



Public Schools of Petoskey

A Special Place for Everyone

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

PUBLIC SCHOOLS OF PETOSKEY

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INDEPENDENT AUDITORS' REPORT

October 12, 2009

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Public Schools of Petoskey* (the "District") as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of *Public Schools of Petoskey'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, 2009, 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 12, 2009, 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The other supplementary information included on pages 54-56 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Public Schools of Petoskey (the "District"), a K-12 school district located in Emmet and Charlevoix Counties, Michigan, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

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

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

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

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

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

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

The relationship between revenues and expenses is the District's operating results. However, it should be noted that unlike most private-sector companies where improving shareholder wealth is the goal, the District's goal is to provide services to our students. Therefore, in order to assess the overall health of the District, one must consider many nonfinancial factors such as the quality of education provided, breadth of curriculum offered, condition of school facilities, and the safety of the schools.

The statement of net assets and statement of activities report the governmental activities for the District, which encompass all of the District's services including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid, State grants, and Federal grants finance most of these activities.

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

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

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

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

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

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

Financial Analysis of the District as a Whole

As stated earlier, the summary of net assets provides the perspective of the District as a whole. The District's net assets increased 7.36% to \$31,624,041 as a result of operations in the current year. Table 1 provides a summary of the District's net assets as of June 30, 2009, and June 30, 2008:

Public Schools of Petoskey
Condensed Statement of Net Assets
Table 1

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2009</u>	<u>2008</u>	
Assets			
Current assets	\$ 9,776,084	\$ 8,110,191	20.05%
Deferred bond refunding costs	571,895	629,085	(9.09)%
Capital assets, net of accumulated depreciation	<u>46,719,575</u>	<u>47,471,447</u>	<u>(1.58)%</u>
Total assets	<u>57,067,554</u>	<u>56,210,723</u>	<u>1.52%</u>
Liabilities			
Current liabilities	3,908,045	3,634,525	7.53%
Premium on bond refunding	466,894	513,584	(9.09)%
Long-term liabilities	<u>21,068,574</u>	<u>22,607,529</u>	<u>(6.81)%</u>
Total liabilities	<u>25,443,513</u>	<u>26,755,638</u>	<u>(4.90)%</u>
Invested in capital assets, net of related debt	26,391,415	25,438,166	3.75%
Restricted	3,359,951	2,324,212	44.56%
Unrestricted	<u>1,872,675</u>	<u>1,692,707</u>	<u>10.63%</u>
Total net assets	<u>\$ 31,624,041</u>	<u>\$ 29,455,085</u>	<u>7.36%</u>

Capital assets net of related debt, \$26,391,415, is the original cost of the District's capital assets, less depreciation, less the long-term debt outstanding used to finance the acquisition of those assets. This debt will be repaid mainly from voter-approved property taxes collected as the debt and interest payments come due. Restricted net assets of \$3,359,951 are shown separately to recognize legal constraints from debt covenants and enabling legislation. These constraints limit the District's ability to use those net assets for day-to-day operations.

The remaining amount of net assets of \$1,872,675 was unrestricted and represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations of the District as a whole are reported in the statement of activities, summarized in Table 2, which shows the changes in net assets for fiscal year 2009 and 2008.

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

	<u>Governmental Activities</u>		<u>Percentage</u>
	<u>2009</u>	<u>2008</u>	<u>Change</u>
Revenue			
Program Revenues			
Charges for services	\$ 809,618	\$ 854,459	(5.25)%
Grants and contributions	4,940,747	3,368,184	46.69%
General Revenues			
Property taxes	19,167,014	19,617,147	(2.29)%
State foundation allowance	5,689,068	5,991,732	(5.05)%
Other	<u>915,800</u>	<u>617,396</u>	<u>(65.05)%</u>
Total revenues	<u>31,522,247</u>	<u>30,448,918</u>	<u>3.53%</u>
Expenses			
Instruction	17,523,345	16,595,166	5.59%
Support services	7,770,774	7,671,069	1.30%
Community services	45,520	43,150	5.49%
Food services	985,027	1,021,821	(3.60)%
Athletics	594,196	567,515	4.70%
Interest/fees on long-term debt	941,297	1,020,188	(7.73)%
Depreciation (unallocated)	<u>1,533,765</u>	<u>1,480,838</u>	<u>3.57%</u>
Total expenses	<u>29,393,924</u>	<u>28,399,747</u>	<u>3.50%</u>
Increase in net assets	<u>\$ 2,128,323</u>	<u>\$ 2,049,171</u>	<u>3.86%</u>

Of the District's total revenues available to operate the District, 2.57% or \$809,618 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 15.67% or \$4,940,747.

Local property taxes, in the amount of \$19,167,014 or 60.80%, supported the remaining portion of the governmental activities. Property tax revenue remained steady due to the higher revenue created by increased property values being offset by reductions in tax rates implemented during the year. The property tax revenue comes mainly from the 18 mills on all non-homestead property, which we are required to levy by the State in order to receive our full State foundation allowance. The District enjoys the support of the community in maintaining our facilities, as \$1,868,702 of the \$19,167,014 in tax revenue is generated by a special millage specifically for capital expenditures. The proceeds and expenditures of this special millage are accounted for exclusively in the District's Sinking Fund. This special millage was renewed by voters in May 2005, and will expire on December 31, 2012.

The State foundation allowance accounted for 18.05% or \$5,689,068 of the revenue available. This revenue is determined by a formula that incorporates pupil headcount, the annual per pupil allowance, and the non-homestead property taxable values of the District.

The expense portion of Table 2 shows the financial support of each functional area required during the year. Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for \$17,523,345 or 59.62% of total expenses. Support services cost \$7,770,774 or 26.44% of total expenses, which include such items as transportation, maintenance, security, supervision, counseling, health care, and a variety of similar services that support the District's mission of educating children.

The District experienced an increase in net assets of \$2,128,323 or a 3.86% increase from the fiscal 2008 increase in net assets of \$2,049,171. Overall, revenue increased 3.53%, while expenses increased by 3.50%. Finally, 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. The beginning balance of the District's net assets was increased by \$170,000 with a corresponding increase in other assets, to reflect the cost of a house built by the District's Building Trades Class that is held for sale. Further the district's net assets was increased by \$40,633 with a corresponding increase in receivables in order to correctly reflect the receivable related to the Durant Bonds.

Financial Analysis of the District's Funds

As noted earlier, the District uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide, and may provide more insight in the District's overall financial health. As the District completed this year, the governmental funds reported a combined fund balance of \$5,095,984, which is an increase of \$624,130 from the prior year.

