

Public Schools of
Petoskey



Year Ended
June 30, 2012

Financial
Statements

PUBLIC SCHOOLS OF PETOSKEY

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	4-10
Basic Financial Statements:	
District-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	16-17
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	18
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds	19-20
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	22
Statement of Fiduciary Net Assets	23
Notes to Financial Statements	25-37
Combining and Individual Fund Financial Statements	
Nonmajor Governmental Funds:	
Combining Balance Sheet - Nonmajor Governmental Funds	39
Combining Statement of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	40
Balance Sheet - General Fund	41
Schedule of Revenues - General Fund	42
Schedule of Operating Expenditures - General Fund	43-46
Balance Sheet - Food Service Special Revenue Fund	47
Statement of Revenues, Expenditures and Changes in Fund Balances - Food Service Special Revenue Fund	48
Combining Balance Sheet - Capital Project Funds	49-50
Combining Statement of Revenue, Expenditures and Changes in Fund Balances - Capital Projects	51-52
Combining Balance Sheet Schedule - Debt Service Fund	53-54
Combining Schedule of Debt Service Activities and Changes in Fund Balances - Debt Service Fund	55-56
Statement of Changes in Assets and Liabilities - Agency Fund	57-60
Schedules of Bond Indebtedness and Other Installment Debt	61-65

PUBLIC SCHOOLS OF PETOSKEY

Table of Contents

	<u>Page</u>
Other Supplementary Information (Unaudited)	
Property Tax Information	67
Ten-Year Summary of Enrollment	68
Ten-Year Summary of General Fund Expenditures, Student Enrollment and Per Pupil Costs	69
Single Audit Act Compliance	
Schedule of Expenditures of Federal Awards	71-73
Notes to Schedule of Expenditures of Federal Awards	74
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	75-76
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	77-78
Schedule of Findings and Questioned Costs	79-80
Summary Schedule of Prior Audit Findings	81

INDEPENDENT AUDITORS' REPORT

October 18, 2012

Honorable Members of the
Board of Education
of the 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 the Public Schools of Petoskey (the "District") as of and for the year ended June 30, 2012, 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, 2012, 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 18, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The information on pages 67-69 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents, except for the information included on pages 67-69 which is unaudited, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the basic financial statements of the District. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is centered on the page.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Public Schools of Petoskey

Management's Discussion and Analysis

As management of the Public Schools of Petoskey (the "District"), a K-12 school district located in Emmet and Charlevoix Counties, Michigan, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. 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, 2012 Technology Bonds 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.

Public Schools of Petoskey

Management's Discussion and Analysis

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

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

The fund financial statements are formatted to comply with the legal requirements of the Michigan Department of Education's Bulletin 1022. The District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including:

- . Debt Service Fund - consisting of the 2012 Technology bonds, 2005 refunding bonds, Durant bonds, and two land contracts.
- . Special Revenue Fund - consisting of the Food Service Fund.
- . Capital Project Funds - consisting of the Sinking Fund, Roof Repair Fund, Technology Fund, and Building & Site Fund.

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

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

District-Wide Financial Analysis

As stated earlier, the summary of net assets provides the perspective of the District as a whole. The District's net assets increased 5.46% to approximately \$38,573,000 as a result of operations in the current year. The table below provides a summary of the District's net assets as of June 30, 2012, and June 30, 2011:

	Net Assets		
	Governmental Activities		Percent Change
	2012	2011	
Current assets	\$15,783,687	\$11,392,333	38.55%
Deferred bond refunding costs	454,972	457,515	-0.56%
Capital assets, net of accumulated depreciation	46,777,790	46,505,769	0.58%
Total assets	63,016,449	58,355,617	7.99%

Public Schools of Petoskey

Management's Discussion and Analysis

	Net Assets		
	Governmental Activities		Percent Change
	2012	2011	
Current Liabilities	\$ 3,530,169	\$ 3,870,404	-8.79%
Long-term liabilities	20,913,537	17,911,206	16.76%
Total liabilities	24,443,706	21,781,610	12.22%
Net assets:			
Invested in capital assets, net of related debt	31,788,855	29,694,803	7.05%
Restricted	8,635,481	3,797,950	127.37%
Unrestricted	(1,851,593)	3,081,254	-160.09%
Total net assets	\$38,572,743	\$36,574,007	5.46%

Capital assets net of related debt, approximately \$31,788,855, is the original cost of the District's capital assets, less depreciation, less the long-term debt outstanding used to finance the acquisition of those assets. This debt will be repaid mainly from voter-approved property taxes collected as the debt and interest payments come due. Restricted net assets of approximately \$8,635,000 are shown separately to recognize legal constraints from debt covenants and enabling legislation. These constraints limit the District's ability to use those net assets for day-to-day operations.

The remaining amount of net assets deficit of approximately \$1,852,000 is unrestricted and represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations of the District as a whole are reported in the statement of activities, summarized in the table below, which shows the changes in net assets for fiscal year 2012 and 2011.

	Change in Net Assets		
	Governmental Activities		Percent Change
	2012	2011	
Program Revenues:			
Charges for services	\$ 719,811	\$ 751,739	-4.25%
Grants and contributions	4,537,010	4,513,737	0.52%
General Revenues:			
Property taxes	19,054,898	19,546,617	-2.52%
Unrestricted state aid	6,111,043	5,587,801	9.36%
Other	114,111	335,859	-66.02%
Total revenues	\$30,536,873	\$30,735,753	-0.65%

Public Schools of Petoskey

Management's Discussion and Analysis

	Change in Net Assets		
	Governmental Activities		Percent
	2012	2011	Change
Instruction	\$17,207,905	\$16,908,930	1.77%
Supporting services	7,362,385	7,232,749	1.79%
Community services	12,130	25,248	-51.96%
Food services	963,186	992,625	-2.97%
Athletics	512,319	549,148	-6.71%
Interest on long-term debt	750,945	819,660	-8.38%
Unallocated depreciation	1,729,267	1,703,392	1.52%
Total expenses	<u>28,538,137</u>	<u>28,231,752</u>	<u>1.09%</u>
Increase in net assets	<u>\$ 1,998,736</u>	<u>\$ 2,504,001</u>	<u>-20.18%</u>

Of the District's total revenues available to operate the District, 2.36% or approximately \$720,000 came from fees charged to those who benefited from the programs. Revenues from other governments or organizations that subsidize certain programs with grants and other directed types of funding approximated 14.86% or approximately \$4,537,000.

Local property taxes, of approximately \$19,055,000 or 62.40% of total revenue, supported the remaining portion of the governmental activities. Property tax revenue declined by 2.52% due to the declines in property valuations experienced all across the region. The property tax revenue comes mainly from the 18 mills on all non-homestead property, which we are required to levy by the State in order to receive our full State foundation allowance. The District enjoys the support of the community in maintaining our facilities, as approximately \$1,801,000 of the \$19,055,000 in tax revenue is generated by a special millage specifically for capital expenditures. The proceeds and expenditures of this special millage are accounted for exclusively in the District's Sinking Fund. This special millage was renewed by voters in May 2012, and will expire on December 31, 2019.

The State foundation allowance accounted for 20.01% or approximately \$6,111,000 of the revenue available. This revenue is determined by a formula that incorporates pupil headcount, the annual per pupil allowance, and the non-homestead property taxable values of the District. The increase of 9.36% is mainly due to an increase of 51 students in 2012, the District's qualifying for the State's Best Practice Incentive funding, and State funding offsets on the District's retirement costs.

The expense portion of table above shows the financial support of each functional area required during the year. The overall increase of 0.65% is due the increase in students mentioned in the previous paragraph. Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for approximately \$17,208,000 or 60.30% of total expenses. Support services cost approximately \$7,362,000 or 25.80% of total expenses, which include such items as transportation, maintenance, security, supervision, counseling, health care, and a variety of similar services that support the District's mission of educating children.

The District experienced an increase in net assets of approximately \$1,999,000 or a 20.18% decrease from the fiscal 2011 increase in net assets of approximately \$2,504,000. Overall, revenue decreased 0.93%, while expenses increased by 0.78%. 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.

Public Schools of Petoskey

Management's Discussion and Analysis

Financial Analysis of the District's Funds

As noted earlier, the District uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide, and may provide more insight in the District's overall financial health. As the District completed this year, the governmental funds reported a combined fund balance of approximately \$12,347,000, which is an increase of approximately \$4,847,000 from the prior year. Approximately \$4,900,000 of this increase was due to the successful passage of our Technology Bond issue in May 2013. The remaining difference is due to planned use of resources to support our programming.

