



Public Schools of Petoskey

A Special Place for Everyone

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

PUBLIC SCHOOLS OF PETOSKEY

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INDEPENDENT AUDITORS' REPORT

October 14, 2010

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, 2010, 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, 2010, 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, 2010, 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 54-56 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 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 black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

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, 2010. 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 Funds – consisting of the Food Service Fund and the Athletics Fund.
- Capital Projects Funds – consisting of the Sinking Fund, Building & Site Fund and Roof Repair 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 7.73% to \$34,070,006 as a result of operations in the current year. Table 1 provides a summary of the District's net assets as of June 30, 2010, and June 30, 2009:

Public Schools of Petoskey
Condensed Statement of Net Assets
Table 1

	<u>Governmental Activities</u>		<u>Percentage</u>
	<u>2010</u>	<u>2009</u>	<u>Change</u>
Assets			
Current assets	\$ 10,387,297	\$ 9,776,084	6.25%
Deferred bond refunding costs	514,705	571,895	(10.00)%
Capital assets, net of accumulated depreciation	<u>47,228,548</u>	<u>46,719,575</u>	<u>1.09%</u>
Total assets	<u>58,130,550</u>	<u>57,067,554</u>	<u>1.86%</u>
Liabilities			
Current liabilities	4,115,621	3,908,045	5.31%
Premium on bond refunding	420,199	466,894	(10.00)%
Long-term liabilities	<u>19,524,724</u>	<u>21,068,574</u>	<u>(7.33)%</u>
Total liabilities	<u>24,060,544</u>	<u>25,443,513</u>	<u>(5.44)%</u>
Invested in capital assets, net of related debt	28,618,615	26,391,415	8.44%
Restricted	3,464,101	3,359,951	3.10%
Unrestricted	<u>1,987,290</u>	<u>1,872,675</u>	<u>6.12%</u>
Total net assets	<u>\$ 34,070,006</u>	<u>\$ 31,624,041</u>	<u>7.73%</u>

Capital assets net of related debt, \$28,618,615, 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 \$3,464,101 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 \$1,987,290 was 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 2010 and 2009.

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

	<u>Governmental Activities</u>		<u>Percentage</u>
	<u>2010</u>	<u>2009</u>	<u>Change</u>
Revenue			
Program Revenues			
Charges for services	\$ 709,869	\$ 809,618	(12.32)%
Grants and contributions	5,384,848	4,940,747	8.99%
General Revenues			
Property taxes	20,752,638	19,167,014	8.27%
State foundation allowance	4,331,760	5,689,068	(23.86)%
Other	<u>219,341</u>	<u>915,800</u>	<u>(76.05)%</u>
Total revenues	<u>31,398,456</u>	<u>31,522,247</u>	<u>(0.39)%</u>
Expenses			
Instruction	17,485,598	17,523,345	(0.22)%
Support services	7,304,958	7,770,774	(6.00)%
Community services	38,593	45,520	(15.22)%
Food services	999,884	985,027	1.51%
Athletics	600,604	594,196	1.08%
Interest/fees on long-term debt	881,218	941,297	(6.38)%
Depreciation (unallocated)	<u>1,641,636</u>	<u>1,533,765</u>	<u>7.03%</u>
Total expenses	<u>28,952,491</u>	<u>29,393,924</u>	<u>(1.50)%</u>
Increase in net assets	<u>\$ 2,445,965</u>	<u>\$ 2,128,323</u>	<u>14.92%</u>

Of the District's total revenues available to operate the District, 2.26% or \$709,869 came from fees charged to those who benefited from the programs. Revenues from other governments or organizations that subsidize certain programs with grants and other directed types of funding approximated 17.15% or \$5,384,848.

Local property taxes, in the amount of \$20,752,638 or 66.09%, supported the remaining portion of the governmental activities. Property tax revenue remained steady due to the higher revenue created by increased property values being offset by reductions in tax rates implemented during the year. 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 \$1,946,461 of the \$20,752,638 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, 2012.

The State foundation allowance accounted for 13.79% or \$4,331,760 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 expense portion of Table 2 shows the financial support of each functional area required during the year. Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for \$17,485,598 or 60.39% of total expenses. Support services cost \$7,304,958 or 25.23% 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 \$2,445,965 or a 14.92% increase from the fiscal 2009 increase in net assets of \$2,128,323. Overall, revenue decreased 0.39%, while expenses decreased by 1.50%. 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. Finally, the District's net assets were increased by \$31,172 with a corresponding increase in receivables in order to correctly reflect the receivable related to the Durant Bonds.

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 \$6,199,426, which is an increase of \$1,103,442 from the prior year.

Of the combined governmental fund balances, 42.10% or \$2,610,202 constitutes *unreserved fund balance*, which is available for spending at the District's discretion. The remainder of the combined fund balances, or \$3,589,224, is *reserved* to indicate that it is not available for spending at the District's discretion. Of the reserved fund balance, \$3,078,145 is earmarked for capital improvements and \$385,956 is earmarked for payments on long-term debt. The remaining reserved fund balance is earmarked for inventory and prepaid items.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,537,838, while total fund balance was \$2,570,883. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent 10.02% and 10.15%, respectively, of total General Fund expenditures and transfers.

The fund balance of the District's General Fund increased by \$935,501 during the current fiscal year, mainly due to revenue increases exceeding our cost increases. 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. Amendments to the original budget were not significant.

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

- The District's General Fund revenues were \$24,058 less than the final amended budget, a variance of (0.09)%. The actual revenue was under budget mainly due to changes in State Aid.
- The District's General Fund expenditures were \$714,959 less than the final amended budget, a variance of (2.79)%. The reduction of actual expenditures under budget is due to cost saving programs implemented throughout the year.

Capital Asset and Debt Administration

Capital Assets. By June 30, 2010, the District had invested \$73,901,408 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 \$2,150,609 or 3.00% 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 a boiler replacement, mechanical upgrades, District wide-door and window replacements, and computer hardware. Construction-in-progress is attributable to several projects including roofing replacement at the High School and a District-wide every lighting efficiency project.

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

	<u>2010</u>	<u>2009</u>
Land	\$ 3,394,351	\$ 3,394,351
Construction-in-progress	449,494	361,503
Buildings	62,129,808	60,344,486
Furniture and equipment	<u>7,927,755</u>	<u>7,650,459</u>
Total capital assets	73,901,408	71,750,799
Less accumulated depreciation	<u>26,672,860</u>	<u>25,031,224</u>
Net capital assets	<u>\$ 47,228,548</u>	<u>\$ 46,719,575</u>

Debt. At year-end, the District had \$19,524,724 in general obligation bonds and other long-term debt outstanding – a reduction of 7.33% 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**

	2010	2009
General obligation bonds	\$ 17,540,000	\$ 19,170,000
Other general obligation debt	1,984,724	1,898,574
Total long-term debt	\$ 19,524,724	\$ 21,068,574

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 \$583,173 at June 30, 2010. 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 \$455,589.

Factors Bearing on the District’s Future

We considered many factors when setting the District’s 2010-11 fiscal year budget.

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 25 students from September 2009 to September 2010, which was a smaller loss than anticipated. In setting the budget for 2010-11, we assumed a further reduction of 13 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 2009-10, the District enjoyed a foundation allowance of \$7,316.