Of the combined governmental fund balances, 32.04% or \$1,632,511 constitutes *unreserved fund balance*, which is available for spending at the District's discretion. The remainder of the combined fund balances, or \$3,463,473, is *reserved* to indicate that it is not available for spending at the District's discretion. Of the reserved fund balance, \$3,101,179 is earmarked for capital improvements and \$258,772 is earmarked for payments on long-term debt. The remaining reserved fund balance is earmarked for inventory and prepaid items.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,606,298, while total fund balance was \$1,635,382. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent 6.26% and 6.37%, respectively, of total General Fund expenditures and transfers.

The fund balance of the District's General Fund decreased, as planned, by \$482,177 during the current fiscal year, mainly due to cost increases exceeding our revenue increases. See the above discussion relative to District-wide governmental activities.

General Fund Budgetary Highlights

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

- The District's General Fund revenues were \$197,454 less than the final amended budget, a variance of 0.78%. The actual revenue was under budget mainly due to overestimates in the budget on the amount of payment in lieu of tax revenue from the casino-related Revenue Sharing Board.
- The District's General Fund expenditures were \$497,820 less than the final amended budget, a variance of 1.97%. The reduction of actual expenditures under budget is due to cost saving programs implemented throughout the year.

Capital Asset and Debt Administration

Capital Assets. By June 30, 2009, the District had invested \$71,750,799 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 \$781,372 or 1.10% from last year. More detailed information about capital assets is available in Note III C to the financial statements.

This year's capital asset additions include auditorium renovations, boiler replacement, computer hardware and vehicles. Construction-in-progress is attributable to several projects including mechanical upgrades and boiler replacement at the Middle School, District-wide door and window replacements, and District-wide energy efficiency upgrade project.

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

	<u>2009</u>	<u>2008</u>
Land	\$ 3,394,351	\$ 3,394,351
Construction-in-progress	361,503	209,300
Buildings	60,344,486	59,771,531
Furniture and equipment	<u>7,650,459</u>	<u>7,594,245</u>
Total capital assets	71,750,799	70,969,427
Less accumulated depreciation	<u>25,031,224</u>	<u>23,497,980</u>
Net capital assets	<u>\$ 46,719,575</u>	<u>\$ 47,471,447</u>

Debt. At year-end, the District had \$21,068,574 in general obligation bonds and other long-term debt outstanding – a reduction of 6.81% from last year – as shown in Table 4. More detailed information about the District’s long-term debt is presented in Note III F to the financial statements, and in the Other Supplemental Information section.

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

	2009	2008
General obligation bonds	\$ 19,170,000	\$ 20,745,000
Other general obligation debt	1,898,574	1,862,529
Total long-term debt	\$ 21,068,574	\$ 22,607,529

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 \$619,450 at June 30, 2009. 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 \$498,077.

Factors Bearing on the District’s Future

We considered many factors when setting the District’s 2009-10 fiscal year budget.

Approximately 84% of total General Fund revenues are from the foundation allowance. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. That makes our student count estimate one of the most important factors impacting our budget. We encountered a loss of 19 students from September 2008 to September 2009, which was a smaller loss than anticipated. In setting the budget for 2009-10, we assumed a further reduction of 13 students.

Since the District’s revenue is heavily dependent on State funding and the health of the State’s School Aid Fund, the actual revenue received depends on the State’s ability to collect the revenues to fund its appropriation to school districts. For fiscal year 2008-09, the District enjoyed a foundation allowance of \$7,316, a \$112 per student increase. This increase, combined with trimming of District expenditures, was not sufficient to maintain fund balance at beginning of the year levels.

Going into the budget planning cycle for 2009-10, we believe the foundation allowance will decrease by \$360 per pupil, to \$6,956. We also assume that the majority of the \$360 reduction will be offset by Federal Stimulus funds. However, as no State Aid funding bill has been submitted to the legislature, it is difficult for the District to determine how accurate its assumptions will be. In reaction to the projected loss of funding coupled with increased inflationary costs, the District cut approximately \$922,000 in expenses from the 2009-10 budget. These cuts were made through a combination of measures that mostly affected non-educational areas, and included some limited work force reduction. The combination of expected results in count, reductions in foundation

allowance, and increases in expenditures results in our 2009-10 budget showing an approximate increase of \$638,000 in ending fund balance. This planned increase is designed to return the fund balance to the approximately 8% of expenditure level required to meet cash flow requirements without borrowing, along with a small amount to offset any additional loss of students or state funding. At this time, no additional cost-savings measures are anticipated as the year begins.

The District's labor contract with the Petoskey Education Association, which represents the District's teachers, is set to expire in August 2009. The District's labor contract with the Petoskey Educational Support Personnel Association, which represents the District's support personnel, is set to expire in August 2010. Negotiations with the Petoskey Education Association are expected to conclude prior to the contract expiration date.

Contacting the School District's Financial Management

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

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES**

JUNE 30, 2009

ASSETS	
Cash and cash equivalents	\$ 3,478,952
Investments	3,510,768
Receivables	2,512,842
Other current assets	273,522
Deferred bond refunding costs	571,895
Capital assets not being depreciated	3,755,854
Capital assets being depreciated, net	<u>42,963,721</u>
Total assets	<u>57,067,554</u>
LIABILITIES	
Accounts payable and accrued expenditures	3,209,822
Unearned revenue	698,223
Premium on bond refunding	466,894
Long-term liabilities	
Due within one year	1,856,324
Due in more than one year	<u>19,212,250</u>
Total liabilities	<u>25,443,513</u>
NET ASSETS	
Invested in capital assets, net of related debt	26,391,415
Restricted for capital projects	3,101,179
Restricted for debt service	258,772
Unrestricted	<u>1,872,675</u>
Total net assets	<u>\$ 31,624,041</u>

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

PUBLIC SCHOOLS OF PETOSKEY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 17,523,345	\$ 163,965	\$ 4,271,705	\$ (13,087,675)
Supporting services	7,770,774	33,954	76,568	(7,660,252)
Community services	45,520	-	-	(45,520)
Food Services	985,027	464,301	537,724	16,998
Athletics	594,196	147,398	54,750	(392,048)
Interest on long-term debt	941,297	-	-	(941,297)
Unallocated depreciation	1,533,765	-	-	(1,533,765)
Total governmental activities	\$ 29,393,924	\$ 809,618	\$ 4,940,747	(23,643,559)
General revenues				
Property taxes - operations				16,766,883
Property taxes - debt service				2,400,131
Unrestricted state aid				5,689,068
Unrestricted investment earnings				108,445
Other				807,355
Total general revenues				25,771,882
Change in net assets				2,128,323
Net assets, beginning of year, as previously reported				29,285,085
Prior period adjustment				210,633
Net assets, beginning of year, as restated				29,495,718
Net assets, end of year				\$ 31,624,041