Of the combined governmental fund balances, 9.14% or approximately \$1,128,000 constitutes unassigned fund balance, which is available for spending at the District's discretion. District management has assigned approximately \$2,418,000 as assigned fund balance to indicate planned uses of these funds. Of the assigned fund balance, approximately \$94,000 has been set aside to recognize the fund balance accumulated by the efforts of the Athletic department and supporters. Management has assigned approximately another \$1,750,000 against subsequent year expenditures, in anticipation of declines in state and federal funding. Approximately \$8,635,000 is restricted fund balance to indicate that it is not available for spending at the District's discretion. Of the restricted fund balance, approximately \$8,229,000 is earmarked for capital improvements and approximately \$407,000 is earmarked for payments on long-term debt. The remaining fund balance is non-spendable fund balance, and is earmarked for inventory and prepaid items.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, assigned fund balance of the General Fund was approximately \$1,844,000, while total fund balance was approximately \$3,033,000. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 12.04% of total General Fund expenditures and transfers.

The fund balance of the District's General Fund increased by approximately \$157,000 during the current fiscal year, mainly due to management instituted budget cuts designed to bring spending levels within anticipated revenues. See the above discussion relative to District-wide governmental activities.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires the budget be amended to ensure expenditures do not exceed appropriations. A statement showing the District's original and final budget amounts, compared with amounts actually paid and received, is provided in the basic financial statements.

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

- . The District's General Fund revenues were approximately \$198,000 less than the final amended budget, a variance of (0.78)%. The actual revenue was under budget mainly due to some federal awards not being spent in the time frame anticipated.
- . The District's General Fund expenditures were approximately \$740,000 less than the final amended budget, a variance of (2.94)%. The reduction of actual expenditures under budget is due to cost saving programs implemented throughout the year and due to some federal awards not being spent in the time frame anticipated.
- . The difference between the original and final amended budget for the General Fund is mainly related to changes in health benefits that were not known at the time of the original budget and various other small changes to budgeted revenues and expenditures.

Public Schools of Petoskey

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets. By June 30, 2012, the District had invested approximately \$76,551,000 in a broad range of capital assets, including school buildings, land, athletic facilities, furniture, and equipment. This represents a net increase (including all additions and disposals) of approximately \$1,669,000 or 2.22% from last year. More detailed information about capital assets is available in Note 7 to the financial statements.

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

	Capital Assets	
	2012	2011
Land	\$ 3,384,351	\$ 3,384,351
Construction-in-progress	282,156	727,930
Buildings and improvements	64,659,751	62,841,985
Furniture and equipment	8,224,912	7,927,755
	<u>76,551,170</u>	<u>74,882,021</u>
Total capital assets		
Less accumulated depreciation	<u>29,773,380</u>	<u>28,376,252</u>
Net capital assets	<u>\$46,777,790</u>	<u>\$46,505,769</u>

Debt. At year-end, the District had approximately \$20,519,000 in general obligation bonds and other long-term debt outstanding - an increase of 17.00% from last year - as shown in the below table. \$4.9 million of the increase is due to the passage of the 2012 Technology Bond. More detailed information about the District's long-term debt is presented in the Notes to the financial statements, and in the Other Supplemental Information section.

	Long-Term Debt	
	2012	2011
General obligation bonds	\$19,050,000	\$15,855,000
Other general obligation debt	<u>1,469,227</u>	<u>1,682,697</u>
Total long-term debt	<u>\$20,519,227</u>	<u>\$17,537,697</u>

In 2006, the District entered into a land contract for the purchase of land in the amount of \$700,000. The balance on the contract was approximately \$505,000 at June 30, 2012. In 2004, the District also entered into a land contract for the purchase of land. The original amount of the 2004 land contract was \$700,000, and the remaining balance at year end is approximately \$364,000.

Public Schools of Petoskey

Management's Discussion and Analysis

Factors Bearing on the District's Future

We considered many factors when setting the District's 2012-13 fiscal year budget, including the anticipated loss of significant amounts of state and federal funding. The District has planned for this loss, as evidenced by the cost-savings measures implemented over the past several years, and the steady increase in our fund balance.

Approximately 81% of total General Fund revenues are from the foundation allowance, including property taxes. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. That makes our student count estimate one of the most important factors impacting our budget. In setting the budget for 2012-13, we assumed a reduction of 29 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 2011-12, the District saw a foundation allowance of \$6,846. This State funding was \$370 less than in 2010-11, after the District qualified for the State's "Best Practice Incentive" funds. Anticipating this drop in revenue, the District delayed the use of the 2010-11 Federal Edujobs grant until 2011-12, thereby allowing total school funding to remain essentially static over the past three years, during a time when school funding statewide has been sharply declining.

Going into the budget planning cycle for 2012-13, we believe the foundation allowance will stay level at \$6,846. We also assume that the Federal Edujobs grant which expired in June 2012 will not be renewed. To offset this decline in funding, the District plans to utilize a significant portion of fund balance. The combination of expected results in pupil count, reductions and offsets in funding, and increases in expenditures results in our 2012-13 budget showing an approximate decrease of \$2.4 million in ending fund balance. This planned decrease will reduce the fund balance to approximately 5.2% of expenditures, which is slightly above the minimum level required to meet cash flow requirements without borrowing. The District is carefully monitoring the State's efforts at retirement reform, which could reduce costs for the District by \$250,000 to \$350,000 and thereby increase ending fund balance to a more comfortable level of 6.3% of expenditures. At this time, no additional cost-savings measures are anticipated as the year begins.

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

Statement of Net Assets

Governmental Activities

June 30, 2012

Assets	
Cash and cash equivalents	\$ 9,231,261
Investments	4,868,687
Receivables	1,518,497
Other current assets	165,242
Deferred bond refunding costs	454,972
Capital assets not being depreciated	3,666,507
Capital assets being depreciated, net	<u>43,111,283</u>
Total assets	<u>63,016,449</u>
Liabilities	
Accounts payable and accrued expenditures	3,175,408
Unearned revenue	354,761
Long-term liabilities:	
Due within one year	2,373,991
Due in more than one year	<u>18,539,546</u>
Total liabilities	<u>24,443,706</u>
Net Assets	
Invested in capital assets, net of related debt	31,788,855
Restricted for capital outlay	8,228,838
Restricted for debt service	406,643
Unrestricted (deficit)	<u>(1,851,593)</u>
Total net assets	<u>\$ 38,572,743</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, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 17,207,905	\$ 124,108	\$ 3,807,855	(13,275,942)
Supporting services	7,362,385	48,676	65,097	(7,248,612)
Community services	12,130	-	-	(12,130)
Food services	963,186	373,999	603,049	13,862
Athletics	512,319	173,028	61,009	(278,282)
Interest on long-term debt	750,945	-	-	(750,945)
Unallocated depreciation	1,729,267	-	-	(1,729,267)
Total governmental activities	\$ 28,538,137	\$ 719,811	\$ 4,537,010	(23,281,316)
General revenues				
Property taxes - operations				16,576,703
Property taxes - debt service				2,478,195
Unrestricted state aid				6,111,043
Unrestricted investment earnings				30,339
Other				83,772
Total general revenues				25,280,052
Change in net assets				1,998,736
Net assets, beginning of year				36,574,007
Net assets, end of year				\$ 38,572,743

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, 2012

	General	Sinking	2012 Technology Bonds
Assets			
Cash and cash equivalents	\$ 400	\$ 3,268,368	\$ 4,930,007
Investments	4,599,894	214,975	-
Accounts receivable	1,922	-	-
Due from other funds	7,559	-	-
Due from other governmental units	1,505,698	-	-
Other assets	61,310	-	-
Total assets	\$ 6,176,783	\$ 3,483,343	\$ 4,930,007
Liabilities			
Accounts payable	\$ 286,163	\$ -	\$ -
Checks issued in excess of cash	221,223	-	-
Contracts payable	-	184,512	-
Salaries payable	1,460,624	-	-
Accrued expenses	821,988	-	-
Due to other funds	-	-	-
Deferred revenue	353,674	-	-
Total liabilities	3,143,672	184,512	-
Fund balances			
Nonspendable			
Inventory	14,171	-	-
Prepaid items	47,139	-	-
Restricted			
Debt service	-	-	-
Capital outlay - capital project funds	-	3,298,831	4,930,007
Assigned			
Athletics	93,829	-	-
Food service	-	-	-
Capital outlay - capital project funds	-	-	-
Subsequent year expenditures	1,749,836	-	-
Unassigned	1,128,136	-	-
Total fund balances	3,033,111	3,298,831	4,930,007
Total liabilities and fund balances	\$ 6,176,783	\$ 3,483,343	\$ 4,930,007