Going into the budget planning cycle for 2010-11, we believe the foundation allowance will decrease by \$265 per pupil, to \$6,886. We also assume that the majority of the reduction will be offset by Federal Stimulus funds. However, as no State Aid funding bill has been submitted to the legislature, it is difficult for the District to determine how accurate its assumptions will be. In reaction to the projected loss of funding coupled with increased inflationary costs, the District cut approximately \$1.4 million in expenses from the 2010-11 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 count, reductions in foundation

allowance, and increases in expenditures results in our 2010-11 budget showing an approximate increase of \$927,000 in ending fund balance. This planned increase is designed to return the fund balance to the approximately 8% of expenditure level required to meet cash flow requirements without borrowing, along with a small amount to offset any additional loss of students or state funding. 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, is set to expire in August 2010. The District's labor contract with the Petoskey Educational Support Personnel Association, which represents the District's support personnel, is set to expire in August 2010. Negotiations with both groups began in June 2010 and continue through the date of this report.

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, 2010

ASSETS	
Cash and cash equivalents	\$ 4,063,340
Investments	5,149,464
Receivables	879,370
Other current assets	295,123
Deferred bond refunding costs	514,705
Capital assets not being depreciated	3,843,845
Capital assets being depreciated, net	<u>43,384,703</u>
Total assets	<u>58,130,550</u>
LIABILITIES	
Accounts payable and accrued expenditures	3,884,092
Unearned revenue	231,529
Premium on bond refunding	420,199
Long-term liabilities	
Due within one year	2,006,477
Due in more than one year	<u>17,518,247</u>
Total liabilities	<u>24,060,544</u>
NET ASSETS	
Invested in capital assets, net of related debt	28,618,615
Restricted for capital projects	3,078,145
Restricted for debt service	385,956
Unrestricted	<u>1,987,290</u>
Total net assets	<u>\$ 34,070,006</u>

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, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 17,485,598	\$ 79,669	\$ 4,743,404	\$ (12,662,525)
Supporting services	7,304,958	25,022	1,935	(7,278,001)
Community services	38,593	-	-	(38,593)
Food Services	999,884	460,041	593,509	53,666
Athletics	600,604	145,137	46,000	(409,467)
Interest on long-term debt	881,218	-	-	(881,218)
Unallocated depreciation	1,641,636	-	-	(1,641,636)
Total governmental activities	\$ 28,952,491	\$ 709,869	\$ 5,384,848	(22,857,774)
General revenues				
Property taxes - operations				18,168,713
Property taxes - debt service				2,583,925
Unrestricted state aid				4,331,760
Unrestricted investment earnings				51,399
Other				167,942
Total general revenues				25,303,739
Change in net assets				2,445,965
Net assets, beginning of year				31,624,041
Net assets, end of year				\$ 34,070,006

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, 2010

	<u>General</u>	<u>Sinking</u>	<u>Debt Service</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 332,451	\$ 2,705,473	\$ 325,585	\$ 699,831	\$ 4,063,340
Investments	4,881,010	214,726	53,728	-	5,149,464
Accounts receivable	-	-	-	28,156	28,156
Due from other governmental units	805,323	6,327	39,564	-	851,214
Other assets	203,045	-	-	92,078	295,123
Total assets	\$ 6,221,829	\$ 2,926,526	\$ 418,877	\$ 820,065	\$ 10,387,297
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 332,344	\$ -	\$ 1,749	\$ 65,052	\$ 399,145
Contracts payable	-	432,792	-	-	432,792
Salaries payable	2,005,458	-	-	-	2,005,458
Accrued expenses	917,775	-	-	-	917,775
Deferred revenue	395,369	-	31,172	6,160	432,701
Total liabilities	3,650,946	432,792	32,921	71,212	4,187,871
Fund balances					
Reserved for inventory and prepaid items	33,045	-	-	92,078	125,123
Reserved for capital improvements	-	2,493,734	-	584,411	3,078,145
Reserved for debt service	-	-	385,956	-	385,956
Unreserved					
Designated for subsequent year's expenditures	927,106	-	-	19,015	946,121
Undesignated, reported in nonmajor special revenue funds	-	-	-	53,349	53,349
Undesignated	1,610,732	-	-	-	1,610,732
Total fund balances	2,570,883	2,493,734	385,956	748,853	6,199,426
Total liabilities and fund balances	\$ 6,221,829	\$ 2,926,526	\$ 418,877	\$ 820,065	\$ 10,387,297

Continued...

PUBLIC SCHOOLS OF PETOSKEY

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2010

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 **\$ 6,199,426**

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

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

Add	- capital assets	73,901,408
Deduct	- accumulated depreciation	(26,672,860)

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	201,172
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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	514,705
Deduct	- premium on bond refunding, net of amortization	(420,199)
Deduct	- bonds and other long-term liabilities	(18,609,933)
Deduct	- employee incentives	(351,838)
Deduct	- accrued interest on bonds payable	(128,922)
Deduct	- compensated absences	(562,953)

Net assets of governmental activities **\$ 34,070,006**

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, 2010

	General	Sinking	Debt Service	Non- Major Funds	Total Governmental Funds
Revenues					
Local sources					
Property taxes	\$ 15,770,556	\$ 1,946,461	\$ 2,583,925	\$ -	\$ 20,300,942
Revenue in lieu of taxes	1,151,696	-	-	-	1,151,696
Charges for services	52,082	-	-	605,178	657,260
Tuition	27,587	-	-	-	27,587
Rent income	-	-	-	25,022	25,022
Interest income	19,344	19,368	7,341	5,346	51,399
Contributions	-	-	-	46,000	46,000
Other income	173,061	-	-	2,400	175,461
State sources	5,615,794	-	11,396	64,064	5,691,254
Federal sources	1,448,806	-	-	529,445	1,978,251
Interdistrict sources	2,010,564	-	-	-	2,010,564
Total revenues	26,269,490	1,965,829	2,602,662	1,277,455	32,115,436
Expenditures					
Instruction	17,571,904	-	-	-	17,571,904
Supporting services	7,306,842	-	-	-	7,306,842
Community services	38,593	-	-	-	38,593
Food services	-	-	-	999,884	999,884
Athletics	-	-	-	600,604	600,604
Capital outlay	-	1,878,316	-	-	1,878,316
Other	-	7,519	10,352	-	17,871
Debt service					
Principal	-	-	1,718,227	-	1,718,227
Interest	-	-	879,753	-	879,753
Total expenditures	24,917,339	1,885,835	2,608,332	1,600,488	31,011,994
Revenues over (under) expenditures	1,352,151	79,994	(5,670)	(323,033)	1,103,442
Other financing sources (uses)					
Transfers in	-	-	132,854	416,650	549,504
Transfers out	(416,650)	(132,854)	-	-	(549,504)
Total other financing sources (uses)	(416,650)	(132,854)	132,854	416,650	-
Net change in fund balances	935,501	(52,860)	127,184	93,617	1,103,442
Fund balance, beginning of year	1,635,382	2,546,594	258,772	655,236	5,095,984
Fund balances, end of year	\$ 2,570,883	\$ 2,493,734	\$ 385,956	\$ 748,853	\$ 6,199,426

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2010

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 **\$ 1,103,442**

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	2,150,609
Deduct	- depreciation expense	(1,641,636)

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	46,695
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	1,934,717
Deduct	- increase in employee incentives	(409,772)

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

Deduct	- change in deferred payment in lieu of taxes	(700,000)
Deduct	- payments received on long-term Durant Settlement receivable	(9,461)

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.

