,884</u>
<b>Total expenditures</b>	<b>992,625</b>	<b>999,884</b>
<b>Net change in fund balances</b>	<b>32,957</b>	<b>54,208</b>
Fund balances, beginning of year	71,751	17,543
	<u>71,751</u>	<u>17,543</u>
<b>Fund balances, end of year</b>	<b>\$ 104,708</b>	<b>\$ 71,751</b>

**PUBLIC SCHOOLS OF PETOSKEY**

**COMBINING BALANCE SHEET  
CAPITAL PROJECT FUNDS**

**JUNE 30, 2011  
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2010)**

	<u>Sinking Fund</u>	<u>Roof Repair</u>	<u>Building and Site</u>	<u>Total</u>	
				2011	2010
<b>Assets</b>					
Cash and cash equivalents	\$ 3,530,779	\$ 13,702	\$ 731,694	\$ 4,276,175	\$ 3,289,884
Investments	214,875	-	-	214,875	214,726
Due from other governmental units	-	-	-	-	6,327
<b>Total assets</b>	<b>\$ 3,745,654</b>	<b>\$ 13,702</b>	<b>\$ 731,694</b>	<b>\$ 4,491,050</b>	<b>\$ 3,510,937</b>
 <b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Contracts payable	\$ 343,527	\$ -	\$ -	\$ 343,527	\$ 432,792
<b>Fund balances</b>					
Restricted - capital outlay	3,402,127	-	-	3,402,127	2,493,734
Assigned - capital outlay	-	13,702	731,694	745,396	584,411
<b>Total fund balances</b>	<b>3,402,127</b>	<b>13,702</b>	<b>731,694</b>	<b>4,147,523</b>	<b>3,078,145</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,745,654</b>	<b>\$ 13,702</b>	<b>\$ 731,694</b>	<b>\$ 4,491,050</b>	<b>\$ 3,510,937</b>

**PUBLIC SCHOOLS OF PETOSKEY**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
CAPITAL PROJECT FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)**

	<u>Sinking Fund</u>	<u>Roof Repair</u>	<u>Building and Site</u>	<u>Total 2011</u>	<u>Total 2010</u>
<b>Revenues</b>					
Property taxes	\$ 1,842,610	\$ -	\$ -	\$ 1,842,610	\$ 1,946,461
Rent income	-	-	39,770	39,770	25,022
Interest	18,660	85	4,153	22,898	24,172
<b>Total revenues</b>	<b>1,861,270</b>	<b>85</b>	<b>43,923</b>	<b>1,905,278</b>	<b>1,995,655</b>
<b>Expenditures</b>					
Capital outlay	806,370	-	81,934	888,304	1,878,316
Other	13,654	-	-	13,654	7,519
<b>Total expenditures</b>	<b>820,024</b>	<b>-</b>	<b>81,934</b>	<b>901,958</b>	<b>1,885,835</b>
<b>Revenues over (under) expenditures</b>	<b>1,041,246</b>	<b>85</b>	<b>(38,011)</b>	<b>1,003,320</b>	<b>109,820</b>
<b>Other financing (uses) sources</b>					
Proceeds from sale of capital assets	-	-	198,911	198,911	-
Transfers out	(132,853)	-	-	(132,853)	(132,854)
<b>Total other financing (uses) sources</b>	<b>(132,853)</b>	<b>-</b>	<b>198,911</b>	<b>66,058</b>	<b>(132,854)</b>
<b>Net change in fund balances</b>	<b>908,393</b>	<b>85</b>	<b>160,900</b>	<b>1,069,378</b>	<b>(23,034)</b>
Fund balances, beginning of year	2,493,734	13,617	570,794	3,078,145	3,101,179
<b>Fund balances, end of year</b>	<b>\$ 3,402,127</b>	<b>\$ 13,702</b>	<b>\$ 731,694</b>	<b>\$ 4,147,523</b>	<b>\$ 3,078,145</b>

**PUBLIC SCHOOLS OF PETOSKEY**

**COMBINING SCHEDULE OF DEBT SERVICE BALANCES -  
DEBT SERVICE FUND**

**JUNE 30, 2011  
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2010)**

	<u>2005 Refunding Bonds</u>	<u>Foster Land Contract</u>	<u>Veurink Land Contract</u>	<u>Durant Settlement</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 317,045	\$ -	\$ -	\$ -
Investments	53,778	-	-	-
Due from other governmental units	-	-	-	21,260
<b>Total assets</b>	<b><u>\$ 370,823</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 21,260</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	21,260
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,260</b>
<b>Fund balances</b>				
Restricted - debt service	370,823	-	-	-
<b>Total liabilities and fund balances</b>	<b><u>\$ 370,823</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 21,260</u></b>