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



Debt Service	Nonmajor Funds	Total Governmental Funds
\$ 405,946	\$ 626,540	\$ 9,231,261
53,818	-	4,868,687
-	-	1,922
-	-	7,559
10,877	-	1,516,575
-	103,932	165,242
<u>\$ 470,641</u>	<u>\$ 730,472</u>	<u>\$ 15,791,246</u>

\$ 45,562	\$ 51,018	\$ 382,743
-	-	221,223
-	-	184,512
-	-	1,460,624
-	-	821,988
7,559	-	7,559
10,877	1,087	365,638
<u>63,998</u>	<u>52,105</u>	<u>3,444,287</u>

-	103,932	118,103
-	-	47,139
406,643	-	406,643
-	-	8,228,838
-	-	93,829
-	15,355	15,355
-	559,080	559,080
-	-	1,749,836
-	-	1,128,136
<u>406,643</u>	<u>678,367</u>	<u>12,346,959</u>
<u>\$ 470,641</u>	<u>\$ 730,472</u>	<u>\$ 15,791,246</u>

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PUBLIC SCHOOLS OF PETOSKEY

Reconciliation

Fund Balances for Governmental Funds
to Net Assets of Governmental Activities
June 30, 2012

Fund balances - total governmental funds	\$ 12,346,959
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Capital assets	76,551,170
Accumulated depreciation	(29,773,380)
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenue in the governmental funds, and thus are not included in fund balance.	
Long-term deferred assets	10,877
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deferred bond refunding costs, net of amortization	454,972
Premium on bond refunding, net of amortization	(394,310)
Bonds and land contracts payable	(19,929,812)
Employee incentives	(2,493)
Accrued interest on bonds payable	(104,318)
Compensated absences	(586,922)
Net assets of governmental activities	<u>\$ 38,572,743</u>

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

PUBLIC SCHOOLS OF PETOSKEY

Statement of Revenue, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2012

	General	Sinking	2012 Technology Bonds
Revenues			
Local sources:			
Property taxes	\$ 14,311,708	\$ 1,801,220	\$ -
Payment in lieu of taxes	463,775	-	-
Charges for services	225,831	-	-
Tuition	18,277	-	-
Rent income	-	-	-
Interest	8,337	14,337	7
Athletics	234,037	-	-
Other income	105,607	-	-
State sources	7,503,569	-	-
Federal sources	1,207,048	-	-
Interdistrict sources	1,272,365	-	-
Total revenues	25,350,554	1,815,557	7
Expenditures			
Current:			
Instruction	17,321,492	-	-
Supporting services	7,775,689	-	-
Community services	12,130	-	-
Food services	-	-	-
Other	-	21,842	-
Capital outlay	84,685	1,764,158	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Total expenditures	25,193,996	1,786,000	-
Revenues over (under) expenditures	156,558	29,557	7
Other financing (uses) sources			
Premium on bond issuance	-	-	-
Bond proceeds	-	-	-
Transfers in	-	-	4,930,000
Transfers out	-	(132,853)	-
Total other financing (uses) sources	-	(132,853)	4,930,000
Net change in fund balances	156,558	(103,296)	4,930,007
Fund balance, beginning of year	2,876,553	3,402,127	-
Fund balances, end of year	\$ 3,033,111	\$ 3,298,831	\$ 4,930,007

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

Debt Service	Nonmajor Funds	Total Governmental Funds
\$ 2,478,195	\$ -	\$ 18,591,123
-	-	463,775
-	373,999	599,830
-	-	18,277
-	48,676	48,676
4,167	3,498	30,346
-	-	234,037
-	-	105,607
11,396	37,883	7,552,848
-	565,166	1,772,214
-	-	1,272,365
<u>2,493,758</u>	<u>1,029,222</u>	<u>30,689,098</u>
-	-	17,321,492
-	-	7,775,689
-	-	12,130
-	963,186	963,186
71,027	-	92,869
-	237,773	2,086,616
1,832,414	-	1,832,414
754,835	-	754,835
<u>2,658,276</u>	<u>1,200,959</u>	<u>30,839,231</u>
<u>(164,518)</u>	<u>(171,737)</u>	<u>(150,133)</u>
67,485	-	67,485
4,930,000	-	4,930,000
132,853	-	5,062,853
<u>(4,930,000)</u>	<u>-</u>	<u>(5,062,853)</u>
<u>200,338</u>	<u>-</u>	<u>4,997,485</u>
35,820	(171,737)	4,847,352
<u>370,823</u>	<u>850,104</u>	<u>7,499,607</u>
<u>\$ 406,643</u>	<u>\$ 678,367</u>	<u>\$ 12,346,959</u>

PUBLIC SCHOOLS OF PETOSKEY

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Assets of Governmental Activities
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds \$ 4,847,352

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	2,087,716
Loss on disposal of capital assets	(86,428)
Depreciation expense	(1,729,267)

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.

Premium on bonds	(67,485)
Bond issuance costs	54,645
Amortization of bond premium	46,684
Amortization of bond refunding cost	(57,188)

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.

Issuance of technology bonds	(4,930,000)
Principal payments on long-term liabilities	1,832,414
Early retirement incentive payments	132,857

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

Payments received on long-term Durant Settlement receivable	(10,383)
Sale of long-term deferred assets	(120,000)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in the accrual for compensated absences	(16,801)
Change in accrued interest payable on bonds	14,620

Change in net assets - governmental activities \$ 1,998,736

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

PUBLIC SCHOOLS OF PETOSKEY

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

General Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 15,352,980	\$ 15,359,030	\$ 15,367,572	\$ 8,542
State sources	6,910,610	7,508,718	7,503,569	(5,149)
Federal sources	1,299,337	1,347,377	1,207,048	(140,329)
Interdistrict sources	1,411,010	1,332,938	1,272,365	(60,573)
Total revenue	<u>24,973,937</u>	<u>25,548,063</u>	<u>25,350,554</u>	<u>(197,509)</u>
Expenditures				
Current:				
Instruction	17,905,077	17,610,841	17,321,492	(289,349)
Supporting services	8,283,372	8,291,651	7,775,689	(515,962)
Community services	39,072	31,296	12,130	(19,166)
Capital outlay	-	-	84,685	84,685
Total expenditures	<u>26,227,521</u>	<u>25,933,788</u>	<u>25,193,996</u>	<u>(739,792)</u>
Net change in fund balance	(1,253,584)	(385,725)	156,558	542,283
Fund balance, beginning of year	<u>2,876,553</u>	<u>2,876,553</u>	<u>2,876,553</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,622,969</u>	<u>\$ 2,490,828</u>	<u>\$ 3,033,111</u>	<u>\$ 542,283</u>

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

PUBLIC SCHOOLS OF PETOSKEY

Statement of Fiduciary Net Assets

Agency Fund
June 30, 2012

Assets	
Cash and cash equivalents	\$ 144,768
Investments	425,000
Accounts receivable	<u>1,100</u>
Total assets	<u>\$ 570,868</u>
Liabilities	
Due to student groups	\$ 246,314
Scholarships payable	240,590
Due to others	<u>83,964</u>
Total liabilities	<u>\$ 570,868</u>

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

NOTES TO FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Public Schools of Petoskey (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 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 includes significant operational or financial relationships with the District.

District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. 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, 2012.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting 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 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 District.

The District reports the following major governmental funds:

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

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

The *2012 Technology Bonds Fund* is used to record capital project activities funded with the 2012 technology bond proceeds.

The *Debt Service Fund* is used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

Additionally, the District reports the following fund types:

The *Special Revenue Fund* accounts and reports the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

The *Capital Project Funds* account for the financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

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

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

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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Assets, liabilities and equity

Deposits and investments

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

Investments are reported at fair value.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). There were no interfund advances outstanding at June 30, 2012.

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 or sold rather than when purchased. Reported inventories are equally offset by nonspendable fund balance, which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets.

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

Capital assets

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

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:

	Years
Buildings and improvements	5-50
Furniture and equipment	5-15

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Compensated absences

District policy permits certain employees to accumulate earned but unused sick pay benefits, which are paid when the employee separates from service with the District. A liability is recorded in the District-wide financial statements for such amounts. No liability is recorded for accumulated vacation since hours earned do not vest.

Long-term obligations

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net 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.

Fund equity

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

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

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

2. BUDGETARY INFORMATION

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

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

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

The General Fund had no amount budget for capital outlay expenditures while actual expenditures were \$84,685 resulting in expenditures in excess of budget of \$84,685.