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, 2009

	General	Sinking	Debt Service	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 43,441	\$ 2,620,855	\$ 201,420	\$ 613,236	\$ 3,478,952
Investments	3,242,698	214,434	53,636	-	3,510,768
Accounts receivable	-	-	-	1,493	1,493
Due from other funds	35,000	-	-	64,443	99,443
Due from other governmental units	2,453,833	4,281	44,349	8,886	2,511,349
Other assets	199,084	-	-	74,438	273,522
Total assets	\$ 5,974,056	\$ 2,839,570	\$ 299,405	\$ 762,496	\$ 9,875,527
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 189,184	\$ -	\$ -	\$ 62,260	\$ 251,444
Contracts payable	-	292,976	-	-	292,976
Salaries payable	1,530,305	-	-	-	1,530,305
Accrued expenses	784,111	-	-	-	784,111
Due to other funds	64,443	-	-	35,000	99,443
Due to other governmental units	212,408	-	-	-	212,408
Deferred revenue	1,558,223	-	40,633	10,000	1,608,856
Total liabilities	4,338,674	292,976	40,633	107,260	4,779,543
Fund balances					
Reserved for inventory and prepaid items	29,084	-	-	74,438	103,522
Reserved for capital improvements	-	2,546,594	-	554,585	3,101,179
Reserved for debt service	-	-	258,772	-	258,772
Unreserved					
Undesignated, reported in nonmajor special revenue funds	-	-	-	26,213	26,213
Undesignated	1,606,298	-	-	-	1,606,298
Total fund balances	1,635,382	2,546,594	258,772	655,236	5,095,984
Total liabilities and fund balances	\$ 5,974,056	\$ 2,839,570	\$ 299,405	\$ 762,496	\$ 9,875,527

Continued...

PUBLIC SCHOOLS OF PETOSKEY

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2009

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

Fund balances - total governmental funds **\$ 5,095,984**

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

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

Add	- capital assets	71,750,799
Deduct	- accumulated depreciation	(25,031,224)

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

Add	- long term deferred assets	910,633
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Add	- bond issuance costs, net of amortization	571,895
Deduct	- bond premium, net of amortization	(466,894)
Deduct	- bonds and other long-term liabilities	(20,328,160)
Deduct	- employee incentives	(158,556)
Deduct	- accrued interest on bonds payable	(138,578)
Deduct	- compensated absences	(581,858)

Net assets of governmental activities **\$ 31,624,041**

Concluded

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

PUBLIC SCHOOLS OF PETOSKEY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	General	Sinking	Debt Service	Non- Major Funds	Total Governmental Funds
Revenues					
Local sources					
Property taxes	\$ 14,895,380	\$ 1,868,702	\$ 2,400,131	\$ -	\$ 19,164,213
Revenue in lieu of taxes	2,801	-	-	-	2,801
Charges for services	125,712	-	-	611,699	737,411
Tuition	38,253	-	-	-	38,253
Rent income	-	-	-	33,954	33,954
Interest income	56,543	31,119	12,460	8,323	108,445
Contributions	-	-	-	54,750	54,750
Other income	104,860	-	-	4,099	108,959
State sources	6,952,314	-	76,568	66,010	7,094,892
Federal sources	1,664,816	-	-	471,714	2,136,530
Interdistrict sources	1,343,643	-	-	-	1,343,643
Total revenues	25,184,322	1,899,821	2,489,159	1,250,549	30,823,851
Expenditures					
Instruction	17,395,424	-	-	-	17,395,424
Supporting services	7,784,036	-	-	-	7,784,036
Community services	45,520	-	-	-	45,520
Food services	-	-	-	985,027	985,027
Athletics	-	-	-	594,196	594,196
Capital outlay	-	677,159	-	51,520	728,679
Other	-	1,604	2,328	-	3,932
Debt service					
Principal	-	-	1,705,121	-	1,705,121
Interest	-	-	957,786	-	957,786
Total expenditures	25,224,980	678,763	2,665,235	1,630,743	30,199,721
Revenues (under) over expenditures	(40,658)	1,221,058	(176,076)	(380,194)	624,130
Other financing sources (uses)					
Transfers in	-	-	132,854	441,519	574,373
Transfers out	(441,519)	(132,854)	-	-	(574,373)
Total other financing sources (uses)	(441,519)	(132,854)	132,854	441,519	-
Net change in fund balances	(482,177)	1,088,204	(43,222)	61,325	624,130
Fund balance, beginning of year	2,117,559	1,458,390	301,994	593,911	4,471,854
Fund balances, end of year	\$ 1,635,382	\$ 2,546,594	\$ 258,772	\$ 655,236	\$ 5,095,984

Continued...

PUBLIC SCHOOLS OF PETOSKEY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

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

Net change in fund balances - total governmental funds **\$ 624,130**

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

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

Add - capital outlay	786,372
Deduct - depreciation expense	(1,533,765)
Deduct - loss on disposal of capital assets	(4,479)

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

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

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

Add - principal payments on long-term liabilities	1,705,121
Deduct - increase in employee incentives	(158,556)

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

Add - change in deferred payment in lieu of taxes	700,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Deduct - increase in the accrual for compensated absences	(7,610)
Add - decrease in accrued interest payable on bonds	27,610

Change in net assets - governmental activities **\$ 2,128,323**

Concluded

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

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2009

	Budget		Actual	Variance - Positive (Negative) Amended to Actual
	Original	Final Amended		
Revenues				
Local sources	\$ 16,837,916	\$ 15,338,425	\$ 15,223,549	\$ (114,876)
State sources	6,633,064	7,126,988	6,952,314	(174,674)
Federal sources	602,251	1,579,977	1,664,816	84,839
Interdistrict sources	1,252,510	1,336,386	1,343,643	7,257
Total revenues	25,325,741	25,381,776	25,184,322	(197,454)
Expenditures				
Education				
Instruction	17,680,295	17,554,453	17,395,424	159,029
Supporting services	8,094,826	8,112,236	7,784,036	328,200
Community services	41,932	56,111	45,520	10,591
Total expenditures	25,817,053	25,722,800	25,224,980	497,820
Revenues (under) over expenditures	(491,312)	(341,024)	(40,658)	300,366
Other financing (uses)				
Transfers out	(450,000)	(441,519)	(441,519)	-
Net change in fund balance	(941,312)	(782,543)	(482,177)	300,366
Fund balance, beginning of year, as previously reported	2,117,559	2,117,559	2,117,559	-
Prior period adjustment	-	-	-	-
Fund balance, beginning of year, as restated	2,117,559	2,117,559	2,117,559	-
Fund balance, end of year	\$ 1,176,247	\$ 1,335,016	\$ 1,635,382	\$ 300,366

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

PUBLIC SCHOOLS OF PETOSKEY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND

JUNE 30, 2009

ASSETS

Cash and cash equivalents	\$ 100,754
Investments	425,000
Accounts receivable	<u>200</u>

Total assets	<u><u>\$ 525,954</u></u>
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LIABILITIES

Due to student groups	\$ 184,954
Scholarships payable	256,821
Due to others	<u>84,179</u>

Total liabilities	<u><u>\$ 525,954</u></u>
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The accompanying notes are an integral part of these basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

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

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2009.