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

<b>Total</b>	
<b>2011</b>	<b>2010</b>
\$ 317,045	\$ 325,585
53,778	53,728
<u>21,260</u>	<u>39,564</u>
<b><u>\$ 392,083</u></b>	<b><u>\$ 418,877</u></b>
\$ -	\$ 1,749
<u>21,260</u>	<u>31,172</u>
<b>21,260</b>	<b>32,921</b>
<u>370,823</u>	<u>385,956</u>
<b><u>\$ 392,083</u></b>	<b><u>\$ 418,877</u></b>

**PUBLIC SCHOOLS OF PETOSKEY**

**COMBINING SCHEDULE OF DEBT SERVICE ACTIVITIES  
AND CHANGES IN FUND BALANCES  
DEBT SERVICE FUND**

**FOR THE YEAR ENDED JUNE 30, 2011  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010)**

	<b>2005 Refunding Bonds</b>	<b>Foster Land Contract</b>	<b>Veurink Land Contract</b>	<b>Durant Settlement</b>
<b>Revenues</b>				
Local sources				
Property taxes	\$ 2,446,822	\$ -	\$ -	\$ -
State sources	-	-	-	11,396
Interest income	5,486	-	-	-
Other	743	-	-	-
<b>Total revenues</b>	<b>2,453,051</b>	<b>-</b>	<b>-</b>	<b>11,396</b>
<b>Expenditures</b>				
Principal	1,685,000	44,661	38,134	9,912
Interest	766,975	21,765	28,293	1,484
Other	16,209	-	-	-
<b>Total expenditures</b>	<b>2,468,184</b>	<b>66,426</b>	<b>66,427</b>	<b>11,396</b>
<b>Revenues under expenditures</b>	<b>(15,133)</b>	<b>(66,426)</b>	<b>(66,427)</b>	<b>-</b>
<b>Other financing sources</b>				
Transfers in	-	66,426	66,427	-
<b>Net change in fund balances</b>	<b>(15,133)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund balances, beginning of year	385,956	-	-	-
<b>Fund balances, end of year</b>	<b>\$ 370,823</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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



<b>Total</b>	
<b>2011</b>	<b>2010</b>
\$ 2,446,822	\$ 2,583,925
11,396	11,396
5,486	7,341
743	-
<b>2,464,447</b>	<b>2,602,662</b>
1,777,707	1,718,227
818,517	879,753
16,209	10,352
<b>2,612,433</b>	<b>2,608,332</b>
<b>(147,986)</b>	<b>(5,670)</b>
132,853	132,854
<b>(15,133)</b>	<b>127,184</b>
385,956	258,772
<b>\$ 370,823</b>	<b>\$ 385,956</b>

**PUBLIC SCHOOLS OF PETOSKEY**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUND**

**FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Balances July 1, 2010</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Balances June 30, 2011</b>
<b>ASSETS</b>				
Cash	\$ 89,785	\$ 636,027	\$ 550,442	\$ 175,370
Investments	425,000	-	-	425,000
Accounts receivable	-	1,498	-	1,498
<b>Total assets</b>	<b>\$ 514,785</b>	<b>\$ 637,525</b>	<b>\$ 550,442</b>	<b>\$ 601,868</b>
<b>LIABILITIES</b>				
Due to student groups	\$ 176,886	\$ 408,258	\$ 390,179	\$ 194,965
Scholarships payable	255,412	39,341	35,298	259,455
Due to others	82,487	189,926	124,965	147,448
<b>Total liabilities</b>	<b>\$ 514,785</b>	<b>\$ 637,525</b>	<b>\$ 550,442</b>	<b>\$ 601,868</b>

The balances consist of the following:

**Deposits due to student groups**

Student groups				
6th Grade Club	\$ 1,919	\$ 26,979	\$ 27,463	\$ 1,435
7th Grade Club	1,704	15,616	15,493	1,827
8th Grade Fund	3,278	14,854	13,900	4,232
Middle School Art Club	1,176	-	11	1,165
Middle School Athletics	239	-	-	239
Middle School Ecology Club	384	2,086	1,798	672
Middle School Enrichment	5,742	1,954	2,374	5,322
Middle School Football	2,442	2,339	2,172	2,609
Middle School Photo Club	101	1,500	480	1,121
Middle School Student Council	1,796	2,196	2,313	1,679
Middle School Track	4,619	1,390	3,336	2,673
Middle School Volleyball	3,360	332	-	3,692
Middle School Yearbook	1,939	8,219	7,099	3,059
M.S. Youth In Government	-	4,460	3,040	1,420
Ottawa 4th Grade Field Trip	390	2,903	2,192	1,101
Ottawa 5th Grade Field Trip	1,292	3,990	3,880	1,402
Ottawa Field Trip Fund	2,051	5,271	4,139	3,183
Ottawa Learning Center	-	738	717	21
Sheridan 3rd Grade	5	2,762	2,250	517
Sheridan 4th Grade	656	830	825	661
Sheridan 5th Grade	129	20	90	59
Sheridan Student Council	172	503	631	44
Sheridan Garden Fund	109	-	-	109
Wrestling	-	4,500	-	4,500

Continued...

**PUBLIC SCHOOLS OF PETOSKEY**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUND**

**FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Balances July 1, 2010</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Balances June 30, 2011</b>
Builder's Club	\$ 380	\$ 1,182	1,062	\$ 500
Building Trades Fund	2	5,841	1,201	4,642
Business Club	307	-	35	272
Central 5th Grade	156	3,399	3,418	137
Central 3rd Grade	18	-	-	18
Central Library & Computer	439	4,011	4,098	352
Central School Fund	1,788	1,855	3,071	572
Central School Store	221	1,487	959	749
Graduated Classes	-	4,532	-	4,532
Class of 1991	96	947	109	934
Class of 1992	1,131	36	1,167	-
Class of 1993	8	-	8	-
Class of 1994	602	-	602	-
Class of 1995	81	-	81	-
Class of 1997	443	-	443	-
Class of 2007	1,882	-	1,882	-
Class of 2008	895	-	895	-
Class of 2009	1,342	-	1,342	-
Class of 2010	3,373	-	1,250	2,123
Class of 2011	3,599	7,850	8,806	2,643
Class of 2012	1,784	7,311	6,051	3,044
Class of 2013	1,317	528	811	1,034
DECA	57	12,042	10,611	1,488
Debate Club	3,372	2,222	1,591	4,003
Elementary Enrichment	1,840	4,325	5,149	1,016
Elementary Enrichment Play	7,734	8,845	7,175	9,404
Elementary Music Fund	623	1,995	2,021	597
FCCLA	(304)	3,415	2,227	884
FCCLA Region II	1	-	-	1
French Club	1,212	138	1,350	-
Future Farmers of America	2,001	844	1,111	1,734
Skateboarding Club	47	60	-	107
G Wing Productions	2,523	-	2,397	126
HOSA	1,248	40	1,150	138
High School Art Club	2,759	-	-	2,759
High School Spring Musical	1,079	8,325	6,876	2,528
High School Fall Play	1,177	2,620	2,842	955
High School Journalism	520	3,250	3,018	752
High School Learning Center	834	-	-	834
High School Fund	5,564	1,545	2,600	4,509
High School Steel Drum Band	-	26,250	26,250	-
High School Enrichment	1,515	10,212	9,745	1,982
High School Quiz Bowl Team	737	518	881	374
High School Student Council	1,212	19,210	19,371	1,051

Continued...

**PUBLIC SCHOOLS OF PETOSKEY**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUND**

**FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Balances July 1, 2010</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Balances June 30, 2011</b>
High School Vocal	\$ 85	\$ 1,100	\$ 1,000	\$ 185
High School Yearbook	854	21,895	22,443	306
Inward Bound Fund	653	-	653	-
Key Club	609	680	140	1,149
Lincoln School Fund	1,575	718	1,505	788
Middle School Enrichment Play	7,253	4,563	4,607	7,209
Middle School Book Fair	209	-	20	189
Middle School Fund	5,798	4,864	3,359	7,303
Middle School Store	49	2,590	2,488	151
Middle School Adventure Education	216	-	214	2
Middle School Washington DC Club	938	2,682	1,893	1,727
Middle School Dance	40	401	386	55
Middle School Boys Basketball	363	110	384	89
National Honor Society	1,124	676	579	1,221
Northmen Club	629	-	-	629
Ottawa Popcorn Sales	2,294	2,934	2,459	2,769
Ottawa School Fund	5,851	2,948	3,322	5,477
Petoskey High School Papermakers	2,625	1,714	1,646	2,693
Sheridan School	5,443	10,607	6,828	9,222
Spanish Club	151	60	-	211
World History Trip Fund	450	834	834	450
Athletic Hall Of Fame	547	1,149	844	852
Boys Golf	1,891	1,290	2,772	409
Communications Camp	2,384	-	-	2,384
Girls Basketball	1,493	3,795	3,110	2,178
Girls Golf	2,411	3,000	5,725	(314)
Boys Tennis	784	5,065	3,999	1,850
Girls Tennis	(8)	15,586	13,425	2,153
Girls Track	194	-	-	194
Dance	11	-	-	11
High School Baseball	196	-	-	196
High School Boys Soccer	3,125	1,425	3,127	1,423
High School Cross Country	8,434	5,648	6,625	7,457
Drafting	1,020	-	187	833
Robotics	-	3,277	3,369	(92)
Forensics	324	-	50	274
Middle School Girls Basketball	683	534	384	833
Middle School Greenhouse	131	-	58	73
Ottawa Boy's Group	199	900	724	375