Add	- decrease in the accrual for compensated absences	18,905
Add	- decrease in accrued interest payable on bonds	9,656

Change in net assets - governmental activities **\$ 2,445,965**

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, 2010

	Budget		Actual	Variance - Positive (Negative) Amended to Actual
	Original	Final Amended		
Revenues				
Local sources	\$ 16,978,493	\$ 17,165,803	\$ 17,194,326	\$ 28,523
State sources	6,095,274	5,554,517	5,615,794	61,277
Federal sources	1,850,329	1,533,220	1,448,806	(84,414)
Interdistrict sources	1,445,273	2,040,008	2,010,564	(29,444)
Total revenues	26,369,369	26,293,548	26,269,490	(24,058)
Expenditures				
Education				
Instruction	17,338,323	17,809,348	17,571,904	237,444
Supporting services	7,977,951	7,774,485	7,306,842	467,643
Community services	24,153	48,465	38,593	9,872
Total expenditures	25,340,427	25,632,298	24,917,339	714,959
Revenues over expenditures	1,028,942	661,250	1,352,151	690,901
Other financing sources (uses)				
Transfers in	50,000	35,000	-	(35,000)
Transfers out	(440,195)	(416,650)	(416,650)	-
Total other financing sources (uses)	(390,195)	(381,650)	(416,650)	(35,000)
Net change in fund balance	638,747	279,600	935,501	655,901
Fund balance, beginning of year	1,635,382	1,635,382	1,635,382	-
Fund balance, end of year	\$ 2,274,129	\$ 1,914,982	\$ 2,570,883	\$ 655,901

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, 2010

ASSETS	
Cash and cash equivalents	\$ 89,785
Investments	425,000
Total assets	\$ 514,785
LIABILITIES	
Due to student groups	\$ 176,886
Scholarships payable	255,412
Due to others	82,487
Total liabilities	\$ 514,785

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

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, 2010.

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

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 Funds* account for the various food service and athletic programs sponsored by the District.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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.

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, 2010.

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 a fund balance reserve 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.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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 government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

<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.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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:

Statement of Net Assets	
Cash and cash equivalents	\$ 4,063,340
Investments	<u>5,149,464</u>
Total Statement of Net Assets	<u>9,212,804</u>
Statement of Fiduciary Net Assets	
Agency Funds	
Cash and cash equivalents	89,785
Investments	<u>425,000</u>
Total Statement of Fiduciary Net Assets	<u>514,785</u>
Total deposits and investments	<u>\$ 9,727,589</u>

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)	\$ 4,577,725
Investments	5,149,464
Cash on hand	<u>400</u>
Total deposits and investments	<u>\$ 9,727,589</u>

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.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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	\$ 5,149,464	S&P – AAAM

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, \$4,739,731 of the District’s bank balance of \$5,239,731 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, 2010:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance June 30, 2010</u>
Capital assets not being depreciated				
Land	\$ 3,394,351	\$ -	\$ -	\$ 3,394,351
Construction in process	<u>361,503</u>	<u>449,494</u>	<u>(361,503)</u>	<u>449,494</u>
Total capital assets not being depreciated	<u>3,755,854</u>	<u>449,494</u>	<u>(361,503)</u>	<u>3,843,845</u>
Capital assets being depreciated				
Buildings and improvements	60,344,486	1,423,819	361,503	62,129,808
Furniture and equipment	<u>7,650,459</u>	<u>277,296</u>	<u>-</u>	<u>7,927,755</u>
Total capital assets being depreciated	<u>67,994,945</u>	<u>1,701,115</u>	<u>361,503</u>	<u>70,057,563</u>
Accumulated depreciation				
Buildings and improvements	(18,410,223)	(1,365,856)	-	(19,776,079)
Furniture and equipment	<u>(6,621,001)</u>	<u>(275,780)</u>	<u>-</u>	<u>(6,896,781)</u>
Total accumulated depreciation	<u>(25,031,224)</u>	<u>(1,641,636)</u>	<u>-</u>	<u>(26,672,860)</u>
Total capital assets being depreciated, net	<u>42,963,721</u>	<u>59,479</u>	<u>361,503</u>	<u>43,384,703</u>
Governmental activities capital assets, net	<u>\$ 46,719,575</u>	<u>\$ 508,973</u>	<u>\$ -</u>	<u>\$ 47,228,548</u>

Unallocated depreciation expense of \$1,641,636 was charged to the governmental activities.

D. Accounts payable and accrued expenses

Accounts payable and accrued expenses are 10 percent vendors, 11 percent contracts, 52 percent salaries, and 27 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, 2010, 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, 2010, the District's General Fund transferred \$416,650 to the Athletic Special Revenue Fund to subsidize the athletic programs and the Sinking Capital Project Fund transferred \$132,854 to the Debt Service Fund.

F. Long-Term Debt

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

	<u>Balance July 1, 2009</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance June 30, 2010</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation	\$ 19,170,000	\$ -	\$ (1,630,000)	\$ 17,540,000	\$ 1,685,000
Durant resolution	<u>40,633</u>	<u>-</u>	<u>(9,461)</u>	<u>31,172</u>	<u>9,912</u>
Total bonds payable	<u>19,210,633</u>	<u>-</u>	<u>(1,639,461)</u>	<u>17,571,172</u>	<u>1,694,912</u>
Other liabilities					
Land contracts	1,117,527	-	(78,766)	1,038,761	82,795
Early retirement incentives	158,556	409,772	(216,490)	351,838	220,483
Compensated absences	<u>581,858</u>	<u>-</u>	<u>(18,905)</u>	<u>562,953</u>	<u>8,287</u>
Total other liabilities	<u>1,857,941</u>	<u>409,772</u>	<u>(314,161)</u>	<u>1,953,552</u>	<u>311,565</u>
Total long-term liabilities	<u>\$ 21,068,574</u>	<u>\$ 409,772</u>	<u>\$ (1,953,622)</u>	<u>\$ 19,524,724</u>	<u>\$ 2,006,477</u>

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

Long-term debt at June 30, 2010, includes the following:

General Obligation Bonds

2005 refunding bonds due in annual installments ranging from \$1,630,000 to \$2,125,000 with interest ranging from 3.50% to 5.00%; final payment due May 2019. \$ 17,540,000

Durant Resolution Bond

1998 series, school improvement bond due in annual installments ranging from \$9,461 to \$10,877 with interest charged at 4.76%. This bond is a self-liquidating bond. 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. 31,172

Total bonds **17,571,172**

Other Liabilities

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 1, 2022. 583,172

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 15, 2019. 455,589

Early retirement incentives 351,838

Compensated absences 562,953

Total long-term debt **\$ 19,524,724**

The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service. During the year ended June 30, 2003, the State postponed all Durant debt service requirements. No debt service was required for May 15, 2003, through 2005. The debt service payments resumed in 2006, but again, were deferred in fiscal 2007 and 2008. The debt service payments resumed again in fiscal 2009.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

Bond 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>
2011	\$ 1,998,190	\$ 818,518	\$ 2,816,708
2012	1,963,767	754,834	2,718,601
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
2016-2020	8,924,284	966,374	9,890,658
2021-2022	<u>100,919</u>	<u>4,258</u>	<u>105,177</u>
Total	<u>\$ 18,961,771</u>	<u>\$ 4,296,330</u>	<u>\$ 23,258,101</u>

Interest and paying agent fees paid were \$881,218 for the year ended June 30, 2010.