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

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

C. Measurement focus, basis of accounting, and financial statement presentation

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

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement type grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

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

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

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

Additionally, the District reports the following fund types:

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

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

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

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

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

D. Assets, liabilities and equity

1. *Deposits and investments*

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

Investments are reported at fair value.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no interfund advance loans outstanding at June 30, 2009.

3. *Inventory and prepaid items*

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of expendable supplies held for sale or consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

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

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

4. *Capital assets*

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

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

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

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

5. *Compensated absences*

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

6. *Long-term obligations*

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

7. Fund equity

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

E. Subsequent events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2009, the most recent balance sheet presented herein, through the auditors' report date, the date these financial statements were available to be issued. No significant such events or transactions were identified.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

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

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

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

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

Statement of Net Assets	
Cash and cash equivalents	\$ 3,478,952
Investments	<u>3,510,768</u>
Total Statement of Net Assets	<u>6,989,720</u>
Statement of Fiduciary Net Assets	
Agency Funds	
Cash and cash equivalents	100,754
Investments	<u>425,000</u>
Total Statement of Fiduciary Net Assets	<u>525,754</u>
Total deposits and investments	<u>\$ 7,515,474</u>

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

Bank deposits (checking accounts, savings accounts)	\$ 3,579,306
Certificates of deposit	425,000
Investments	3,510,768
Cash on hand	<u>400</u>
Total deposits and investments	<u>\$ 7,515,474</u>

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than five years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

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

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

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Michigan Liquid Asset Fund	n/a	\$ 3,510,768	S&P – AAAM

Investment and deposit risk

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

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, \$3,978,181 of the District's bank balance of \$4,478,181 was exposed to custodial credit risk because it was uninsured and uncollateralized.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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

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

B. Receivables

Receivables in the governmental activities are entirely due from other governments.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

C. Capital assets

Capital assets activity was as follows for the year ended June 30, 2009:

	Balance July 1, 2008	Additions	Transfers	Disposals	Balance June 30, 2009
Capital assets not being depreciated					
Land	\$ 3,394,351	\$ -	\$ -	\$ -	\$ 3,394,351
Construction in process	<u>209,300</u>	<u>361,503</u>	<u>(209,300)</u>	<u>-</u>	<u>361,503</u>
Total capital assets not being depreciated	<u>3,603,651</u>	<u>361,503</u>	<u>(209,300)</u>	<u>-</u>	<u>3,755,854</u>
Capital assets being depreciated					
Buildings and improvements	59,771,531	363,655	209,300	-	60,344,486
Furniture and equipment	<u>7,594,245</u>	<u>61,214</u>	<u>-</u>	<u>(5,000)</u>	<u>7,650,459</u>
Total capital assets being depreciated	<u>67,365,776</u>	<u>424,869</u>	<u>209,300</u>	<u>(5,000)</u>	<u>67,994,945</u>
Accumulated depreciation					
Buildings and improvements	(17,104,042)	(1,306,181)	-	-	(18,410,223)
Furniture and equipment	<u>(6,393,938)</u>	<u>(227,584)</u>	<u>-</u>	<u>521</u>	<u>(6,621,001)</u>
Total accumulated depreciation	<u>(23,497,980)</u>	<u>(1,533,765)</u>	<u>-</u>	<u>521</u>	<u>(25,031,224)</u>
Total capital assets being depreciated, net	<u>43,867,796</u>	<u>(1,108,896)</u>	<u>209,300</u>	<u>(4,479)</u>	<u>42,963,721</u>
Governmental activities capital assets, net	<u>\$ 47,471,447</u>	<u>\$ (747,393)</u>	<u>\$ -</u>	<u>\$ (4,479)</u>	<u>\$ 46,719,575</u>

Unallocated depreciation expense of \$1,533,765 was charged to the governmental activities.

D. Accounts payable and accrued expenses

Accounts payable and accrued expenses are 8 percent vendors, 10 percent contracts, 51 percent salaries, and 31 percent accrued expenses.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

E. Interfund receivables, payables and transfers

The District reports interfund balances between certain funds. These interfund balances resulted primarily from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. As of June 30, 2009, The General Fund owed \$64,443 to the Athletic Special Revenue Fund and the Food Service Special Revenue Fund owed the General Fund \$34,000.

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, 2009, the District's General Fund transferred \$441,519 to the Athletic Special Revenue Fund to subsidize the athletic programs and the Sinking Capital Project Fund transferred \$132,854 to the Debt Service Fund.

F. Long-Term Debt

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

	<u>Balance July 1, 2008</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance June 30, 2009</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation	\$ 20,745,000	\$ -	\$ (1,575,000)	\$ 19,170,000	\$ 1,630,000
Durant resolution	<u>95,821</u>	<u>-</u>	<u>(55,188)</u>	<u>40,633</u>	<u>9,461</u>
Total bonds payable	<u>20,840,821</u>	<u>-</u>	<u>(1,630,188)</u>	<u>19,210,633</u>	<u>1,639,461</u>
Other liabilities					
Land contracts	1,192,460	-	(74,933)	1,117,527	78,766
Early retirement incentives	-	237,834	(79,278)	158,556	79,278
Compensated absences	<u>574,248</u>	<u>7,610</u>	<u>-</u>	<u>581,858</u>	<u>58,819</u>
Total other liabilities	<u>1,766,708</u>	<u>245,444</u>	<u>(154,211)</u>	<u>1,857,941</u>	<u>216,863</u>
Total long-term liabilities	<u>\$ 22,607,529</u>	<u>\$ 245,444</u>	<u>\$ (1,784,399)</u>	<u>\$ 21,068,574</u>	<u>\$ 1,856,324</u>

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

Long-term debt at June 30, 2009, includes the following:

General Obligation Bonds

2005 refunding bonds due in annual installments ranging from \$1,630,000 to \$2,125,000 with interest ranging from 3.50% to 5.00%; final payment due May 2019. \$ 19,170,000

Durant Resolution Bond

1998 series, school improvement bond due in annual installments ranging from \$9,461 to \$10,877 with interest charged at 4.76%. This bond is a self-liquidating bond. The principal and interest is payable solely through annual appropriations by the State of Michigan. If the legislature fails to appropriate the funds, the District is under no obligation for payment. Final payment is due May 15, 2013. 40,633

Total bonds **19,210,633**

Other Liabilities

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 1, 2022. 619,450

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 1, 2019. 498,077

Early retirement incentives 158,556

Compensated absences 581,858

Total long-term debt **\$ 21,068,574**

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

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

Bond debt service requirements

The annual requirements to service the bonds, early retirement incentive, and land contract outstanding (not including accrued compensated absences) to maturity, including both principal and interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	1,797,505	880,048	2,677,553
2011	1,856,985	818,517	2,675,502
2012	1,832,414	754,834	2,587,248
2013	1,927,361	663,137	2,590,498
2014	1,976,165	594,064	2,570,229
2015-2019	10,935,618	1,454,838	12,390,456
2020-2022	<u>160,668</u>	<u>10,934</u>	<u>171,602</u>
Total	<u>\$ 20,486,716</u>	<u>\$ 5,176,372</u>	<u>\$ 25,663,088</u>

Interest and paying agent fees paid were \$958,451 for the year ended June 30, 2009.