3. DEPOSITS AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of June 30, 2012:

	Totals
Statement of Net Assets	
Cash and cash equivalents	\$ 9,231,261
Investments	4,868,687
Statement of Fiduciary Net Assets	
Agency Funds	
Cash and cash equivalents	144,768
Investments	<u>425,000</u>
Total	<u>\$ 14,669,716</u>
Deposits and investments	
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 9,800,629
Cash on hand	400
Investments	<u>4,868,687</u>
Total	<u>\$ 14,669,716</u>

Michigan law authorizes the District to deposit and invest in:

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

Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

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

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

	Maturity	Fair Value	Rating
Michigan Liquid Asset Fund	n/a	\$ 4,868,687	S&P - AAAM

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

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, \$4,920,040 of the District’s bank balance of \$5,420,040 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

4. RECEIVABLES

Receivables in the governmental activities are 100% due from other governments.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued expenses are 18 percent vendors, 7 percent checks issued in excess of cash, 46 percent salaries, and 29 percent accrued expenses.

6. INTERFUND RECEIVABLES AND 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, 2012, the Debt Service Fund had an outstanding liability to the General Fund for \$7,559.

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, 2012, the District's Sinking Capital Project Fund transferred \$132,853 to the Debt Service Fund and the Debt Service Fund transferred \$4,930,000 to the 2012 Technology Bonds Fund.

7. CAPITAL ASSETS

Capital assets activity was as follows for the year ended June 30, 2012:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,384,351	\$ -	\$ -	\$ -	\$ 3,384,351
Construction-in-progress	727,930	282,156	-	(727,930)	282,156
	<u>4,112,281</u>	<u>282,156</u>	<u>-</u>	<u>(727,930)</u>	<u>3,666,507</u>
Capital assets, being depreciated:					
Buildings and improvements	62,841,985	1,503,914	(332,144)	645,996	64,659,751
Furniture and equipment	7,927,755	301,646	(86,423)	81,934	8,224,912
	<u>70,769,740</u>	<u>1,805,560</u>	<u>(418,567)</u>	<u>727,930</u>	<u>72,884,663</u>

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Less accumulated depreciation for:					
Buildings and improvements	\$ (21,223,611)	\$ (1,491,630)	\$ 245,716	\$ -	\$ (22,469,525)
Furniture and equipment	(7,152,641)	(237,637)	86,423	-	(7,303,855)
	<u>(28,376,252)</u>	<u>(1,729,267)</u>	<u>332,139</u>	<u>-</u>	<u>(29,773,380)</u>
Total capital assets being depreciated, net	<u>42,393,488</u>	<u>76,293</u>	<u>(86,428)</u>	<u>727,930</u>	<u>43,111,283</u>
Governmental activities capital assets, net	<u>\$ 46,505,769</u>	<u>\$ 358,449</u>	<u>\$ (86,428)</u>	<u>\$ -</u>	<u>\$ 46,777,790</u>

Unallocated depreciation expense of \$1,729,267 was charged to the governmental activities.

8. LONG-TERM DEBT

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

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Bonds Payable					
General obligation	\$ 15,855,000	\$ 4,930,000	\$ (1,735,000)	\$ 19,050,000	\$ 2,215,000
Durant resolution	21,260	-	(10,383)	10,877	10,877
Premium	373,509	67,491	(46,690)	394,310	55,126
Total bond payable	<u>16,249,769</u>	<u>4,997,491</u>	<u>(1,792,073)</u>	<u>19,455,187</u>	<u>2,281,003</u>
Other long-term liabilities					
Land contracts	955,966	-	(87,031)	868,935	91,484
Early retirement incentives	135,350	-	(132,857)	2,493	1,504
Compensated absences	570,121	16,801	-	586,922	-
Total other long-term liabilities	<u>1,661,437</u>	<u>16,801</u>	<u>(219,888)</u>	<u>1,458,350</u>	<u>92,988</u>
Total long-term liabilities	<u>\$ 17,911,206</u>	<u>\$ 5,014,292</u>	<u>\$ (2,011,961)</u>	<u>\$ 20,913,537</u>	<u>\$ 2,373,991</u>

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Long-term debt at June 30, 2012, includes the following:

General Obligation Bonds

2005 refunding bonds due in annual installments ranging from \$1,825,000 to \$2,125,000 with interest ranging from 3.50% to 5.00%; final payment due May 2019. \$ 14,120,000

2012 technology bonds due in annual installments ranging from \$390,000 to \$1,225,000 with interest ranging from 1.50% to 2.00%; final payment due May 2020. 4,930,000

Premium on bonds 394,310

Durant Resolution Bond

1998 series, school improvement bonds due in annual installments ranging from \$10,383 to \$10,877 with interest charged at 4.76%. These bonds are self-liquidating. The principal and interest is payable solely through annual appropriations by the State of Michigan. If the legislature fails to appropriate the funds, the District is under no obligation for payment. Final payment is due May 15, 2013. 10,877

Total bonds 19,455,187

Other Long-term Liabilities

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 1, 2022. 504,953

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 15, 2019. 363,982

Early retirement incentives 2,493

Compensated absences 586,922

Total long-term debt \$ 20,913,537

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Debt service requirements

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

Year Ended June 30,	Principal	Interest	Total
2013	\$ 2,372,487	\$ 737,780	\$ 3,110,267
2014	2,486,289	680,240	3,166,529
2015	2,596,211	574,495	3,170,706
2016	2,711,383	463,773	3,175,156
2017	2,831,818	345,237	3,177,055
2018-2022	<u>7,325,934</u>	<u>412,123</u>	<u>7,738,057</u>
Total	<u>\$ 20,324,122</u>	<u>\$ 3,213,648</u>	<u>\$ 23,537,770</u>

Interest and paying agent fees paid were \$754,835 for the year ended June 30, 2012.

Compensated absences are generally liquidated by the General Fund.

9. 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.

10. 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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

11. BENEFIT PLANS

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 survivor and disability benefits, to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

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

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

The rates for the year ended June 30, 2012 as a percentage of payroll ranged from 20.66% to 24.46% for MIP members and 19.16% to 23.23% for Pension Plus members. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS under all retirement plans for the years ended June 30, 2012, 2011, and 2010, were \$3,963,680, \$3,473,860, and \$2,605,638 respectively, equal to the required contributions for each year.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

12. 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).

13. SINKING FUND

The Sinking Fund records capital project activities funded with a sinking fund millage. For this fund, the District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

14. INVESTED IN CAPITAL ASSETS OF RELATED DEBT

The composition of net assets invested in capital assets, net of related debt as of June 30, 2012, was as follows:

Capital assets:

Capital assets not being depreciated	\$ 3,666,507
Capital assets being depreciated, net	<u>43,111,283</u>
	46,777,790

Related debt:

Noncurrent liabilities	
Due within one year	(2,373,991)
Due in more than one year	(18,539,546)
Add back: unexpended portion of 2012 technology bonds	4,930,000
Add back: early retirement incentives	2,493
Add back: Durant bonds	10,877
Add back: compensated absences	<u>586,922</u>

Invested in capital assets, net of related debt	<u><u>\$ 31,394,545</u></u>
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PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

15. COMMITMENTS AND CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and contracts. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2012.

During fiscal year 2012, the District had entered into two construction contracts amounting to approximately \$599,500. The contracts are for renovations to the middle school. As of June 30, 2012, approximately \$282,100 was recorded as construction-in-progress related to these projects.



**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2012

	Special Revenue Fund	Capital Project Funds		Total
	Food Service	Roof Repair	Building and Site	
Assets				
Cash and cash equivalents	\$ 48,322	\$ -	\$ 578,218	\$ 626,540
Inventory	103,932	-	-	103,932
Total assets	\$ 152,254	\$ -	\$ 578,218	\$ 730,472
Liabilities				
Accounts payable	\$ 31,880	\$ -	\$ 19,138	\$ 51,018
Deferred revenue	1,087	-	-	1,087
Total liabilities	32,967	-	19,138	52,105
Fund balances				
Nonspendable - inventory	103,932	-	-	103,932
Assigned				
Food service	15,355	-	-	15,355
Capital outlay	-	-	559,080	559,080
Total fund balances	119,287	-	559,080	678,367
Total liabilities and fund balances	\$ 152,254	\$ -	\$ 578,218	\$ 730,472

PUBLIC SCHOOLS OF PETOSKEY

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	Special Revenue Fund	Capital Project Funds		Total
	Food Service	Roof Repair	Building and Site	
Revenues				
Local sources				
Charges for services	\$ 373,999	\$ -	\$ -	\$ 373,999
Rent income	-	-	48,676	48,676
Interest	717	40	2,741	3,498
State sources	37,883	-	-	37,883
Federal sources	565,166	-	-	565,166
Total revenues	<u>977,765</u>	<u>40</u>	<u>51,417</u>	<u>1,029,222</u>
Expenditures				
Current:				
Food services	963,186	-	-	963,186
Capital outlay	-	13,742	224,031	237,773
Total expenditures	<u>963,186</u>	<u>13,742</u>	<u>224,031</u>	<u>1,200,959</u>
Net change in fund balances	14,579	(13,702)	(172,614)	(171,737)
Fund balances, beginning of year	104,708	13,702	731,694	850,104
Fund balances, end of year	<u>\$ 119,287</u>	<u>\$ -</u>	<u>\$ 559,080</u>	<u>\$ 678,367</u>