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.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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 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 ("MPSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits, and death 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 MPSERS. That report may 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 Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, through June 30, 2008, contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members hired on or after July 1, 2008, contribute at the MIP-Plus graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000. Basic Plan members make no contributions. 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 current rate is 16.94% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2010, 2009, and 2008, were \$2,605,638, \$2,707,543, and \$2,707,899, respectively, equal to the required contributions for each year.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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. School improvement fund

The 1998 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the District has complied with the applicable provisions of §1351a of the Revised School Code.

F. 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, 2010.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

As of June 30, 2010, the District had entered into various construction contracts amounting to approximately \$768,000. The contracts are for a new roof and energy efficient projects. As of June 30, 2010, approximately \$450,000 was recorded as construction-in-progress related to these projects.

* * * * *

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

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2010

	Special Revenue Funds		Capital Project Funds		Total Nonmajor Governmental Funds
	Food Service	Athletics	Roof Repair	Building and Site	
ASSETS					
Cash and cash equivalents	\$ 23,385	\$ 92,035	\$ 13,617	\$ 570,794	\$ 699,831
Accounts receivable	25,000	3,156	-	-	28,156
Inventory	92,078	-	-	-	92,078
Total assets	\$ 140,463	\$ 95,191	\$ 13,617	\$ 570,794	\$ 820,065
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 65,052	\$ -	\$ -	\$ -	\$ 65,052
Deferred revenue	3,660	2,500	-	-	6,160
Total liabilities	68,712	2,500	-	-	71,212
Fund balances					
Reserved for inventory	92,078	-	-	-	92,078
Reserved for capital improvements	-	-	13,617	570,794	584,411
Designated for subsequent year's expenditure:	-	19,015	-	-	19,015
Unreserved, undesignated (deficit)	(20,327)	73,676	-	-	53,349
Total fund balances	71,751	92,691	13,617	570,794	748,853
Total liabilities and fund balances	\$ 140,463	\$ 95,191	\$ 13,617	\$ 570,794	\$ 820,065

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2010

	Special Revenue Funds		Capital Project Funds		Total Nonmajor Governmental Funds
	Food Service	Athletics	Roof Repair	Building and Site	
Revenues					
Local sources					
Charges for services	\$ 460,041	\$ 145,137	\$ -	\$ -	\$ 605,178
Rent income	-	-	-	25,022	25,022
Interest income	542	-	115	4,689	5,346
Contributions	-	46,000	-	-	46,000
Other	-	2,400	-	-	2,400
State sources	64,064	-	-	-	64,064
Federal sources	529,445	-	-	-	529,445
Total revenues	1,054,092	193,537	115	29,711	1,277,455
Expenditures					
Food services	999,884	-	-	-	999,884
Athletics	-	600,604	-	-	600,604
Total expenditures	999,884	600,604	-	-	1,600,488
Revenues over (under) expenditures	54,208	(407,067)	115	29,711	(323,033)
Other financing sources					
Transfers in	-	416,650	-	-	416,650
Net change in fund balances	54,208	9,583	115	29,711	93,617
Fund balances, beginning of year	17,543	83,108	13,502	541,083	655,236
Fund balances, end of year	\$ 71,751	\$ 92,691	\$ 13,617	\$ 570,794	\$ 748,853

PUBLIC SCHOOLS OF PETOSKEY

**BALANCE SHEET
GENERAL FUND**

**JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 332,451	\$ 43,441
Investments	4,881,010	3,242,698
Due from other funds	-	35,000
Due from other governmental units	805,323	2,453,833
Other assets	203,045	199,084
Total assets	<u>\$ 6,221,829</u>	<u>\$ 5,974,056</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 332,344	\$ 189,184
Salaries payable	2,005,458	1,530,305
Accrued expenses	917,775	784,111
Due to other funds	-	64,443
Due to other governmental units	-	212,408
Deferred revenue	395,369	1,558,223
Total liabilities	<u>3,650,946</u>	<u>4,338,674</u>
Fund balance		
Reserved for inventory and prepaid expenditures	33,045	29,084
Designated for subsequent year's expenditures	927,106	-
Unreserved, undesignated	1,610,732	1,606,298
Total fund balance	<u>2,570,883</u>	<u>1,635,382</u>
Total liabilities and fund balance	<u>\$ 6,221,829</u>	<u>\$ 5,974,056</u>

PUBLIC SCHOOLS OF PETOSKEY

**SCHEDULE OF REVENUES
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)**

	<u>2010</u>	<u>2009</u>
Revenues		
Local Sources		
Property taxes	\$ 15,770,556	\$ 14,895,380
Payment in lieu of taxes	1,151,696	2,801
Charges for services	52,082	125,712
Tuition	27,587	38,253
Interest	19,344	56,543
Other local sources	173,061	104,860
Total local sources	<u>17,194,326</u>	<u>15,223,549</u>
State sources		
State school aid - Proposal A	-	378,261
State school aid - Headlee	4,273,592	5,036,826
State school aid - Prior year adjustments	43,244	263,470
State school aid - Special Education Headlee Obligation	785,042	768,914
State school aid - Equity Payments	14,924	10,511
At-risk	498,992	467,019
Other state revenue	-	27,313
Total state sources	<u>5,615,794</u>	<u>6,952,314</u>
Federal sources		
American Recovery and Reinvestment Act	907,646	1,105,112
Title I	359,728	380,191
Title II	102,678	107,958
Title IX	53,766	51,803
Other	24,988	19,752
Total federal sources	<u>1,448,806</u>	<u>1,664,816</u>
Interdistrict sources		
Vocational education - Millage	948,199	573,090
Vocational education - Added Cost	83,791	93,101
Expense reimbursements	978,574	677,452
Total interdistrict sources	<u>2,010,564</u>	<u>1,343,643</u>
Total revenues	<u>\$ 26,269,490</u>	<u>\$ 25,184,322</u>

PUBLIC SCHOOLS OF PETOSKEY

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)**

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies, Materials and Other Expenses</u>	<u>Capital Outlay</u>
Instruction					
Basic programs					
Pre-K	\$ -	\$ -	\$ -	\$ -	\$ -
Elementary	3,794,452	2,007,573	114,869	135,137	-
Middle school	2,000,430	1,007,337	77,646	83,949	-
High School	2,376,016	1,184,936	131,778	79,468	-
Summer school	19,573	4,729	2,376	2,069	-
Total basic programs	8,190,471	4,204,575	326,669	300,623	-
Added needs					
Special education	1,317,906	774,762	100,651	4,153	-
Compensatory education	291,769	249,441	232,313	46,947	-
Vocational education	634,373	331,563	78,319	215,780	271,589
Total added needs	2,244,048	1,355,766	411,283	266,880	271,589
Total instruction	10,434,519	5,560,341	737,952	567,503	271,589
Supporting services					
Pupil services					
Guidance services	366,176	166,922	-	5,974	-
Health services	-	-	167,970	1,584	-
Other	15,550	3,894	59,411	-	-
Total pupil services	381,726	170,816	227,381	7,558	-
Instructional staff services					
Improvement of instruction	31,627	10,653	40,142	940	-
Library	153,927	117,246	27,185	25,491	-
Technology assisted instruction	132,733	71,257	2,219	-	-
Supervision	136,985	61,329	3,179	1,967	-
Academic student assessment	-	-	-	31,890	-
Total instructional staff services	455,272	260,485	72,725	60,288	-

Total	
2010	2009
\$ -	\$ 21,420
6,052,031	6,049,900
3,169,362	3,072,119
3,772,198	3,776,384
28,747	60,841
13,022,338	12,980,664
2,197,472	2,248,365
820,470	776,710
1,531,624	1,389,685
4,549,566	4,414,760
17,571,904	17,395,424
539,072	535,877
169,554	245,388
78,855	66,666
787,481	847,931
83,362	86,572
323,849	329,728
206,209	200,210
203,460	288,692
31,890	15,082
848,770	920,284

Continued...