Continued...

**PUBLIC SCHOOLS OF PETOSKEY**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUND**

**FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Balances July 1, 2010</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Balances June 30, 2011</b>
High School Football	\$ 45	\$ -	\$ -	\$ 45
High School Girls Soccer	4,307	1,001	2,886	2,422
H. S. Social Studies Club	108	-	82	26
High School Hockey	21,432	57,155	50,004	28,583
Indian Education - Unity Trip	269	200	189	280
Volleyball	579	580	-	1,159
<b>Total due to student groups</b>	<b>176,886</b>	<b>408,258</b>	<b>390,179</b>	<b>194,965</b>
<b>Scholarships payable</b>				
Doris Reber - Class of 1932 Scholarship	210,997	2,492	5,000	208,489
Robert Motely Memorial Fund	606	-	500	106
Henshaw Memorial Scholarship	4,339	50	-	4,389
Middle School Foundation Grant	7,753	8,000	7,633	8,120
McClutchey Memorial Scholarship	5,104	62	100	5,066
Midshipmen Scholarship	7,132	87	-	7,219
PEF Grants - ACT/SAT Seminar	168	1,198	1,366	-
PEF Grants - High School	1,000	6,050	5,952	1,098
PEF Grants - Lincoln	500	267	767	-
PEF Grants - Sheridan	-	1,964	1,964	-
PEF Grants - Central	-	2,135	2,135	-
PEF Grants - Ottawa	-	155	155	-
PEF Grants - Middle School	-	1,486	1,486	-
Vaughn Memorial Scholarship	17,086	200	300	16,986
Football Family Fund	-	7,100	6,900	200
Carol Hansen Memorial Fund	-	7,595	-	7,595
Wil Moyer Music Scholarship	727	500	1,040	187
<b>Total scholarships payable</b>	<b>255,412</b>	<b>39,341</b>	<b>35,298</b>	<b>259,455</b>
<b>Due to others</b>				
Central Gym Project	50	-	-	50
Central PTO	2,532	47,750	23,447	26,835
Eric Greyerbiehl Memorial Fund	2,262	70	300	2,032
Guidance Dept Testing	1,699	3,517	2,361	2,855
Kathy Robinson Memorial Fund	96	-	-	96
Lincoln PTO	2,804	39,844	35,429	7,219
Middle School Celebration Garden	517	-	-	517
Northmen Night	180	51,215	9,527	41,868
Ottawa PTO	898	-	959	(61)
Ottawa PTO Board Fund	30,133	30,269	32,987	27,415
Spitler Building Pop Fund	157	137	91	203
Student Reserve	40,299	5,418	11,851	33,866
Pay To Participate Donations	-	3,730	-	3,730
African Wells Fundraiser	-	6,914	6,914	-
Maintenance Fund	-	1,062	1,062	-
Athletic miscellaneous fundraisers	860	-	37	823
<b>Total due to others</b>	<b>82,487</b>	<b>189,926</b>	<b>124,965</b>	<b>147,448</b>
<b>Totals</b>	<b>\$ 514,785</b>	<b>\$ 637,525</b>	<b>\$ 550,442</b>	<b>\$ 601,868</b>

Concluded

**PUBLIC SCHOOLS OF PETOSKEY**

**SCHEDULE OF BOND INDEBTEDNESS**

**FOR THE YEAR ENDED JUNE 30, 2011**

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Purpose	2005 Refunding Bonds
Date of issue	May 27, 2005
Rate of interest	3.50% to 5.00%
Original obligation	\$ 21,370,000
Amount previously paid	<u>5,515,000</u>
Balance outstanding - June 30, 2011	<u><u>\$ 15,855,000</u></u>