Compensated absences are generally liquidated by the General Fund.

IV. OTHER INFORMATION

A. Risk management

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

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

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 of the following year. School related property taxes are levied on December 1 each year, based on the previous year's assessment, by township governments whose boundaries include property within the District, and are due on February 28. Delinquent real taxes are advanced to the District by the Revolving Tax Fund of the applicable County. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year-end, if any.

C. Defined benefit pension plan

Plan Description

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

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

Funding Policy

Member Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, through June 30, 2008, contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members hired on or after July 1, 2008, contribute at the MIP-Plus graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.54% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2009, 2008, and 2007, were \$2,707,543, \$2,707,899, and \$2,402,301, respectively, equal to the required contributions for each year.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

Other Postemployment Benefits

The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

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

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

D. Sinking funds

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

E. School improvement fund

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

F. Commitments and contingencies

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

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2009.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

As of June 30, 2009, the District had entered into various construction contracts amounting to approximately \$1,597,000. The contracts are for boiler and mechanical upgrades, window and door replacements, and energy efficient projects. As of June 30, 2009, approximately \$362,000 was recorded as construction-in-progress related to these projects.

G. Prior Period Adjustment

The beginning balance of the District's net assets was increased by \$170,000 with a corresponding increase in other assets, to reflect the cost of a house built by the District's Building Trades Class that is held for sale.

The beginning balance of the District's net assets was also increased by \$40,633 with a corresponding increase in receivables in order to correctly reflect the receivable related to the Durant Bonds.

* * * * *

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

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2009

	<u>Special Revenue Funds</u>		<u>Capital Project Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food</u>	<u>Athletics</u>	<u>Roof Repair</u>	<u>Building</u>	
	<u>Service</u>			<u>and Site</u>	
ASSETS					
Cash and cash equivalents	\$ 30,950	\$ 27,701	\$ 13,502	\$ 541,083	\$ 613,236
Accounts receivable	429	1,064	-	-	1,493
Due from other funds	-	64,443	-	-	64,443
Due from other governmental units	8,886	-	-	-	8,886
Inventory	74,338	100	-	-	74,438
Total assets	\$ 114,603	\$ 93,308	\$ 13,502	\$ 541,083	\$ 762,496
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 62,060	\$ 200	\$ -	\$ -	\$ 62,260
Due to other funds	35,000	-	-	-	35,000
Deferred revenue	-	10,000	-	-	10,000
Total liabilities	97,060	10,200	-	-	107,260
Fund balances					
Reserved for inventory	74,338	100	-	-	74,438
Reserved for capital improvements	-	-	13,502	541,083	554,585
Unreserved, undesignated (deficit)	(56,795)	83,008	-	-	26,213
Total fund balances	17,543	83,108	13,502	541,083	655,236
Total liabilities and fund balances	\$ 114,603	\$ 93,308	\$ 13,502	\$ 541,083	\$ 762,496

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2009

	Special Revenue Funds		Capital Project Funds		Total Nonmajor Governmental Funds
	Food Service	Athletics	Roof Repair	Building and Site	
Revenues					
Local sources					
Charges for services	\$ 464,301	\$ 147,398	\$ -	\$ -	\$ 611,699
Rent income	-	-	-	33,954	33,954
Interest income	-	-	206	8,117	8,323
Contributions	-	54,750	-	-	54,750
Other	-	4,099	-	-	4,099
State sources	66,010	-	-	-	66,010
Federal sources	471,714	-	-	-	471,714
Total revenues	1,002,025	206,247	206	42,071	1,250,549
Expenditures					
Food services	985,027	-	-	-	985,027
Athletics	-	594,196	-	-	594,196
Capital outlay	-	-	1,520	50,000	51,520
Total expenditures	985,027	594,196	1,520	50,000	1,630,743
Revenues over (under) expenditures	16,998	(387,949)	(1,314)	(7,929)	(380,194)
Other financing sources					
Transfers in	-	441,519	-	-	441,519
Net change in fund balances	16,998	53,570	(1,314)	(7,929)	61,325
Fund balances, beginning of year	545	29,538	14,816	549,012	593,911
Fund balances, end of year	\$ 17,543	\$ 83,108	\$ 13,502	\$ 541,083	\$ 655,236

PUBLIC SCHOOLS OF PETOSKEY

**BALANCE SHEET
GENERAL FUND**

**JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2008)**

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 43,441	\$ 3,793
Investments	3,242,698	3,736,450
Due from other funds	35,000	-
Due from other governmental units	2,453,833	1,480,619
Other assets	199,084	29,617
Total assets	<u>\$ 5,974,056</u>	<u>\$ 5,250,479</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 189,184	\$ 55,439
Salaries payable	1,530,305	1,419,625
Accrued expenses	784,111	805,828
Due to other funds	64,443	29,660
Due to other governmental units	212,408	-
Deferred revenue	1,558,223	822,368
Total liabilities	<u>4,338,674</u>	<u>3,132,920</u>
Fund balance		
Reserved for inventory and prepaid expenditures	29,084	29,617
Unreserved, undesignated	1,606,298	2,087,942
Total fund balance	<u>1,635,382</u>	<u>2,117,559</u>
Total liabilities and fund balance	<u>\$ 5,974,056</u>	<u>\$ 5,250,479</u>

PUBLIC SCHOOLS OF PETOSKEY

**SCHEDULE OF REVENUES
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2008)**

	<u>2009</u>	<u>2008</u>
Revenues		
Local Sources		
Property taxes	\$ 14,895,380	\$ 15,114,169
Payment in lieu of taxes	2,801	367,139
Charges for services	125,712	102,776
Tuition	38,253	76,130
Interest	56,543	165,136
Other local sources	104,860	71,862
Total local sources	<u>15,223,549</u>	<u>15,897,212</u>
State sources		
State school aid - Proposal A	378,261	49,487
State school aid - Headlee	5,036,826	6,009,220
State school aid - Prior year adjustments	263,470	(94,015)
State school aid - Special Education Headlee Obligation	768,914	640,598
State school aid - Equity Payments	10,511	27,040
At-risk	467,019	279,154
Other state revenue	27,313	13,749
Total state sources	<u>6,952,314</u>	<u>6,925,233</u>
Federal sources		
ARRA	1,105,112	-
Title I	380,191	422,915
Title II	107,958	106,766
Title V	-	654
Title IX	51,803	50,910
Other	19,752	26,839
Total federal sources	<u>1,664,816</u>	<u>608,084</u>
Interdistrict sources		
Vocational education - Millage	573,090	589,435
Vocational education - Added Cost	93,101	103,289
Expense reimbursements	677,452	631,897
Total interdistrict sources	<u>1,343,643</u>	<u>1,324,621</u>
Total revenues	<u><u>\$ 25,184,322</u></u>	<u><u>\$ 24,755,150</u></u>