PUBLIC SCHOOLS OF PETOSKEY

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)**

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies, Materials and Other Expenses</u>	<u>Capital Outlay</u>
General administration					
Board of education	\$ -	\$ -	\$ 125,551	\$ 2,466	\$ -
Executive administration	185,409	107,557	110,252	10,716	-
Total general administration	<u>185,409</u>	<u>107,557</u>	<u>235,803</u>	<u>13,182</u>	<u>-</u>
School administration					
Office of the principal	<u>644,473</u>	<u>429,255</u>	<u>447,377</u>	<u>29,341</u>	<u>-</u>
Business services					
Fiscal services	<u>214,508</u>	<u>134,678</u>	<u>9,345</u>	<u>130,397</u>	<u>-</u>
Transportation	<u>-</u>	<u>-</u>	<u>1,082,424</u>	<u>-</u>	<u>-</u>
Operations and maintenance	<u>423,142</u>	<u>299,827</u>	<u>623,648</u>	<u>602,627</u>	<u>5,706</u>
Security services	<u>-</u>	<u>-</u>	<u>51,892</u>	<u>-</u>	<u>-</u>
Total supporting services	<u>2,304,530</u>	<u>1,402,618</u>	<u>2,750,595</u>	<u>843,393</u>	<u>5,706</u>
Community services					
Community services direction	4,773	5,510	6,837	2,015	-
Non-public school pupils	-	-	7,233	12,225	-
Total community services	<u>4,773</u>	<u>5,510</u>	<u>14,070</u>	<u>14,240</u>	<u>-</u>
Total operating expenditures	<u>\$ 12,743,822</u>	<u>\$ 6,968,469</u>	<u>\$ 3,502,617</u>	<u>\$ 1,425,136</u>	<u>\$ 277,295</u>
Other financing uses					
Transfers out					
Total expenditures and other financing uses					

Total	
2010	2009
\$ 128,017	\$ 49,199
413,934	450,505
541,951	499,704
1,550,446	1,590,472
488,928	536,275
1,082,424	1,066,577
1,954,950	2,270,535
51,892	52,258
7,306,842	7,784,036
19,135	44,070
19,458	1,450
38,593	45,520
24,917,339	25,224,980
416,650	441,519
\$ 25,333,989	\$ 25,666,499

Concluded

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS**

**JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

	Food Service	Athletics	Total	
			2010	2009
ASSETS				
Assets				
Cash and cash equivalents	\$ 23,385	\$ 92,035	\$ 115,420	\$ 58,651
Accounts receivable	25,000	3,156	28,156	1,493
Due from other funds	-	-	-	64,443
Due from other governmental units	-	-	-	8,886
Inventory	92,078	-	92,078	74,438
Total assets	\$ 140,463	\$ 95,191	\$ 235,654	\$ 207,911
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 65,052	\$ -	\$ 65,052	\$ 62,260
Due to other funds	-	-	-	35,000
Deferred revenue	3,660	2,500	6,160	10,000
Total liabilities	68,712	2,500	71,212	107,260
Fund balances				
Reserved for inventory	92,078	-	92,078	74,438
Reserved for subsequent year's expenditures	-	19,015	19,015	-
Unreserved, undesignated (deficit)	(20,327)	73,676	53,349	26,213
Total fund balances	71,751	92,691	164,442	100,651
Total liabilities and fund balances	\$ 140,463	\$ 95,191	\$ 235,654	\$ 207,911

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
SPECIAL REVENUE FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)**

	Food Service	Athletics	Total	
			2010	2009
Revenues				
Local sources				
Lunch sales	\$ 245,697	\$ -	\$ 245,697	\$ 269,825
Breakfast sales	10,490	-	10,490	11,706
Ala carte sales	203,854	-	203,854	182,770
Athletic ticket sales	-	145,137	145,137	147,398
Contributions	-	46,000	46,000	54,750
Other	-	2,400	2,400	4,099
State sources	64,064	-	64,064	66,010
Federal sources	529,445	-	529,445	471,714
Interest income	542	-	542	-
Total revenues	1,054,092	193,537	1,247,629	1,208,272
Expenditures				
Salaries	53,646	138,543	192,189	191,875
Employee benefits	54,986	34,242	89,228	109,518
Purchased services	402,900	269,173	672,073	614,517
Supplies, materials and other expenditures	102,951	77,067	180,018	178,850
Food costs	385,401	-	385,401	398,429
Transportation	-	81,579	81,579	86,034
Total expenditures	999,884	600,604	1,600,488	1,579,223
Revenues over (under) expenditures	54,208	(407,067)	(352,859)	(370,951)
Other financing sources				
Transfers in	-	416,650	416,650	441,519
Net change in fund balances	54,208	9,583	63,791	70,568
Fund balances, beginning of year	17,543	83,108	100,651	30,083
Fund balances, end of year	\$ 71,751	\$ 92,691	\$ 164,442	\$ 100,651

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING BALANCE SHEET
CAPITAL PROJECT FUNDS**

**JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

	<u>Sinking Fund</u>	<u>Roof Repair</u>	<u>Building and Site</u>	<u>Total</u>	
				<u>2010</u>	<u>2009</u>
Assets					
Cash and cash equivalents	\$ 2,705,473	\$ 13,617	\$ 570,794	\$ 3,289,884	\$ 3,175,440
Investments	214,726	-	-	214,726	214,434
Due from other governmental units	6,327	-	-	6,327	4,281
Total assets	\$ 2,926,526	\$ 13,617	\$ 570,794	\$ 3,510,937	\$ 3,394,155
 LIABILITIES AND FUND BALANCES					
Liabilities					
Contracts payable	\$ 432,792	\$ -	\$ -	\$ 432,792	\$ 292,976
Fund balances					
Reserved for capital improvements	2,493,734	13,617	570,794	3,078,145	3,101,179
Total liabilities and fund balances	\$ 2,926,526	\$ 13,617	\$ 570,794	\$ 3,510,937	\$ 3,394,155

PUBLIC SCHOOLS OF PETOSKEY

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

**FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)**

	<u>Sinking Fund</u>	<u>Roof Repair</u>	<u>Building and Site</u>	<u>Total 2010</u>	<u>Total 2009</u>
Revenues					
Property taxes	\$ 1,946,461	\$ -	\$ -	\$ 1,946,461	\$ 1,868,702
Rent income	-	-	25,022	25,022	33,954
Interest income	19,368	115	4,689	24,172	39,442
Total revenues	1,965,829	115	29,711	1,995,655	1,942,098
Expenditures					
Capital outlay	1,878,316	-	-	1,878,316	728,679
Other	7,519	-	-	7,519	1,604
Total expenditures	1,885,835	-	-	1,885,835	730,283
Revenues over expenditures	79,994	115	29,711	109,820	1,211,815
Other financing uses					
Transfers out	(132,854)	-	-	(132,854)	(132,854)
Net change in fund balances	(52,860)	115	29,711	(23,034)	1,078,961
Fund balances, beginning of year	2,546,594	13,502	541,083	3,101,179	2,022,218
Fund balances, end of year	\$ 2,493,734	\$ 13,617	\$ 570,794	\$ 3,078,145	\$ 3,101,179