<u>Fiscal Year</u>	<u>November 1, Interest</u>	<u>May 1, Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2011-2012	\$ 354,000	\$ 354,000	\$ 1,735,000	\$ 2,443,000
2012-2013	310,625	310,625	1,825,000	2,446,250
2013-2014	278,688	278,688	1,880,000	2,437,376
2014-2015	231,688	231,688	1,970,000	2,433,376
2015-2016	182,438	182,438	2,070,000	2,434,876
2016-2017	130,688	130,688	2,125,000	2,386,376
2017-2018	86,594	86,594	2,125,000	2,298,188
2018-2019	<u>43,563</u>	<u>43,563</u>	<u>2,125,000</u>	<u>2,212,126</u>
	<u><u>\$ 1,618,284</u></u>	<u><u>\$ 1,618,284</u></u>	<u><u>\$ 15,855,000</u></u>	<u><u>\$ 19,091,568</u></u>

Call Provision

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

Continued...

**PUBLIC SCHOOLS OF PETOSKEY**

**SCHEDULE OF BOND INDEBTEDNESS**

**FOR THE YEAR ENDED JUNE 30, 2011**

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Purpose	Durant Resolution Package Bonds
Date of issue	November 24, 1998
Rate of interest	4.76%
Original obligation	\$ 162,282
Amount previously paid	<u>141,022</u>
Balance outstanding - June 30, 2011	<u>\$ 21,260</u>

<u>Fiscal Year</u>	<u>May 15, Interest</u>	<u>May 15, Principal</u>	<u>Annual Requirements</u>
2011-2012	\$ 1,012	\$ 10,383	\$ 11,395
2012-2013	<u>518</u>	<u>10,877</u>	<u>11,395</u>
	<u>\$ 1,530</u>	<u>\$ 21,260</u>	<u>\$ 22,790</u>

Call provision This bond is not subject to redemption prior to maturity.

Continued...

**PUBLIC SCHOOLS OF PETOSKEY**  
**SCHEDULE OF OTHER INSTALLMENT DEBT**

**FOR THE YEAR ENDED JUNE 30, 2011**

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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>289,072</u>
Balance outstanding - June 30, 2011	<u>\$ 410,928</u>

<u>Fiscal Year</u>	<u>Interest</u>	<u>May 15, Principal</u>	<u>Annual Requirements</u>
2011-2012	\$ 19,480	\$ 46,946	\$ 66,426
2012-2013	17,078	49,348	66,426
2013-2014	14,554	51,873	66,427
2014-2015	11,900	54,527	66,427
2015-2016	9,110	57,317	66,427
2016-2017	6,178	60,249	66,427
2017-2018	3,095	63,332	66,427
2018-2019	343	27,336	27,679
	<u>\$ 81,738</u>	<u>\$ 410,928</u>	<u>\$ 492,666</u>

Continued...



**PUBLIC SCHOOLS OF PETOSKEY**  
**SCHEDULE OF OTHER INSTALLMENT DEBT**

**FOR THE YEAR ENDED JUNE 30, 2011**

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Purpose	Purchase of Veurink property on land contract.
Date of issue	December 22, 2006
Rate of interest	5.00%
Original obligation	\$ 700,000
Amount previously paid	<u>154,962</u>
Balance outstanding - June 30, 2011	<u>\$ 545,038</u>

<u>Fiscal Year</u>	<u>Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2011-2012	\$ 26,342	\$ 40,085	\$ 66,427
2012-2013	24,291	42,136	66,427
2013-2014	22,135	44,292	66,427
2014-2015	19,869	46,558	66,427
2015-2016	17,487	48,940	66,427
2016-2017	14,983	51,443	66,426
2017-2018	12,351	54,075	66,426
2018-2019	9,585	56,842	66,427
2019-2020	6,676	59,750	66,426
2020-2021	3,620	62,807	66,427
2021-2022	638	38,110	38,748
	<u>\$ 157,977</u>	<u>\$ 545,038</u>	<u>\$ 703,015</u>