PUBLIC SCHOOLS OF PETOSKEY

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

**FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2008)**

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies, Materials and Other Expenses</u>	<u>Capital Outlay</u>
Instruction					
Basic programs					
Pre-K	\$ -	\$ -	\$ 21,420	\$ -	\$ -
Elementary	3,794,696	1,987,744	124,028	143,432	-
Middle school	1,933,077	971,360	138,208	78,855	-
High School	2,378,162	1,169,896	73,028	105,917	-
Summer school	18,880	4,487	1,069	36,405	-
Total basic programs	8,124,815	4,133,487	357,753	364,609	-
Added needs					
Special education	1,375,229	813,786	55,270	4,080	-
Compensatory education	288,145	222,598	204,317	61,650	-
Vocational education	702,807	362,941	66,126	209,027	48,784
Total added needs	2,366,181	1,399,325	325,713	274,757	48,784
Total instruction	10,490,996	5,532,812	683,466	639,366	48,784
Supporting services					
Pupil services					
Guidance services	364,583	167,059	-	4,235	-
Health services	-	-	244,678	710	-
Other	9,394	2,505	54,767	-	-
Total pupil services	373,977	169,564	299,445	4,945	-
Instructional staff services					
Improvement of instruction	31,216	10,510	41,684	3,162	-
Library	167,729	117,307	9,686	35,006	-
Technology assisted instruction	137,221	58,419	4,570	-	-
Supervision	196,631	81,149	5,609	5,303	-
Academic student assessment	-	-	-	15,082	-
Total instructional staff services	532,797	267,385	61,549	58,553	-

Total	
2009	2008
\$ 21,420	\$ -
6,049,900	5,721,802
3,121,500	3,067,477
3,727,003	3,512,993
60,841	9,092
12,980,664	12,311,364
2,248,365	2,201,078
776,710	673,944
1,389,685	1,579,528
4,414,760	4,454,550
17,395,424	16,765,914
535,877	519,867
245,388	232,581
66,666	66,993
847,931	819,441
86,572	79,224
329,728	311,681
200,210	202,442
288,692	288,881
15,082	25,485
920,284	907,713

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

**FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2008)**

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies, Materials and Other Expenses</u>	<u>Capital Outlay</u>
General administration					
Board of education	\$ -	\$ -	\$ 44,994	\$ 4,205	\$ -
Executive administration	186,491	104,332	151,582	8,100	-
Total general administration	186,491	104,332	196,576	12,305	-
School administration					
Office of the principal	671,636	437,538	446,622	34,676	-
Business services					
Fiscal services	224,068	125,580	13,210	173,417	-
Transportation	-	-	1,066,577	-	-
Operations and maintenance	498,398	344,724	561,402	853,575	12,436
Security services	-	-	52,258	-	-
Total supporting services	2,487,367	1,449,123	2,697,639	1,137,471	12,436
Community services					
Community services direction	15,654	16,361	10,942	1,113	-
Non-public school pupils	-	-	1,411	39	-
Total community services	15,654	16,361	12,353	1,152	-
Total operating expenditures	\$ 12,994,017	\$ 6,998,296	\$ 3,393,458	\$ 1,777,989	\$ 61,220
Other financing uses					
Transfers out					
Total expenditures and other financing uses					

Total	
2009	2008
\$ 49,199	\$ 66,180
450,505	436,144
499,704	502,324
1,590,472	1,574,971
536,275	478,129
1,066,577	1,066,157
2,270,535	2,301,098
52,258	51,565
7,784,036	7,701,398
44,070	37,209
1,450	5,941
45,520	43,150
25,224,980	24,510,462
441,519	448,572
\$ 25,666,499	\$ 24,959,034

Concluded

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS**

**JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2008)**

	Food Service	Athletics	Total	
			2009	2008
ASSETS				
Assets				
Cash and cash equivalents	\$ 30,950	\$ 27,701	\$ 58,651	\$ 68,285
Accounts receivable	429	1,064	1,493	18,844
Due from other funds	-	64,443	64,443	29,660
Due from other governmental units	8,886	-	8,886	-
Inventory	74,338	100	74,438	8,006
Total assets	\$ 114,603	\$ 93,308	\$ 207,911	\$ 124,795
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 62,060	\$ 200	\$ 62,260	\$ 74,244
Due to other funds	35,000	-	35,000	-
Deferred revenue	-	10,000	10,000	20,468
Total liabilities	97,060	10,200	107,260	94,712
Fund balances				
Reserved for inventory	74,338	100	74,438	8,006
Unreserved, undesignated (deficit)	(56,795)	83,008	26,213	22,077
Total fund balances	17,543	83,108	100,651	30,083
Total liabilities and fund balances	\$ 114,603	\$ 93,308	\$ 207,911	\$ 124,795

PUBLIC SCHOOLS OF PETOSKEY

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

**FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2008)**

	<u>Food Service</u>	<u>Athletics</u>	<u>Total</u>	
			<u>2009</u>	<u>2008</u>
Revenues				
Local sources				
Lunch sales	\$ 269,825	\$ -	\$ 269,825	\$ 301,471
Breakfast sales	11,706	-	11,706	12,079
Ala carte sales	182,770	-	182,770	203,459
Athletic ticket sales	-	147,398	147,398	111,987
Contributions	-	54,750	54,750	29,750
Other	-	4,099	4,099	1,541
State sources	66,010	-	66,010	68,881
Federal sources	471,714	-	471,714	403,347
Total revenues	1,002,025	206,247	1,208,272	1,132,515
Expenditures				
Salaries	58,778	133,097	191,875	313,788
Employee benefits	76,898	32,620	109,518	170,542
Purchased services	343,497	271,020	614,517	426,413
Supplies, materials and other expenditures	107,425	71,425	178,850	169,020
Food costs	398,429	-	398,429	431,034
Transportation	-	86,034	86,034	78,539
Total expenditures	985,027	594,196	1,579,223	1,589,336
Revenues over (under) expenditures	16,998	(387,949)	(370,951)	(456,821)
Other financing sources				
Transfers in	-	441,519	441,519	448,572
Net change in fund balances	16,998	53,570	70,568	(8,249)
Fund balances, beginning of year	545	29,538	30,083	38,332
Fund balances, end of year	\$ 17,543	\$ 83,108	\$ 100,651	\$ 30,083