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

General Fund

June 30, 2012

(With Comparative Totals as of June 30, 2011)

	2012	2011
Assets		
Cash and cash equivalents	\$ 400	\$ 610,841
Investments	4,599,894	4,105,071
Accounts receivable	1,922	46,162
Due from other funds	7,559	-
Due from other governmental units	1,505,698	1,419,407
Other assets	61,310	182,013
Total assets	<u>\$ 6,176,783</u>	<u>\$ 6,363,494</u>
Liabilities		
Accounts payable	\$ 286,163	\$ 262,871
Checks issued in excess of cash	221,223	-
Salaries payable	1,460,624	1,890,738
Accrued expenses	821,988	989,444
Deferred revenue	353,674	343,888
Total liabilities	<u>3,143,672</u>	<u>3,486,941</u>
Fund balance		
Nonspendable		
Inventory	14,171	15,306
Prepaid items	47,139	46,707
Real-estate held for sale	-	120,000
Assigned		
Athletics	93,829	91,947
Subsequent year expenditures	1,749,836	2,404,265
Unassigned	1,128,136	198,328
Total fund balance	<u>3,033,111</u>	<u>2,876,553</u>
Total liabilities and fund balance	<u>\$ 6,176,783</u>	<u>\$ 6,363,494</u>

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Revenues

General Fund

For the Year Ended June 30, 2012

(With Comparative Totals For the Year Ended June 30, 2011)

	2012	2011
Revenues		
Local Sources		
Property taxes	\$ 14,311,708	\$ 14,772,141
Payment in lieu of taxes	463,775	485,044
Charges for services	225,831	122,118
Tuition	18,277	26,088
Interest	8,337	11,084
Athletics	234,037	248,069
Other income	105,607	119,683
Total local sources	15,367,572	15,784,227
State sources		
State aid - foundation allowance		
Proposal A obligation	648,554	-
Discretionary payment	4,984,943	5,829,864
Prior year adjustments	183,070	164,195
State school aid - LEA pupil deduct	-	(491,963)
Special education headlee obligation	692,337	739,511
CEPI Datalink	-	15,562
State aid - other unrestricted grants		
Best practice incentive	294,476	23,288
State aid - restricted grants		
At-risk	399,530	441,126
MPSERS cost offset	236,575	-
Data collection	64,084	46,855
Total state sources	7,503,569	6,768,438
Federal sources		
American Recovery and Reinvestment Act	32,872	442,194
Title I	353,665	359,288
Title II	62,223	63,669
Title IX	52,232	49,745
Edujobs	703,056	-
Other	3,000	25,582
Total federal sources	1,207,048	940,478
Interdistrict sources		
Vocational education - millage	437,922	487,443
Vocational education - added cost	103,012	102,137
Expense reimbursements	731,431	1,092,378
Total interdistrict sources	1,272,365	1,681,958
Total revenues	\$ 25,350,554	\$ 25,175,101

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2012

(With Comparative Totals For the Year Ended June 30, 2011)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
Instruction					
Basic programs					
Elementary	\$ 3,730,669	\$ 2,122,126	\$ 109,027	\$ 115,414	\$ -
Middle school	2,016,307	1,142,514	69,546	32,289	5,536
High school	2,383,389	1,287,318	122,043	47,002	-
Summer school	125	10	-	-	-
Total basic programs	8,130,490	4,551,968	300,616	194,705	5,536
Added needs					
Special education	1,235,637	683,132	212,937	2,722	-
Compensatory education	233,507	156,585	260,576	104,389	-
Vocational education	608,398	350,430	62,018	233,382	10,800
Total added needs	2,077,542	1,190,147	535,531	340,493	10,800
Total instruction	10,208,032	5,742,115	836,147	535,198	16,336
Supporting services					
Pupil services					
Guidance services	311,705	166,247	-	1,793	-
Health services	-	-	140,175	420	-
Other	17,113	5,472	50,095	-	-
Total pupil services	328,818	171,719	190,270	2,213	-
Instructional staff services					
Improvement of instruction	172	51	39,169	8,064	-
Library	66,296	35,746	68,456	27,272	-
Technology assisted instruction	131,235	56,923	1,316	-	-
Supervision	112,755	54,247	899	4,248	-
Academic student assessment	-	-	-	26,086	-
Total instructional staff services	310,458	146,967	109,840	65,670	-



Total	
2012	2011
\$ 6,077,236	\$ 5,976,489
3,266,192	3,098,887
3,839,752	3,891,939
135	9,450
<u>13,183,315</u>	<u>12,976,765</u>
2,134,428	2,088,521
755,057	821,169
<u>1,265,028</u>	<u>1,174,792</u>
<u>4,154,513</u>	<u>4,084,482</u>
<u>17,337,828</u>	<u>17,061,247</u>
479,745	558,485
140,595	150,153
<u>72,680</u>	<u>74,658</u>
<u>693,020</u>	<u>783,296</u>
47,456	55,969
197,770	294,732
189,474	190,059
172,149	183,861
<u>26,086</u>	<u>29,064</u>
<u>632,935</u>	<u>753,685</u>

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2012

(With Comparative Totals For the Year Ended June 30, 2011)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
General administration					
Board of education	\$ -	\$ -	\$ 47,548	\$ 1,516	\$ -
Executive administration	164,202	86,585	122,778	11,480	-
Total general administration	164,202	86,585	170,326	12,996	-
School administration					
Office of the principal	755,182	454,592	229,182	29,864	-
Business services					
Fiscal services	240,833	133,786	14,288	314,513	-
Operations and maintenance	377,814	275,227	717,739	652,859	68,349
Transportation	-	-	1,225,250	-	-
Support services - central	37,621	26,463	-	2,000	-
Security services	-	-	16,093	-	-
Athletic activities	116,292	36,925	268,196	90,906	-
Total supporting services	2,331,220	1,332,264	2,941,184	1,171,021	68,349
Community services					
Community services direction	3,475	3,057	-	2,844	-
Non-public school pupils	-	-	1,856	898	-
Total community services	3,475	3,057	1,856	3,742	-
Total operating expenditures	\$ 12,542,727	\$ 7,077,436	\$ 3,779,187	\$ 1,709,961	\$ 84,685

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

Food Service Special Revenue Fund

June 30, 2012

(With Comparative Totals as of June 30, 2011)

	2012	2011
Assets		
Cash and cash equivalents	\$ 48,322	\$ 43,937
Inventory	103,932	101,769
	<u>103,932</u>	<u>101,769</u>
Total assets	<u>\$ 152,254</u>	<u>\$ 145,706</u>
Liabilities		
Accounts payable	\$ 31,880	\$ 39,764
Deferred revenue	1,087	1,234
	<u>1,087</u>	<u>1,234</u>
Total liabilities	<u>32,967</u>	<u>40,998</u>
Fund balances		
Nonspendable - inventory	103,932	101,769
Assigned	15,355	2,939
	<u>15,355</u>	<u>2,939</u>
Total fund balances	<u>119,287</u>	<u>104,708</u>
Total liabilities and fund balances	<u>\$ 152,254</u>	<u>\$ 145,706</u>

PUBLIC SCHOOLS OF PETOSKEY

Statement of Revenue, Expenditures and Changes in Fund Balances

Food Service Special Revenue Fund

For the Year Ended June 30, 2012

(With Comparative Totals For the Year Ended June 30, 2011)

	2012	2011
Revenues		
Local sources:		
Lunch sales	\$ 189,169	\$ 212,606
Breakfast sales	9,897	10,954
Ala carte sales	174,933	163,647
State sources	37,883	55,555
Federal sources	565,166	582,112
Interest income	717	708
Total revenues	<u>977,765</u>	<u>1,025,582</u>
Expenditures		
Salaries	37,802	61,774
Employee benefits	34,807	50,570
Purchased services	411,128	400,943
Supplies, materials and other expenditures	80,309	78,243
Food costs	399,140	401,095
Total expenditures	<u>963,186</u>	<u>992,625</u>
Net change in fund balances	14,579	32,957
Fund balances, beginning of year	<u>104,708</u>	<u>71,751</u>
Fund balances, end of year	<u>\$ 119,287</u>	<u>\$ 104,708</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet

Capital Projects Funds

June 30, 2012

(With Comparative Totals as of June 30, 2011)