Concluded

**OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)**

**PUBLIC SCHOOLS OF PETOSKEY**  
**PROPERTY TAX INFORMATION (UNAUDITED)**

**FOR THE YEAR ENDED JUNE 30, 2011**

<b>Taxing District</b>	<b>Tax Levy</b>	<b>Collections and Other Reductions</b>	<b>Delinquent Personal Property Taxes</b>	<b>Percentage of Current Year Levy Collected</b>
Bear Creek Township	\$ 5,460,100	\$ 5,457,537	\$ 2,563	99.95%
Littlefield Township	68,622	68,516	106	99.85%
Little Traverse Township	426,393	419,968	6,425	98.49%
Resort Township	3,535,202	3,533,017	2,185	99.94%
Springvale Township	835,595	835,538	57	99.99%
City of Petoskey	7,417,112	7,407,004	10,108	99.86%
Chandler Township	150,111	149,914	197	99.87%
Hayes Township	43,022	43,022	-	100.00%
Melrose Township	1,005,686	1,004,651	1,035	99.90%
<b>Total</b>	<b><u>\$ 18,941,843</u></b>	<b><u>\$ 18,919,167</u></b>	<b><u>\$ 22,676</u></b>	99.88%
<b>Allocated as follows</b>				
General Fund	\$ 14,661,243	\$ 14,641,592	\$ 19,651	99.87%
Debt Service Funds	2,442,017	2,440,891	1,126	99.95%
Capital Projects Fund	1,838,583	1,836,684	1,899	99.90%
<b>Total allocated to all funds</b>	<b><u>\$ 18,941,843</u></b>	<b><u>\$ 18,919,167</u></b>	<b><u>\$ 22,676</u></b>	99.88%

**PUBLIC SCHOOLS OF PETOSKEY**

**TEN-YEAR SUMMARY OF ENROLLMENT (UNAUDITED)**

**FOR THE YEAR ENDED JUNE 30, 2011**

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<b>Year</b>	<b>Special Education</b>	<b>Elementary School</b>	<b>Middle School</b>	<b>High School</b>	<b>Total</b>	<b>Non-Resident</b>	<b>Resident</b>
2002	49.59	1,240.31	719.32	1,065.06	3,074.28	260.00	2,814.28
2003	67.10	1,265.09	693.36	1,057.77	3,083.32	270.00	2,813.32
2004	79.38	1,240.37	712.35	1,062.48	3,094.58	287.00	2,807.58
2005	73.51	1,271.12	692.69	1,037.45	3,074.77	300.51	2,774.26
2006	75.71	1,261.31	699.92	1,050.16	3,087.10	324.00	2,763.10
2007	76.17	1,243.99	659.59	1,026.97	3,006.72	341.28	2,665.44
2008	73.36	1,224.31	669.43	1,020.37	2,987.47	342.02	2,645.45
2009	75.90	1,245.78	669.48	983.71	2,974.87	349.99	2,624.88
2010	68.28	1,218.29	651.32	994.25	2,932.14	366.91	2,565.23
2011	63.07	1,206.77	637.08	980.06	2,886.98	356.05	2,530.93

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)**

Year	Expenditures and Transfers*	Enrollment	Expenditures Per Pupil
2002	\$ 21,642,904	3,074.28	\$ 7,040
2003	22,412,914	3,083.32	7,269
2004	23,051,973	3,094.58	7,449
2005	24,942,607	3,074.77	8,112
2006	23,785,212	3,087.10	7,705
2007	24,725,450	3,006.72	8,223
2008	24,959,034	2,987.47	8,355
2009	25,666,499	2,974.87	8,628
2010	25,517,943	2,932.14	8,703
2011	24,962,122	2,886.98	8,646

\* General Fund expenditures and transfers only.

## **SINGLE AUDIT ACT COMPLIANCE**

**PUBLIC SCHOOLS OF PETOSKEY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	CFDA Number	Approved Grant Award Amount	Accrued Revenue July 1, 2010
<b>U.S. Department of Education</b>			
<b>Indian Education</b>			
09/10	84.060A	\$ 53,766	\$ 6,947
10/11	84.060A	58,260	-
<b>Total Indian Education</b>		<b>112,026</b>	<b>6,947</b>
<b>Passed Through the Michigan Department of Education</b>			
<b>Title I, Part A Cluster</b>			
<b>ECIA Title I</b>			
101530-0910 Regular	84.010	355,432	22,095
111530-1011 Regular	84.010	379,086	-
<b>Total ECIA Title I</b>		<b>734,518</b>	<b>22,095</b>
<b>ARRA Title I</b>			
101535-0910 Regular	84.389	196,353	3,710
111535-1011 Regular	84.389	103,560	-
<b>Total ARRA Title I</b>		<b>299,913</b>	<b>3,710</b>
<b>Title IIA - Improving Teacher Quality</b>			
100520-0910 Regular	84.367	106,643	7,423
111520-1011 Regular	84.367	110,840	-
<b>Total Title IIA</b>		<b>217,483</b>	<b>7,423</b>
<b>Title II D - Enhancing Education Through Technology</b>			
ARRA - Title II-D 104295-0910	84.386A	7,222	28
ARRA - Title II-D 114295-1011	84.386A	7,053	-
<b>Total Title IID</b>		<b>14,275</b>	<b>28</b>
<b>State Fiscal Stabilization Fund Cluster</b>			
<b>ARRA - State Fiscal Stabilization Fund</b>			
102525-0910	84.394	833,345	-
112525-1011	84.394	341,042	-
<b>Total ARRA State Fiscal Stabilization Fund</b>		<b>1,174,387</b>	<b>-</b>
<b>Total Passed Through Michigan Department of Education</b>		<b>2,440,576</b>	<b>33,256</b>