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING BALANCE SHEET
CAPITAL PROJECT FUNDS**

**JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2008)**

	<u>Sinking</u>	<u>Roof Repair</u>	<u>Building</u>	<u>Total</u>	
	<u>Fund</u>		<u>and Site</u>	<u>2009</u>	<u>2008</u>
Assets					
Cash and cash equivalents	\$ 2,620,855	\$ 13,502	\$ 541,083	\$ 3,175,440	\$ 2,077,250
Investments	214,434	-	-	214,434	211,637
Due from other governmental units	4,281	-	-	4,281	-
Accounts receivable	-	-	-	-	3,696
Total assets	\$ 2,839,570	\$ 13,502	\$ 541,083	\$ 3,394,155	\$ 2,292,583
 LIABILITIES AND FUND BALANCES					
Liabilities					
Contracts payable	\$ 292,976	\$ -	\$ -	\$ 292,976	\$ 270,365
Fund balances					
Reserved for capital improvements	2,546,594	13,502	541,083	3,101,179	2,022,218
Total liabilities and fund balances	\$ 2,839,570	\$ 13,502	\$ 541,083	\$ 3,394,155	\$ 2,292,583

PUBLIC SCHOOLS OF PETOSKEY

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

**FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2008)**

	Sinking	Roof Repair	Building	Total	
	Fund		and Site	2009	2008
Revenues					
Property taxes	\$ 1,868,702	\$ -	\$ -	\$ 1,868,702	\$ 1,803,744
Rent income	-	-	33,954	33,954	46,557
Interest income	31,119	206	8,117	39,442	57,836
Total revenues	1,899,821	206	42,071	1,942,098	1,908,137
Expenditures					
Capital outlay	677,159	1,520	50,000	728,679	2,054,860
Other	1,604	-	-	1,604	3,296
Total expenditures	678,763	1,520	50,000	730,283	2,058,156
Revenues over (under) expenditures	1,221,058	(1,314)	(7,929)	1,211,815	(150,019)
Other financing (uses) sources					
Proceeds from sale of property	-	-	-	-	297,076
Transfers out	(132,854)	-	-	(132,854)	(132,854)
Total other financing (uses) sources	(132,854)	-	-	(132,854)	164,222
Net change in fund balances	1,088,204	(1,314)	(7,929)	1,078,961	14,203
Fund balances, beginning of year	1,458,390	14,816	549,012	2,022,218	2,008,015
Fund balances, end of year	\$ 2,546,594	\$ 13,502	\$ 541,083	\$ 3,101,179	\$ 2,022,218

PUBLIC SCHOOLS OF PETOSKEY
COMBINING SCHEDULE OF DEBT SERVICE BALANCES
DEBT SERVICE FUND

JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2008)

	2005 Refunding Bonds	Foster Land Contract	Veurink Land Contract
ASSETS			
Cash and cash equivalents	\$ 201,420	\$ -	\$ -
Investments	53,636	-	-
Due from other governmental units	3,716	-	-
Total assets	\$ 258,772	\$ -	\$ -
LIABILITIES AND FUND BALANCES			
Liabilities			
Deferred revenue	\$ -	\$ -	\$ -
Fund balances			
Reserved for debt service	258,772	-	-
Total liabilities and fund balances	\$ 258,772	\$ -	\$ -

Durant Settlement	Total	
	2009	2008
\$ -	\$ 201,420	\$ 249,132
-	53,636	52,862
40,633	44,349	-
\$ 40,633	\$ 299,405	\$ 301,994
\$ 40,633	\$ 40,633	\$ -
-	258,772	301,994
\$ 40,633	\$ 299,405	\$ 301,994

PUBLIC SCHOOLS OF PETOSKEY

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

**FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2008)**

	2005 Refunding Bonds	Foster Land Contract	Veurink Land Contract
Revenues			
Local sources			
Property taxes	\$ 2,400,131	\$ -	\$ -
State sources	-	-	-
Interest income	12,460	-	-
Total revenues	2,412,591	-	-
Expenditures			
Principal	1,575,000	40,420	34,513
Interest	878,485	26,007	31,914
Other	2,328	-	-
Total expenditures	2,455,813	66,427	66,427
Revenues (under) over expenditures	(43,222)	(66,427)	(66,427)
Other financing sources			
Transfers in	-	66,427	66,427
Net change in fund balances	(43,222)	-	-
Fund balances, beginning of year	301,994	-	-
Fund balances, end of year	\$ 258,772	\$ -	\$ -

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

Durant Settlement	Total	
	2009	2008
\$ -	\$ 2,400,131	\$ 2,332,095
76,568	76,568	-
-	12,460	27,240
76,568	2,489,159	2,359,335
55,188	1,705,121	1,501,285
21,380	957,786	1,001,028
-	2,328	11,210
76,568	2,665,235	2,513,523
-	(176,076)	(154,188)
-	132,854	132,854
-	(43,222)	(21,334)
-	301,994	323,328
\$ -	\$ 258,772	\$ 301,994

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2009

	Balances July 1, 2008	Receipts	Disbursements	Balances June 30, 2009
ASSETS				
Cash	\$ 61,781	\$ 594,187	\$ 555,214	\$ 100,754
Investments	425,000	-	-	425,000
Accounts receivable	-	200	-	200
Total assets	\$ 486,781	\$ 594,387	\$ 555,214	\$ 525,954
LIABILITIES				
Due to student groups	\$ 144,156	\$ 426,129	\$ 385,331	\$ 184,954
Scholarships payable	246,125	29,384	18,688	256,821
Due to others	96,500	138,874	151,195	84,179
Total liabilities	\$ 486,781	\$ 594,387	\$ 555,214	\$ 525,954

The balances consist of the following:

Deposits due to student groups

Student groups				
6th Grade Club	\$ 278	\$ 23,074	\$ 21,501	\$ 1,851
7th Grade Club	1,070	14,407	12,810	2,667
8th Grade Fund	1,357	6,162	5,315	2,204
Middle School Art Club	1,033	4,668	5,369	332
Middle School Athletics	517	514	739	292
Middle School Ecology Club	434	1,846	1,828	452
Middle School Enrichment	2,312	7,546	5,352	4,506
Middle School Football	2,551	4,203	4,833	1,921
Middle School Photo Club	681	44	543	182
Middle School Student Council	1,688	1,434	1,401	1,721
Middle School Track	2,977	1,683	884	3,776
Middle School Volleyball	2,935	352	182	3,105
Middle School Yearbook	638	10,992	10,657	973
Ottawa 4th Grade Field Trip	147	1,827	1,581	393
Ottawa 5th Grade Field Trip	253	6,822	5,803	1,272
Ottawa Field Trip Fund	1,077	4,638	4,056	1,659
Sheridan 3rd Grade	503	1,062	760	805
Sheridan 4th Grade	176	520	422	274
Sheridan 5th Grade	284	184	339	129
Sheridan Drama Club	45	-	45	-
Sheridan Student Council	-	150	69	81
Sheridan Garden Fund	109	-	-	109