PUBLIC SCHOOLS OF PETOSKEY

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

**JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)**

	<u>2005 Refunding Bonds</u>	<u>Foster Land Contract</u>	<u>Veurink Land Contract</u>	<u>Durant Settlement</u>
ASSETS				
Cash and cash equivalents	\$ 325,585	\$ -	\$ -	\$ -
Investments	53,728	-	-	-
Due from other governmental units	8,392	-	-	31,172
Total assets	<u>\$ 387,705</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,172</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,749	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	31,172
Total liabilities	1,749	-	-	31,172
Fund balances				
Reserved for debt service	385,956	-	-	-
Total liabilities and fund balances	<u>\$ 387,705</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,172</u>

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

Total	
2010	2009
\$ 325,585	\$ 201,420
53,728	53,636
<u>39,564</u>	<u>44,349</u>
<u>\$ 418,877</u>	<u>\$ 299,405</u>
\$ 1,749	\$ -
<u>31,172</u>	<u>40,633</u>
32,921	40,633
<u>385,956</u>	<u>258,772</u>
<u>\$ 418,877</u>	<u>\$ 299,405</u>

PUBLIC SCHOOLS OF PETOSKEY

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

**FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)**

	2005 Refunding Bonds	Foster Land Contract	Veurink Land Contract	Durant Settlement
Revenues				
Local sources				
Property taxes	\$ 2,583,925	\$ -	\$ -	\$ -
State sources	-	-	-	11,396
Interest income	7,341	-	-	-
Total revenues	2,591,266	-	-	11,396
Expenditures				
Principal	1,630,000	42,488	36,278	9,461
Interest	823,730	23,939	30,149	1,935
Other	10,352	-	-	-
Total expenditures	2,464,082	66,427	66,427	11,396
Revenues over (under) expenditures	127,184	(66,427)	(66,427)	-
Other financing sources				
Transfers in	-	66,427	66,427	-
Net change in fund balances	127,184	-	-	-
Fund balances, beginning of year	258,772	-	-	-
Fund balances, end of year	\$ 385,956	\$ -	\$ -	\$ -

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

Total	
2010	2009
\$ 2,583,925	\$ 2,400,131
11,396	76,568
7,341	12,460
2,602,662	2,489,159
1,718,227	1,705,121
879,753	957,786
10,352	2,328
2,608,332	2,665,235
(5,670)	(176,076)
132,854	132,854
127,184	(43,222)
258,772	301,994
\$ 385,956	\$ 258,772

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2010

	Balances July 1, 2009	Receipts	Disbursements	Balances June 30, 2010
ASSETS				
Cash	\$ 100,754	\$ 551,658	\$ 562,627	\$ 89,785
Investments	425,000	-	-	425,000
Accounts receivable	200	-	200	-
Total assets	\$ 525,954	\$ 551,658	\$ 562,827	\$ 514,785
LIABILITIES				
Due to student groups	\$ 184,954	\$ 400,061	\$ 408,129	\$ 176,886
Scholarships payable	256,821	25,521	26,930	255,412
Due to others	84,179	126,076	127,768	82,487
Total liabilities	\$ 525,954	\$ 551,658	\$ 562,827	\$ 514,785

The balances consist of the following:

Deposits due to student groups

Student groups	\$	\$	\$	\$
6th Grade Club	1,851	24,696	24,628	1,919
7th Grade Club	2,667	18,159	19,122	1,704
8th Grade Fund	2,204	13,203	12,129	3,278
Middle School Art Club	332	3,743	2,899	1,176
Middle School Athletics	292	-	53	239
Middle School Ecology Club	452	1,592	1,660	384
Middle School Enrichment	4,506	6,877	5,641	5,742
Middle School Football	1,921	4,125	3,604	2,442
Middle School Photo Club	182	-	81	101
Middle School Student Council	1,721	2,293	2,218	1,796
Middle School Track	3,776	843	-	4,619
Middle School Volleyball	3,105	255	-	3,360
Middle School Yearbook	973	8,932	7,966	1,939
Ottawa 4th Grade Field Trip	393	1,478	1,481	390
Ottawa 5th Grade Field Trip	1,272	4,537	4,517	1,292
Ottawa Field Trip Fund	1,659	3,181	2,789	2,051
Sheridan 3rd Grade	805	1,723	2,523	5
Sheridan 4th Grade	274	860	478	656
Sheridan 5th Grade	129	-	-	129
Sheridan Student Council	81	250	159	172
Sheridan Garden Fund	109	-	-	109

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2010

	Balances July 1, 2009	Receipts	Disbursements	Balances June 30, 2010
Builder's Club	\$ 798	\$ 738	1,156	\$ 380
Building Trades Fund	2	-	-	2
Business Club	356	-	49	307
Central 5th Grade	424	2,999	3,267	156
Central 3rd Grade	18	-	-	18
Central Library & Computer	2,222	4,574	6,357	439
Central School Fund	613	3,249	2,074	1,788
Central School Store	563	546	888	221
Class of 1991	96	-	-	96
Class of 1992	1,131	-	-	1,131
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	6,090	7,402	10,119	3,373
Class of 2011	1,488	7,794	5,683	3,599
Class of 2012	1,735	509	460	1,784
Class of 2013		1,317	-	1,317
DECA	733	5,040	5,716	57
Debate Club	3,555	102	285	3,372
Elementary Enrichment	2,416	4,687	5,263	1,840
Elementary Enrichment Play	8,786	10,318	11,370	7,734
Elementary Music Fund	606	1,083	1,066	623
FCCLA	366	4,135	4,805	(304)
FCCLA Region II	1	-	-	1
French Club	8	1,459	255	1,212
Future Farmers of America	1,947	366	312	2,001
Skateboarding Club	47	-	-	47
G Wing Productions	2,523	-	-	2,523
HOSA	1,248	-	-	1,248
High School Art Club	2,759	-	-	2,759
High School Spring Musical	741	8,422	8,084	1,079
High School Fall Play	1,845	2,551	3,219	1,177
High School Journalism	666	-	146	520
High School Learning Center	834	-	-	834
High School Fund	9,574	4,728	8,738	5,564
High School Steel Drum Band	-	30,700	30,700	-
High School Enrichment	(76)	13,050	11,459	1,515
High School Quiz Bowl Team	829	-	92	737
High School Student Council	3,903	19,321	22,012	1,212