<b>(Memo Only) Prior Year Expenditures</b>	<b>Current Year Expenditures</b>	<b>Current Year Receipts Cash Basis</b>	<b>Accrued Revenue June 30, 2011</b>
\$ 53,766	\$ -	\$ 6,947	\$ -
-	49,745	48,396	1,349
<b>53,766</b>	<b>49,745</b>	<b>55,343</b>	<b>1,349</b>
323,141	23,736	45,831	-
-	335,553	224,284	111,269
<b>323,141</b>	<b>359,289</b>	<b>270,115</b>	<b>111,269</b>
74,185	18,608	22,318	-
-	75,478	38,364	37,114
<b>74,185</b>	<b>94,086</b>	<b>60,682</b>	<b>37,114</b>
93,784	10,726	18,149	-
-	52,943	43,866	9,077
<b>93,784</b>	<b>63,669</b>	<b>62,015</b>	<b>9,077</b>
116	53	81	-
-	7,013	103	6,910
<b>116</b>	<b>7,066</b>	<b>184</b>	<b>6,910</b>
833,345	-	-	-
-	341,042	341,042	-
<b>833,345</b>	<b>341,042</b>	<b>341,042</b>	<b>-</b>
<b>1,324,571</b>	<b>865,152</b>	<b>734,038</b>	<b>164,370</b>

Continued...



**PUBLIC SCHOOLS OF PETOSKEY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2011**

<b>Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number</b>	<b>CFDA Number</b>	<b>Approved Grant Award Amount</b>	<b>Accrued Revenue July 1, 2010</b>
<b>U.S. Department of Education (concluded)</b>			
<b>Passed Through ISD</b>			
<b>Vocational Education Secondary CTE Perkins</b>			
103520-0910	84.048A	\$ 10,043	\$ -
113520-1011	84.048A	9,224	-
<b>Total Perkins</b>		<b>19,267</b>	<b>-</b>
<b>Tech-Prep Education</b>			
103540/10145 -0910	84.243A	500	
103540/10145 -1011	84.243A	8,980	
<b>Total Tech-Prep Education</b>		<b>9,480</b>	<b>-</b>
<b>Homeless Children and Youths</b>			
0910	84.186	939	-
1011	84.186	93	-
<b>Total Homeless Children and Youths</b>		<b>1,032</b>	<b>-</b>
<b>Medicaid Cluster</b>			
<b>Medicaid Outreach</b>			
0910 Regular	93.778	5,440	-
1011 Regular	93.778	7,285	-
<b>Total Medicaid Outreach</b>		<b>12,725</b>	<b>-</b>
<b>Total Passed Through ISD</b>		<b>42,504</b>	<b>-</b>
<b>Total U.S. Department of Education</b>		<b>2,595,106</b>	<b>40,203</b>

<b>(Memo Only) Prior Year Expenditures</b>	<b>Current Year Expenditures</b>	<b>Current Year Receipts (Cash Basis)</b>	<b>Accrued Revenue June 30, 2011</b>
\$ 10,043	\$ -	\$ -	\$ -
-	9,224	9,224	-
<b>10,043</b>	<b>9,224</b>	<b>9,224</b>	<b>-</b>
500	-	-	-
-	8,980	8,980	-
<b>500</b>	<b>8,980</b>	<b>8,980</b>	<b>-</b>
939	-	-	-
-	93	93	-
<b>939</b>	<b>93</b>	<b>93</b>	<b>-</b>
5,440	-	-	-
-	7,285	7,285	-
<b>5,440</b>	<b>7,285</b>	<b>7,285</b>	<b>-</b>
<b>16,922</b>	<b>25,582</b>	<b>25,582</b>	<b>-</b>
<b>1,395,259</b>	<b>940,479</b>	<b>814,963</b>	<b>165,719</b>

Continued...