	Sinking Fund	Roof Repair	Building and Site	Technology Bonds
Assets				
Cash and cash equivalents	\$ 3,268,368	\$ -	\$ 578,218	\$ 4,930,007
Investments	214,975	-	-	-
Total assets	\$ 3,483,343	\$ -	\$ 578,218	\$ 4,930,007
Liabilities				
Contracts payable	\$ 184,512	\$ -	\$ 19,138	\$ -
Fund balances				
Restricted - capital outlay	3,298,831	-	-	4,930,007
Assigned - capital outlay	-	-	559,080	-
Total fund balances	3,298,831	-	559,080	4,930,007
Total liabilities and fund balances	\$ 3,483,343	\$ -	\$ 578,218	\$ 4,930,007



Total	
2012	2011

\$ 8,776,593	\$ 4,276,175
<u>214,975</u>	<u>214,875</u>
<u>\$ 8,991,568</u>	<u>\$ 4,491,050</u>

<u>\$ 203,650</u>	<u>\$ 343,527</u>
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8,228,838	3,402,127
<u>559,080</u>	<u>745,396</u>
<u>8,787,918</u>	<u>4,147,523</u>
<u>\$ 8,991,568</u>	<u>\$ 4,491,050</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

Capital Projects Funds

For the Year Ended June 30, 2012

(With Comparative Totals For the Year Ended June 30, 2011)

	Sinking Fund	Roof Repair	Building and Site	2012 Technology Bonds
Revenues				
Property taxes	\$ 1,801,220	\$ -	\$ -	\$ -
Rent income	-	-	48,676	-
Interest	14,337	40	2,741	7
Total revenues	1,815,557	40	51,417	7
Expenditures				
Capital outlay	1,764,158	13,742	224,031	-
Other	21,842	-	-	-
Total expenditures	1,786,000	13,742	224,031	-
Revenues over (under) expenditures	29,557	(13,702)	(172,614)	7
Other financing (uses) sources				
Proceeds from sale of capital assets	-	-	-	-
Transfers in	-	-	-	4,930,000
Transfers out	(132,853)	-	-	-
Total other financing (uses) sources	(132,853)	-	-	4,930,000
Net change in fund balances	(103,296)	(13,702)	(172,614)	4,930,007
Fund balances, beginning of year	3,402,127	13,702	731,694	-
Fund balances, end of year	\$ 3,298,831	\$ -	\$ 559,080	\$ 4,930,007



Total	
2012	2011

\$ 1,801,220	\$ 1,842,610
48,676	39,770
17,125	22,898
<u>1,867,021</u>	<u>1,905,278</u>

2,001,931	888,304
21,842	13,654

<u>2,023,773</u>	<u>901,958</u>
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<u>(156,752)</u>	<u>1,003,320</u>
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-	198,911
4,930,000	
<u>(132,853)</u>	<u>(132,853)</u>

<u>4,797,147</u>	<u>66,058</u>
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4,640,395	1,069,378
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<u>4,147,523</u>	<u>3,078,145</u>
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<u>\$ 8,787,918</u>	<u>\$ 4,147,523</u>
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PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Schedule

Debt Service Fund

June 30, 2012

(With Comparative Totals as of June 30, 2011)

	2005 Refunding Bonds	Foster Land Contract	Veurink Land Contract	2012 Technology Bonds
Assets				
Cash and cash equivalents	\$ 339,985	\$ -	\$ -	\$ 65,961
Investments	53,818	-	-	-
Due from other governmental units	-	-	-	-
Total assets	\$ 393,803	\$ -	\$ -	\$ 65,961
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 45,562
Due to other funds	-	-	-	7,559
Deferred revenue	-	-	-	-
Total liabilities	-	-	-	53,121
Fund balances				
Restricted	393,803	-	-	12,840
Total liabilities and fund balances	\$ 393,803	\$ -	\$ -	\$ 65,961

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



Durant Settlement	Total	
	2012	2011
\$ -	\$ 405,946	\$ 317,045
-	53,818	53,778
<u>10,877</u>	<u>10,877</u>	<u>21,260</u>
<u>\$ 10,877</u>	<u>\$ 470,641</u>	<u>\$ 392,083</u>
\$ -	\$ 45,562	\$ -
-	7,559	-
<u>10,877</u>	<u>10,877</u>	<u>21,260</u>
10,877	63,998	21,260
-	406,643	370,823
<u>\$ 10,877</u>	<u>\$ 470,641</u>	<u>\$ 392,083</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, 2012

(With Comparative Totals For the Year Ended June 30, 2011)

	2005 Refunding Bonds	Foster Land Contract	Veurink Land Contract	2012 Technology Bonds
Revenues				
Local sources:				
Property taxes	\$ 2,478,195	\$ -	\$ -	\$ -
State sources	-	-	-	-
Interest income	4,167	-	-	-
Other	-	-	-	-
Total revenues	2,482,362	-	-	-
Expenditures				
Principal	1,735,000	46,946	40,085	-
Interest	708,000	19,480	26,342	-
Other	16,382	-	-	54,645
Total expenditures	2,459,382	66,426	66,427	54,645
Revenues over (under) expenditures	22,980	(66,426)	(66,427)	(54,645)
Other financing sources (uses)				
Premium on bond issuance	-	-	-	67,485
Bond proceeds	-	-	-	4,930,000
Transfers in	-	66,426	66,427	-
Transfers out	-	-	-	(4,930,000)
Total other financing sources (uses)	-	66,426	66,427	67,485
Net change in fund balances	22,980	-	-	12,840
Fund balances, beginning of year	370,823	-	-	-
Fund balances, end of year	\$ 393,803	\$ -	\$ -	\$ 12,840

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



Durant Settlement	Total	
	2012	2011
\$ -	\$ 2,478,195	\$ 2,446,822
11,396	11,396	11,396
-	4,167	5,486
-	-	743
<u>11,396</u>	<u>2,493,758</u>	<u>2,464,447</u>
10,383	1,832,414	1,777,707
1,013	754,835	818,517
-	71,027	16,209
<u>11,396</u>	<u>2,658,276</u>	<u>2,612,433</u>
-	(164,518)	(147,986)
-	67,485	-
-	4,930,000	-
-	132,853	132,853
-	(4,930,000)	-
<u>-</u>	<u>132,853</u>	<u>132,853</u>
-	(31,665)	(15,133)
-	370,823	385,956
<u>\$ -</u>	<u>\$ 406,643</u>	<u>\$ 370,823</u>

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2012

	Balances July 1, 2011	Receipts	Disbursements	Balances June 30, 2012
Assets				
Cash	\$ 175,370	\$ 699,284	\$ 729,886	\$ 144,768
Investments	425,000	-	-	425,000
Accounts receivable	1,498	-	398	1,100
Total assets	\$ 601,868	\$ 699,284	\$ 730,284	\$ 570,868
Liabilities				
Due to student groups	\$ 244,865	\$ 519,410	\$ 517,961	\$ 246,314
Scholarships payable	244,368	1,432	5,210	240,590
Due to others	112,635	178,442	207,113	83,964
Total liabilities	\$ 601,868	\$ 699,284	\$ 730,284	\$ 570,868

The balances consist of the following:

Deposits due to student groups

Central Elementary

Central 3rd Grade	\$ 18	\$ -	\$ -	\$ 18
Central 5th Grade	137	3,525	3,451	211
Central Library & Computer	352	300	-	652
Central School Fund	572	634	663	543
Central School Store	749	1,091	1,177	663

Lincoln Elementary

Lincoln School Fund	788	2,166	361	2,593
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Ottawa Elementary

Ottawa 4th Grade Field Trip	1,101	1,617	1,794	924
Ottawa 5th Grade Field Trip	1,402	10,573	11,878	97
Ottawa Boy's Group	375	750	1,000	125
Ottawa Field Trip Fund	3,183	3,875	6,177	881
Ottawa Girls Group	-	1,691	1,479	212
Ottawa instructional supplies	(61)	6,288	610	5,617
Ottawa Learning Center	21	-	-	21
Ottawa Popcorn Sales	2,769	3,852	4,149	2,472
Ottawa School Fund	5,477	647	1,384	4,740

Sheridan Elementary

Sheridan 3rd Grade	517	1,912	1,815	614
Sheridan 4th Grade	661	793	618	836
Sheridan 5th Grade	59	120	110	69
Sheridan Garden Fund	109	-	-	109
Sheridan School	9,222	11,268	8,042	12,448
Sheridan Student Council	44	93	120	17

Petoskey Middle School

6th Grade Club	1,435	18,565	18,658	1,342
7th Grade Club	1,827	10,607	10,634	1,800
8th Grade Fund	4,232	14,293	13,944	4,581
Builder's Club	500	763	946	317