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2010

	Balances July 1, 2009	Receipts	Disbursements	Balances June 30, 2010
High School Vocal	\$ 85	\$ -	\$ -	\$ 85
High School Yearbook	(2,009)	18,586	15,723	854
Hospitality Foods Tip Fund	109	611	720	-
Inward Bound Fund	653	-	-	653
Key Club	526	259	176	609
Lincoln School Fund	1,197	1,666	1,288	1,575
Middle School Enrichment Play	6,510	4,490	3,747	7,253
Middle School Book Fair	359	-	150	209
Middle School Fund	5,180	5,728	5,110	5,798
Middle School Store	124	4,796	4,871	49
Middle School Adventure Education	216	-	-	216
Middle School Washington DC Club	1,524	2,148	2,734	938
Middle School Dance	36	452	448	40
Middle School Boys Basketball	255	677	569	363
National Honor Society	1,057	5,560	5,493	1,124
Northmen Club	803	-	174	629
Ottawa After-School	1,306	-	1,306	-
Ottawa Popcorn Sales	3,204	2,100	3,010	2,294
Ottawa School Fund	4,962	1,606	717	5,851
Ottawa School Store	233	-	233	-
Petoskey High School Papermakers	2,845	737	957	2,625
Sheridan School	7,571	3,919	6,047	5,443
Spanish Club	151	-	-	151
World History Trip Fund	450	-	-	450
Athletic Hall Of Fame	200	1,614	1,267	547
Boys Golf	2,417	2,904	3,430	1,891
Communications Camp	2,384	-	-	2,384
Girls Basketball	2,274	850	1,631	1,493
Girls Golf	4,631	2,747	4,967	2,411
Girls Softball	-	1,130	1,130	-
Boys Tennis	149	1,800	1,165	784
Girls Tennis	962	10,595	11,565	(8)
Girls Track	194	-	-	194
Dance	15	464	468	11
High School Baseball	196	-	-	196
High School Boys Soccer	2,779	5,750	5,404	3,125
High School Cross Country	6,340	11,456	9,362	8,434
Drafting	-	1,050	30	1,020
Forensics	-	375	51	324
Middle School Girls Basketball	-	683	-	683
Middle School Greenhouse	-	131	-	131
Ottawa Boy's Group	-	700	501	199

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2010

	Balances July 1, 2009	Receipts	Disbursements	Balances June 30, 2010
High School Football	\$ 45	\$ -	\$ -	\$ 45
High School Girls Soccer	6,477	1,919	4,089	4,307
H. S. Social Studies Club	108	-	-	108
High School Hockey	22,123	64,901	65,592	21,432
Indian Education - Unity Trip	2,738	-	2,469	269
Volleyball	771	5,820	6,012	579
Total due to student groups	184,954	400,061	408,129	176,886
Scholarships payable				
Doris Reber - Class of 1932 Scholarship	212,474	3,523	5,000	210,997
Robert Motely Memorial Fund	1,106	-	500	606
Henshaw Memorial Scholarship	4,269	70	-	4,339
Middle School Foundation Grant	6,308	5,000	3,555	7,753
McClutchey Memorial Scholarship	5,166	88	150	5,104
Midshipmen Scholarship	7,209	123	200	7,132
PEF Grants - ACT/SAT Seminar	-	1,475	1,307	168
PEF Grants - High School	900	5,500	5,400	1,000
PEF Grants - Lincoln	-	907	407	500
PEF Grants - Sheridan	500	-	500	-
PEF Grants - Central	-	4,000	4,000	-
PEF Grants - Ottawa	185	339	524	-
PEF Grants - Middle School	893	3,714	4,607	-
Vaughn Memorial Scholarship	17,104	282	300	17,086
Wil Moyer Music Scholarship	707	500	480	727
Total scholarships payable	256,821	25,521	26,930	255,412
Due to others				
Central Gym Project	50	-	-	50
Central PTO	2,019	7,922	7,409	2,532
COATS	88	-	88	-
Eric Greyerbiehl Memorial Fund	2,562	-	300	2,262
Guidance Dept Testing	1,982	1,305	1,588	1,699
Kathy Robinson Memorial Fund	96	-	-	96
Lincoln PTO	8,803	28,370	34,369	2,804
Middle School Celebration Garden	517	-	-	517
Northmen Night	1,314	35,602	36,736	180
Ottawa PTO	1,704	2,739	3,545	898
Ottawa PTO Board Fund	21,138	44,751	35,756	30,133
Spitler Building Pop Fund	124	124	91	157
Student Reserve	40,560	4,983	5,244	40,299
Athletic miscellaneous fundraisers	3,222	280	2,642	860
Total due to others	84,179	126,076	127,768	82,487
Totals	\$ 525,954	\$ 551,658	\$ 562,827	\$ 514,785

Concluded

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2010

PURPOSE	2005 Refunding Bonds
DATE OF ISSUE	May 27, 2005
RATE OF INTEREST	3.00% to 5.00%
ORIGINAL OBLIGATION	\$ 21,370,000
AMOUNT PREVIOUSLY PAID	<u>3,830,000</u>
BALANCE OUTSTANDING - June 30, 2010	<u>\$ 17,540,000</u>

<u>Fiscal Year</u>	<u>November 1, Interest</u>	<u>May 1, Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2010-2011	383,488	383,488	1,685,000	2,451,976
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>\$ 2,001,772</u>	<u>\$ 2,001,772</u>	<u>\$ 17,540,000</u>	<u>\$ 21,543,544</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, 2010

PURPOSE	Durant Resolution Package Bonds
DATE OF ISSUE	November 24, 1998
RATE OF INTEREST	4.76%
ORIGINAL OBLIGATION	\$ 162,282
AMOUNT PREVIOUSLY PAID	<u>131,110</u>
BALANCE OUTSTANDING - June 30, 2010	<u>\$ 31,172</u>

<u>Fiscal Year</u>	<u>May 1, Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2010-2011	1,484	9,912	11,396
2011-2012	1,012	10,383	11,395
2012-2013	<u>518</u>	<u>10,877</u>	<u>11,395</u>
	<u>\$ 3,014</u>	<u>\$ 31,172</u>	<u>\$ 34,186</u>

CALL PROVISION

This bond is not subject to redemption prior to maturity.

Continued...

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2010

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>244,411</u>
BALANCE OUTSTANDING - June 30, 2010	<u><u>\$ 455,589</u></u>

<u>Fiscal Year</u>	<u>Interest</u>	<u>May 15, Principal</u>	<u>Annual Requirements</u>
2010-2011	21,765	44,661	66,426
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>\$ 103,503</u>	<u>\$ 455,589</u>	<u>\$ 559,092</u>

Continued...

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2010

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>116,828</u>
BALANCE OUTSTANDING - June 30, 2010	<u><u>\$ 583,172</u></u>

<u>Fiscal Year</u>	<u>Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2010-2011	28,293	38,134	66,427
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>\$ 186,270</u>	<u>\$ 583,172</u>	<u>\$ 769,442</u>

Concluded

OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)

PUBLIC SCHOOLS OF PETOSKEY
PROPERTY TAX INFORMATION (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2010

Taxing District	Tax Levy	Collections and Other Reductions	Delinquent Personal Property Taxes	Percentage of Current Year Levy Collected
Bear Creek Township	\$ 5,649,702	\$ 5,620,361	\$ 29,341	99.48%
Littlefield Township	68,078	68,041	37	99.95%
Little Traverse Township	474,525	465,816	8,709	98.16%
Resort Township	3,594,317	3,592,609	1,708	99.95%
Springvale Township	898,094	897,614	480	99.95%
City of Petoskey	8,172,633	8,165,385	7,248	99.91%
Chandler Township	154,235	153,882	353	99.77%
Hayes Township	49,211	49,211	-	100.00%
Melrose Township	997,780	997,439	341	99.97%
Total	\$ 20,058,575	\$ 20,010,358	\$ 48,217	99.76%
Allocated as follows				
General Fund	\$ 15,534,855	\$ 15,513,134	\$ 21,721	99.86%
Debt Service Funds	2,580,726	2,564,274	16,452	99.36%
Capital Projects Fund	1,942,994	1,932,950	10,044	99.48%
Total allocated to all funds	\$ 20,058,575	\$ 20,010,358	\$ 48,217	99.76%

PUBLIC SCHOOLS OF PETOSKEY
TEN-YEAR SUMMARY OF ENROLLMENT (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2010

Year	Special Education	Elementary School	Middle School	High School	Total	Non-Resident	Resident
2001	47.45	1,212.21	734.35	1,027.19	3,021.20	209.00	2,812.20
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	2,733.10
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

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
2001	\$ 20,110,469	3,021.20	\$ 6,656
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	25,333,989	2,974.87	8,516
2010	25,333,989	2,932.14	8,640

* General Fund expenditures and transfers only.