**PUBLIC SCHOOLS OF PETOSKEY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	CFDA Number	Approved Grant Award Amount	Accrued Revenue July 1, 2010
<b>U.S. Department of Agriculture</b>			
<b>Passed through Michigan Department of Education</b>			
<b>Child Nutrition Cluster</b>			
<b>Non-cash assistance - Commodities</b>			
Entitlement Commodities	10.555	\$ 59,852	\$ -
Bonus Commodities	10.555	3,693	-
<b>Total Commodities</b>		<b>63,545</b>	<b>-</b>
<b>National School Lunch - Breakfast</b>			
101970	10.553	91,933	-
111970	10.553	96,875	-
<b>Total National School Lunch - Breakfast</b>		<b>188,808</b>	<b>-</b>
<b>National School Lunch</b>			
Section 4 All Lunches - 101950	10.555	62,777	-
Section 4 All Lunches - 111950	10.555	57,760	-
Section 11 Free & Reduced - 101960	10.555	328,494	-
Section 11 Free & Reduced - 111960	10.555	316,555	-
<b>Total National School Lunch</b>		<b>765,586</b>	<b>-</b>
<b>Total Passed Through Michigan Department of Education</b>		<b>1,017,939</b>	<b>-</b>
<b>Total U.S. Department of Agriculture</b>		<b>1,017,939</b>	<b>-</b>
<b>Total Federal Financial Awards</b>		<b>\$ 3,613,045</b>	<b>\$ 40,203</b>

**Notes to Schedule of Expenditures of Federal Awards**

1) Basis of Presentation-

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Public Schools of Petoskey and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State and Local Governments, and Non-Profit Organizations.

Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

2) Management has utilized the CMS Grant Auditors Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.

<u>(Memo Only)</u> <u>Prior Year</u> <u>Expenditures</u>	<u>Current Year</u> <u>Expenditures</u>	<u>Current Year</u> <u>Receipts</u> <u>(Cash Basis)</u>	<u>Accrued</u> <u>Revenue</u> <u>July 1, 2011</u>
\$ -	\$ 59,852	\$ 59,852	\$ -
-	3,693	3,693	-
-	<b>63,545</b>	<b>63,545</b>	-
84,045	7,888	7,888	-
-	96,875	96,875	-
<b>84,045</b>	<b>104,763</b>	<b>104,763</b>	-
56,600	6,177	6,177	-
-	57,760	57,760	-
295,183	33,311	33,311	-
-	316,555	316,555	-
<b>351,783</b>	<b>413,803</b>	<b>413,803</b>	-
<b>435,828</b>	<b>582,111</b>	<b>582,111</b>	-
<b>435,828</b>	<b>582,111</b>	<b>582,111</b>	-
<b>\$ 1,831,087</b>	<b>\$ 1,522,590</b>	<b>\$ 1,397,074</b>	<b>\$ 165,719</b>

Continued...

**PUBLIC SCHOOLS OF PETOSKEY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2011**

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**RECONCILIATION TO GRANT SECTION AUDITORS' REPORT**

Current payments per the grant section auditors' report	\$ 1,252,604
Plus	
Amounts passed through Intermediate School District	25,582
Entitlement and bonus commodities	63,545
Direct award from Department of Education	<u>55,343</u>
<b>Total current year receipts per schedule of expenditures of federal awards</b>	<b><u>\$ 1,397,074</u></b>

Concluded

**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 14, 2011

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 *Public Schools of Petoskey* (the "District") as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 14, 2011. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

*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 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 District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

This report is intended solely for the information and use of the Audit Committee, management, the Board of Education, others within the District and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Lehmann Johnson".

**INDEPENDENT AUDTORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON  
EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

October 14, 2011

Board of Education  
Public Schools of Petoskey  
Petoskey, Michigan

**Compliance**

We have audited the *Public Schools of Petoskey* (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.



## **Internal Control Over Compliance**

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

*A deficiency in internal control over compliance* exists when the design or operation of a control 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Audit Committee, management, the Board of Education, others within the District, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Lehmann Johnson".

# PUBLIC SCHOOLS OF PETOSKEY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2011

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### SECTION I – SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

#### Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	No

Continued...

**PUBLIC SCHOOLS OF PETOSKEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2011**

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**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.394	State Fiscal Stabilization Fund
84.010/84.389	Title I Cluster

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

Auditee qualified as low-risk auditee? Yes

Instances where results of audit follow-up procedures disclosed that  
the summary schedule at prior audit findings materially misrepresents  
the status of any prior audit findings? No

**SECTION II – FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No financial statement findings.

**SECTION IV – PRIOR YEAR FINDINGS**

No findings in the prior year.

Concluded

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