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2012

	Balances July 1, 2011	Receipts	Disbursements	Balances June 30, 2012
Petoskey Middle School (continued)				
Middle School Adventure Education	\$ 2	\$ 1,600	\$ -	\$ 1,602
Middle School Art Club	1,165	-	119	1,046
Middle School Athletics	239	-	41	198
Middle School Celebration Garden	517	-	-	517
Middle School Ecology Club	672	1,792	1,980	484
Middle School Fall Play	7,209	1,832	2,776	6,265
Middle School Photo Club	1,121	1,960	980	2,101
Middle School Student Council	1,679	1,885	1,827	1,737
Middle School Student Special needs	8,120	-	730	7,390
Middle School Yearbook	3,059	9,665	9,518	3,206
Middle School Greenhouse	73	-	-	73
Middle School Washington DC Trip	1,727	1,533	2,130	1,130
Middle School Wood Shop	-	181	125	56
Middle School Youth In Government	1,420	9,416	8,144	2,692
Middle School Book Fair	189	-	-	189
Middle School Fund	7,303	3,618	2,567	8,354
Middle School Store	151	5,898	5,519	530
Middle School Special Needs Counseling	-	250	-	250
Petoskey Middle School Athletics				
Middle School Dance	55	319	327	47
Middle School Enrichment	5,322	18,683	17,646	6,359
Middle School Football	2,609	3,504	2,641	3,472
Middle School Track	2,673	1,376	854	3,195
Middle School Volleyball	3,692	248	1,120	2,820
Middle School Boys Basketball	89	1,065	1,140	14
Middle School Girls Basketball	833	631	608	856
Petoskey High School				
Auto Shop Tool Fund	-	50	-	50
Building Trades Fund	4,642	2,092	6,408	326
Business Club	272	-	109	163
Class of 2010	2,123	-	-	2,123
Class of 2011	2,643	-	1,592	1,051
Class of 2012	3,044	941	104	3,881
Class of 2013	1,034	6,436	4,815	2,655
Class of 2014	934	652	726	860
Class of 2015	-	658	-	658
Communications/ Renaissance Program	2,384	-	2,352	32
DECA	1,488	20,654	22,676	(534)
Debate Club	4,003	6,347	4,098	6,252
Drafting	833	50	167	716
FCCLA	884	4,459	4,809	534
FCCLA Region II	1	1,497	1,497	1
Forensics	274	100	-	374
French Club	-	1,521	320	1,201
Future Farmers of America	1,734	1,068	667	2,135
G Wing Productions	126	-	-	126

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2012

	Balances July 1, 2011	Receipts	Disbursements	Balances June 30, 2012
Petoskey High School (continued)				
Graduated Classes	\$ 4,532	\$ -	\$ -	\$ 4,532
Guidance Dept Testing	2,855	25,516	24,301	4,070
HOSA	138	806	1,992	(1,048)
High School Art Club	2,759	-	-	2,759
High School Fall Play	955	1,558	1,775	738
High School Journalism	752	580	599	733
High School Learning Center	834	-	-	834
High School Quiz Bowl Team	374	600	665	309
High School Spring Musical	2,528	6,127	8,401	254
High School Steel Drum Band	-	25,172	25,172	-
High School Student Council	1,051	19,028	17,123	2,956
High School Vocal	185	250	149	286
High School Yearbook	306	21,247	19,661	1,892
High School Social Studies Club	26	-	-	26
High School Fund	4,509	2,361	6,485	385
Hospitality Foods Tip Fund	-	40	-	40
Indian Education/Unity Trip	280	-	-	280
Key Club	1,149	856	427	1,578
Model UN/H.S. Enrichment	1,982	10,304	11,542	744
National Honor Society	1,221	782	1,008	995
Operation Thanksgiving	-	9,012	3,719	5,293
Petoskey High School Papermakers	2,693	277	328	2,642
Robotics	(92)	20,767	20,257	418
Science Class	-	500	-	500
Skateboarding Club	107	-	-	107
Spanish Club	211	358	-	569
High School Special Needs Counseling	-	250	-	250
World History Trip Fund	450	-	-	450
High School Athletics				
Athletic Hall Of Fame	852	1,569	2,096	325
Athletic miscellaneous fundraisers	823	-	-	823
Boys Basketball	-	16,227	11,449	4,778
Boys Golf	409	3,000	2,414	995
Boys Tennis	1,850	3,860	2,354	3,356
Central Gym Project	50	-	50	-
Dance	11	425	425	11
Girls Basketball	2,178	475	965	1,688
Girls Golf	(314)	3,522	1,387	1,821
Girls Tennis	2,153	17,935	16,474	3,614
Girls Track	194	-	-	194
High School Baseball	196	320	150	366
High School Boys Soccer	1,423	-	646	777
High School Cross Country	7,457	6,817	8,140	6,134
High School Football	45	-	-	45
High School Girls Soccer	2,422	-	1,709	713
High School Hockey	28,583	79,414	77,887	30,110

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2012

	Balances July 1, 2011	Receipts	Disbursements	Balances June 30, 2012
High School Athletics (continued)				
Northmen Club	\$ 629	\$ -	\$ -	\$ 629
Pay To Participate Donations	3,730	-	3,730	-
Volleyball	1,159	1,936	1,155	1,940
Wrestling	4,500	13,572	11,736	6,336
District-Wide Accounts				
Elementary Enrichment	1,016	5,789	5,981	824
Elementary Enrichment Play	9,404	7,662	6,555	10,511
Elementary Music Fund	597	1,339	1,265	671
Student Reserve	33,866	1,753	17,647	17,972
Total due to student groups	244,865	519,410	517,961	246,314
Scholarships payable				
Doris Reber - Class of 1932 Scholarship	208,489	803	-	209,292
Eric Greyerbiehl Memorial Fund	2,032	-	325	1,707
Henshaw Memorial Scholarship	4,389	16	4,405	-
McClutchey Memorial Scholarship	5,066	21	-	5,087
Midshipmen Scholarship	7,219	28	-	7,247
Vaughn Memorial Scholarship	16,986	64	300	16,750
Wil Moyer Music Scholarship	187	500	180	507
Total scholarships payable	244,368	1,432	5,210	240,590
Due to others				
Carol Hansen Memorial Fund	7,595	941	-	8,536
Central PTO	26,835	33,937	23,559	37,213
High School Staff Fund	-	685	220	465
Kathy Robinson Memorial Fund	96	-	-	96
Lincoln PTO	7,219	29,743	28,724	8,238
Maintenance Fund	-	1,900	1,428	472
Northmen Night	41,868	53,191	94,848	211
Ottawa PTO Board Fund	27,415	22,242	32,026	17,631
PEF Grants - Central	-	380	380	-
PEF Grants - High School	1,098	2,200	2,769	529
PEF Grants - Lincoln	-	702	500	202
PEF Grants - Middle School	-	2,748	2,734	14
PEF Grants - Montessorri	-	336	336	-
PEF Grants - Ottawa	-	755	755	-
PEF Grants - Sheridan	-	962	812	150
Petoskey Family Fund	200	9,316	500	9,016
Robert Motely Memorial Fund	106	-	-	106
Senior Parent Committee	-	18,220	17,404	816
Spitler Building Pop Fund	203	184	118	269
Total due to others	112,635	178,442	207,113	83,964
Totals	\$ 601,868	\$ 699,284	\$ 730,284	\$ 570,868

Concluded

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Bond Indebtedness For the Year Ended June 30, 2012

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

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
2012-2013	\$ 28,630	\$ 46,013	\$ 390,000	\$ 464,643
2013-2014	43,088	43,088	455,000	541,176
2014-2015	39,675	39,675	470,000	549,350
2015-2016	36,150	36,150	480,000	552,300
2016-2017	31,350	31,350	540,000	602,700
2017-2018	25,950	25,950	640,000	691,900
2018-2019	19,550	19,550	730,000	769,100
2019-2020	12,250	12,250	1,225,000	1,249,500
	<u>\$ 236,643</u>	<u>\$ 254,026</u>	<u>\$ 4,930,000</u>	<u>\$ 5,420,669</u>

Call Provision

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

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Bond Indebtedness For the Year Ended June 30, 2012

Purpose	2005 Refunding Bonds
Date of issue	May 27, 2005
Rate of interest	3.50% to 5.00%
Original obligation	\$ 21,370,000
Amount previously paid	<u>7,250,000</u>
Balance outstanding - June 30, 2012	<u><u>\$ 14,120,000</u></u>

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
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	43,563	43,563	2,125,000	2,212,126
	<u>\$ 1,264,284</u>	<u>\$ 1,264,284</u>	<u>\$ 14,120,000</u>	<u>\$ 16,648,568</u>