SINGLE AUDIT

**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, 2010

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, 2010, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated October 14, 2010. 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 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 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 black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	CFDA Number	Approved Grant Award Amount	Accrued Revenue July 1, 2009
U.S. Department of Education			
Indian Education			
08/09	84.060A	\$ 51,803	\$ 4,879
09/10	84.060A	53,766	-
Total Indian Education		105,569	4,879
Title III - Limited English Proficiency	84.365A	615	-
Passed Through the Michigan Department of Education			
ECIA Title I			
091530-0809 Regular	84.010	377,335	340,748
101530-0910 Regular	84.010	355,432	-
Total ECIA Title I		732,767	340,748
ARRA Title I - 101535-0910 Regular	84.389	196,353	-
Title IIA - Improving Teacher Quality			
090520-0809 Regular	84.367	107,823	98,929
100520-0910 Regular	84.367	106,643	-
Total Title IIA		214,466	98,929
Title IID - Enhancing Education Through Technology			
094290-0809	84.318	3,256	3,256
ARRA - TITLE II-D '104295-0910	84.386A	7,222	-
Total Title IID		10,478	3,256
ARRA - State Fiscal Stabilization Fund			
092525-0809	84.394	1,105,112	1,105,112
102525-0910	84.394	833,345	-
Total State Fiscal Stabilization Fund		1,938,457	1,105,112
Total Passed Through Michigan Department of Education		3,092,521	1,548,045

(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts Cash Basis	Accrued Revenue June 30, 2010
\$ 51,803	\$ -	\$ 4,879	\$ -
-	53,766	46,819	6,947
51,803	53,766	51,698	6,947
-	615	615	-
340,748	36,587	377,335	-
-	323,141	301,046	22,095
340,748	359,728	678,381	22,095
-	74,185	70,475	3,710
98,929	8,894	107,823	-
-	93,784	86,361	7,423
98,929	102,678	194,184	7,423
3,256	-	3,256	-
-	116	88	28
3,256	116	3,344	28
1,105,112	-	1,105,112	-
-	833,345	833,345	-
1,105,112	833,345	1,938,457	-
1,548,045	1,370,052	2,884,841	33,256

Continued...

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	CFDA Number	Approved Grant Award Amount	Accrued Revenue July 1, 2009
U.S. Department of Education (concluded)			
Passed Through ISD			
IDEA			
090490-TS, Transition	84.027A	\$ 542	\$ -
100490-TS, Transition	84.027A	732	-
Total IDEA, Transition		1,274	-
Vocational Education Secondary CTE Perkins			
093520-0809	84.048A	4,709	-
103520-0910	84.048A	10,043	-
Total Perkins		14,752	-
Drug Free Schools			
082860-0708 Regular	84.186A	1,282	-
092860-0809 Regular	84.186A	6,719	-
Total Drug Free Schools		8,001	-
Tech-Prep Education			
0809 Regular	84.243A	6,369	
103540/10145 -0910	84.243A	500	
Total Tech-Prep Education		6,869	-
Homeless Childeren and Youths	84.186	939	-
Medicaid Outreach			
0809 Regular	93.778	6,850	-
0910 Regular	93.778	5,440	-
Total Medicaid Outreach		12,290	-
Total Passed Through ISD		44,125	-
Total U.S. Department of Education		3,242,830	1,552,924

(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued Revenue June 30, 2010
\$ 542	\$ -	\$ -	\$ -
-	732	732	-
542	732	732	-
4,709	-	-	-
-	10,043	10,043	-
4,709	10,043	10,043	-
1,282	-	-	-
-	6,719	6,719	-
1,282	6,719	6,719	-
6,369	-	-	-
-	500	500	-
6,369	500	500	-
-	939	939	-
6,850	-	-	-
-	5,440	5,440	-
6,850	5,440	5,440	-
19,752	24,373	24,373	-
1,619,600	1,448,806	2,961,527	40,203

Continued...

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	CFDA Number	Approved Grant Award Amount	Accrued Revenue July 1, 2009
U.S. Department of Agriculture			
Passed through Michigan Department of Education			
Commodities			
Entitlement Commodities	10.555	\$ 48,708	\$ -
Bonus Commodities	10.555	4,951	-
Total Commodities		53,659	-
National School Lunch - Breakfast			
91970	10.553	75,427	-
101970	10.553	84,045	-
Total National School Lunch - Breakfast		159,472	-
National School Lunch			
Section 4 All Lunches - 91950	10.555	58,573	-
Section 4 All Lunches - 101950	10.555	56,600	-
Section 11 Free & Reduced - 91960	10.555	277,475	-
Section 11 Free & Reduced - 101960	10.555	295,183	-
Total National School Lunch		687,831	-
Total U.S. Department of Agriculture		900,962	-
Total Federal Financial Awards		\$ 4,143,792	\$ 1,552,924

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 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 Grants Section Auditors Report (Form 7120) in preparing the Schedule of Expenditures of Federal Awards.

(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued Revenue June 30, 2010
\$ -	\$ 48,708	\$ 48,708	\$ -
-	4,951	4,951	-
-	53,659	53,659	-
68,679	6,748	6,748	-
-	84,045	84,045	-
68,679	90,793	90,793	-
52,982	5,590	5,590	-
-	56,600	56,600	-
249,854	27,620	27,620	-
-	295,183	295,183	-
302,836	384,993	384,993	-
371,515	529,445	529,445	-
\$ 1,991,115	\$ 1,978,251	\$ 3,490,972	\$ 40,203

Continued...

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2010

RECONCILIATION TO GRANT SECTION AUDITORS' REPORT

Current payments per the grant section auditors' report	\$ 3,360,627
Plus	
Amounts passed through Charlevoix-Emmet Intermediate School District	23,434
Amounts passed through Cheboygan-Otsego-Presque Isle Educational Service District	939
Entitlement and bonus commodities	53,659
Direct award from Department of Education	<u>52,313</u>
Total current year receipts per schedule of expenditures of federal awards	<u>\$ 3,490,972</u>
	Concluded

**REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

October 14, 2010

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

Compliance

We have audited the compliance of *Public Schools of Petoskey* (the “District”) with the types of compliance requirements described in the U. S. Office of Management and Budget (“OMB”) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. 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 Nonprofit 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 are applicable to its major federal program for the year ended June 30, 2010.

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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an 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 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 black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Type of auditors’ report issued on compliance for major programs: Unqualified

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

Continued...

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2010

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	ECIA Title I and ARRA Title I
10.553/10.555	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

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