Call Provision

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

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Other Installment Debt
For the Year Ended June 30, 2012

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>195,047</u>
Balance outstanding - June 30, 2012	<u><u>\$ 504,953</u></u>

Fiscal Year	Interest	May 1, Principal	Annual Requirements
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>\$ 131,635</u>	<u>\$ 504,953</u>	<u>\$ 636,588</u>

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Other Installment Debt For the Year Ended June 30, 2012

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>336,018</u>
Balance outstanding - June 30, 2012	<u><u>\$ 363,982</u></u>

Fiscal Year	Interest	May 15, Principal	Annual Requirements
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>\$ 62,258</u>	<u>\$ 363,982</u>	<u>\$ 426,240</u>

Concluded

OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)

PUBLIC SCHOOLS OF PETOSKEY

Property Tax Information (Unaudited) For the Year Ended June 30, 2012

Taxing District	Tax Levy	Collections and Other Reductions	Delinquent Personal Property Taxes	Percentage of Current Year Levy Collected
Bear Creek Township	\$ 5,561,867	\$ 5,538,455	\$ 23,412	99.58%
Littlefield Township	69,724	69,712	12	99.98%
Little Traverse Township	448,302	448,018	284	99.94%
Resort Township	3,557,861	3,556,070	1,791	99.95%
Springvale Township	813,420	813,420	-	100.00%
City of Petoskey	6,861,062	6,852,674	8,388	99.88%
Chandler Township	150,742	150,713	29	99.98%
Hayes Township	42,723	42,723	-	100.00%
Melrose Township	1,050,048	1,049,688	360	99.97%
Total	\$ 18,555,749	\$ 18,521,473	\$ 34,276	99.82%
Allocated as follows				
General Fund	\$ 14,264,914	\$ 14,254,513	\$ 10,401	99.93%
Debt Service Fund	2,477,680	2,473,914	3,766	99.85%
Capital Project Funds	1,813,155	1,793,046	20,109	98.89%
Total allocated to all funds	\$ 18,555,749	\$ 18,521,473	\$ 34,276	99.82%

PUBLIC SCHOOLS OF PETOSKEY

Ten-Year Summary of Enrollment (Unaudited)

For the Year Ended June 30, 2012

Year	Special Education	Elementary School	Middle School	High School	Total	Non-Resident	Resident
2003	67	1,265	693	1,058	3,083	270	2,813
2004	79	1,240	712	1,062	3,095	287	2,808
2005	74	1,271	693	1,037	3,075	301	2,774
2006	76	1,261	700	1,050	3,087	324	2,763
2007	76	1,244	660	1,027	3,007	341	2,665
2008	73	1,224	669	1,020	2,987	342	2,645
2009	76	1,246	669	984	2,975	350	2,625
2010	68	1,218	651	994	2,932	367	2,565
2011	63	1,207	637	980	2,887	356	2,531
2012	59	1,223	687	982	2,951	359	2,592

Note: Data above extracted from the September pupil counts only.

PUBLIC SCHOOLS OF PETOSKEY

Ten-Year Summary of General Fund Expenditures, Student Enrollment And Per Pupil Costs (Unaudited) For the Year Ended June 30, 2012

Year	Expenditures and Transfers*	Enrollment	Expenditures Per Pupil
2003	\$ 22,412,914	3,083.32	\$ 7,269
2004	23,051,973	3,094.58	7,449
2005	24,942,607	3,074.77	8,112
2006	23,785,212	3,087.10	7,705
2007	24,725,450	3,006.72	8,223
2008	24,959,034	2,987.47	8,355
2009	25,666,499	2,974.87	8,628
2010	25,517,943	2,932.14	8,703
2011	24,962,122	2,886.98	8,646
2012	25,193,996	2,951.46	8,536

* General Fund expenditures and transfers only.

SINGLE AUDIT ACT COMPLIANCE

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
U.S. Department of Agriculture				
Child Nutrition Cluster:				
Cash assistance:				
National school lunch - breakfast	10.553	MDE	111970	\$ 106,201
National school lunch - breakfast	10.553	MDE	121970	92,066
National school lunch section 4 all lunches	10.555	MDE	111960	415,730
National school lunch section 4 all lunches	10.555	MDE	121960	357,210
Non-cash assistance:				
Entitlement commodities	10.555	MDE	n/a	60,683
Bonus commodities	10.555	MDE	n/a	4,467
Total U.S. Department of Agriculture				
U.S. Department of Education				
Title I, Part A Cluster:				
Title I, Part A - Improving Basic Programs	84.010	MDE	111530-1011	379,086
Title I, Part A - Improving Basic Programs	84.010	MDE	121530-1112	410,174
ARRA Title I - Regular	84.389	MDE	111535-1011	103,560
Transition Services	84.048A	ISD	100490/TS	42
Indian Education 10/11	84.060A	Direct	N/A	58,260
Indian Education 11/12	84.060A	Direct	N/A	43,717
Homeless Children and Youths	84.186	ISD	1011	939
Title II, Part A - Improving Teacher Quality	84.367	MDE	111520-1011	110,840
Title II, Part A - Improving Teacher Quality	84.367	MDE	120520-1112	143,699
Educational Technology State Grants Cluster:				
ARRA - Title II, Part D - Enhancing				
Education Through Technology	84.386A	MDE	114295-1011	7,053
Regional Data Initiatives	84.386	ISD	104245	4,792
Education Jobs Fund	84.410	MDE	112545-1011	653,676
Education Jobs Fund	84.410	MDE	122545-1112	49,380
Total U.S. Department of Education				
U.S. Department of Health and Human Services				
Medicaid Outreach	93.778	ISD	1011	7,285
Medicaid Outreach	93.778	ISD	1112	2,822
Total Expenditures of Federal Awards				

See notes to schedule of expenditures of federal awards.

Accrued (Deferred) Revenue June 30, 2011	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2012	Accrued (Deferred) Revenue June 30, 2012
\$ -	\$ 9,326	\$ 96,875	\$ 9,326	\$ -
-	92,066	-	92,066	-
-	41,415	374,315	41,415	-
-	357,210	-	357,210	-
-	500,017	471,190	500,017	-
-	60,683	-	60,683	-
-	4,467	-	4,467	-
-	65,150	-	65,150	-
-	565,167	471,190	565,167	-
111,269	139,696	335,553	28,427	-
-	295,878	-	325,238	29,360
111,269	435,574	335,553	353,665	29,360
37,114	65,196	75,478	28,082	-
-	42	-	42	-
1,349	9,864	49,745	8,515	-
-	43,717	-	43,717	-
1,349	53,581	49,745	52,232	-
-	93	-	93	-
9,077	13,879	52,943	4,802	-
-	57,416	-	57,421	5
9,077	71,295	52,943	62,223	5
6,910	6,950	7,013	40	-
-	4,792	-	4,792	-
6,910	11,742	7,013	4,832	-
-	653,676	-	653,676	-
-	49,380	-	49,380	-
-	703,056	-	703,056	-
165,719	1,340,579	520,732	1,204,225	29,365
-	-	7,285	-	-
-	2,822	-	2,822	-
-	2,822	7,285	2,822	-
\$ 165,719	\$ 1,908,568	\$ 999,207	\$ 1,772,214	\$ 29,365

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2012

RECONCILIATION TO GRANT SECTION AUDITORS' REPORT

Current payments per the grant auditor report	\$ 1,782,088
Plus	
Amounts passed through Charlevoix-Emmet Intermediate School District	7,749
Entitlement and bonus commodities	65,150
Direct award from Department of Education	<u>53,581</u>
Total current year receipts per schedule of expenditures of federal awards	<u>\$ 1,908,568</u>
	Concluded

PUBLIC SCHOOLS OF PETOSKEY

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Public Schools of Petoskey (the "District") under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net assets of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. RECONCILIATION OF BASIC FINANCIAL STATEMENTS

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, deferred revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule.

4. PASS-THROUGH AGENCIES

The District receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
ISD	Charlevoix-Emmet Intermediate School District



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

October 18, 2012

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Public Schools of Petoskey* (the "District"), as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the District, and have issued our report thereon dated October 18, 2012. 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

Management of the District is responsible for establishing and maintaining effective 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the audit committee, 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.

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

October 18, 2012

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

Compliance

We have audited the Public Schools of Petoskey (the "District") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2012. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 management, the audit committee, 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, 2012

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

Identification of major programs:

CFDA Number

84.410

Name of Federal Program or Cluster

Education Jobs Fund

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 financial statement findings.

Public Schools of Petoskey

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

Public Schools of Petoskey

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2012

No findings in the prior year.