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2009

	Balances July 1, 2008	Receipts	Disbursements	Balances June 30, 2009
Builder's Club	\$ 635	\$ 865	702	\$ 798
Building Trades Fund	2	-	-	2
Business Club	218	260	122	356
Central 5th Grade	302	3,425	3,303	424
Central 3rd Grade	18	-	-	18
Central Library & Computer	577	4,855	3,210	2,222
Central School Fund	906	7,217	7,510	613
Central School Store	466	1,111	1,014	563
Class of 1991	96	-	-	96
Class of 1992	1,131	-	-	1,131
Class of 1993	8	-	-	8
Class of 1994	602	-	-	602
Class of 1995	81	-	-	81
Class of 1997	443	-	-	443
Class of 2012	289	1,446	-	1,735
Class of 2007	1,882	-	-	1,882
Class of 2008	967	707	779	895
Class of 2009	5,919	9,203	13,780	1,342
Class of 2010	672	9,088	3,670	6,090
Class of 2011	1,175	1,176	863	1,488
DECA	455	2,224	1,946	733
Debate Club	2,555	1,000	-	3,555
Elementary Enrichment	3,194	4,659	5,437	2,416
Elementary Enrichment Play	5,725	9,794	6,733	8,786
Elementary Music Fund	858	1,372	1,624	606
FCCLA	(284)	3,929	3,279	366
FCCLA Region II	21	-	20	1
French Club	192	463	647	8
Future Farmers of America	1,603	444	100	1,947
Skateboarding Club	47	-	-	47
G Wing Productions	2,523	-	-	2,523
HOSA	1,035	4,991	4,778	1,248
High School Art Club	2,759	-	-	2,759
High School Spring Musical	471	6,815	6,545	741
High School Fall Play	1,752	1,876	1,783	1,845
High School Journalism	1,239	1,930	2,503	666
High School Learning Center	1,429	-	595	834
High School Fund	6,700	7,093	4,219	9,574
High School Steel Drum Band	-	28,768	28,768	-
High School Enrichment	1,589	15,008	16,673	(76)
High School Quiz Bowl Team	521	760	452	829
High School Student Council	5,451	20,566	22,114	3,903

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2009

	Balances July 1, 2008	Receipts	Disbursements	Balances June 30, 2009
High School Vocal	\$ 85	\$ -	\$ -	\$ 85
High School Yearbook	(792)	18,107	19,324	(2,009)
Hospitality Foods Tip Fund	80	1,609	1,580	109
Inward Bound Fund	653	-	-	653
Key Club	432	386	292	526
Lincoln School Fund	2,638	1,294	2,735	1,197
Lincoln 4th Grade	-	-	-	-
Middle School Enrichment Play	4,484	4,997	2,971	6,510
Middle School Book Fair	668	-	309	359
Middle School Fund	3,285	5,404	3,509	5,180
Middle School Store	(29)	2,949	2,796	124
Middle School Adventure Education	441	1,500	1,725	216
Middle School Washington DC Club	1,970	2,128	2,574	1,524
Middle School Dance	-	60	24	36
Middle School Boys Basketball	-	799	544	255
National Honor Society	774	1,327	1,044	1,057
Northmen Club	803	-	-	803
Ottawa After-School	1,306	-	-	1,306
Ottawa Popcorn Sales	3,168	3,142	3,106	3,204
Ottawa School Fund	4,470	2,164	1,672	4,962
Ottawa School Store	233	43	43	233
Petoskey High School Papermakers	2,372	862	389	2,845
Sheridan School	4,786	7,090	4,305	7,571
Spanish Club	151	-	-	151
World History Trip Fund	450	-	-	450
Athletic Hall Of Fame	63	1,460	1,323	200
Boys Basketball	443	-	443	-
Boys Golf	1,536	5,743	4,862	2,417
Communications Camp	2,384	-	-	2,384
Girls Basketball	2,238	625	589	2,274
Girls Golf	2,649	3,199	1,217	4,631
Girls Softball	359	1,606	1,965	-
Boys Tennis	149	-	-	149
Girls Tennis	1,663	11,799	12,500	962
Girls Track	194	200	200	194
Dance	75	317	377	15
High School Baseball	196	-	-	196
High School Boys Soccer	3,492	5,900	6,613	2,779
High School Cross Country	2,899	12,485	9,044	6,340

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2009

	Balances July 1, 2008	Receipts	Disbursements	Balances June 30, 2009
High School Football	\$ 45	\$ -	\$ -	\$ 45
High School Girls Soccer	5,179	3,949	2,651	6,477
H. S. Social Studies Club	108	-	-	108
High School Hockey	7,091	72,808	57,776	22,123
High School Ski Team	-	2,854	2,854	-
Senior Parent Committee	-	1,100	1,100	-
Indian Education - Unity Trip	2,738	-	-	2,738
Volleyball	938	5,050	5,217	771
Total due to student groups	144,156	426,129	385,331	184,954
Scholarships payable				
Doris Reber - Class of 1932 Scholarship	206,414	6,060	-	212,474
Robert Motely Memorial Fund	1,606	-	500	1,106
Henshaw Memorial Scholarship	4,148	121	-	4,269
Middle School Foundation Grant	1,573	8,000	3,265	6,308
McClutchey Memorial Scholarship	5,215	151	200	5,166
Midshipmen Scholarship	7,196	212	199	7,209
PEF Grants - High School	1,153	3,097	3,350	900
PEF Grants - Lincoln	-	619	619	-
PEF Grants - Sheridan	-	2,540	2,040	500
PEF Grants - Central	135	2,976	3,111	-
PEF Grants - Ottawa	150	860	825	185
PEF Grants - Middle School	880	3,863	3,850	893
Vaughn Memorial Scholarship	17,220	485	601	17,104
Wil Moyer Music Scholarship	435	400	128	707
Total scholarships payable	246,125	29,384	18,688	256,821
Due to others				
Central Gym Project	50	-	-	50
Central PTO	2,450	8,096	8,527	2,019
COATS	9,991	-	9,903	88
Eric Greyerbiehl Memorial Fund	2,512	350	300	2,562
Guidance Dept Testing	1,796	1,530	1,344	1,982
Kathy Robinson Memorial Fund	96	-	-	96
Lincoln PTO	19,800	32,324	43,321	8,803
Middle School Celebration Garden	517	-	-	517
Northmen Night	163	36,419	35,268	1,314
Ottawa PTO	249	4,202	2,747	1,704
Ottawa PTO Board Fund	15,114	48,114	42,090	21,138
Spitler Building Pop Fund	57	99	32	124
Student Reserve	39,699	7,740	6,879	40,560
Track Donations	4,006	-	784	3,222
Total due to others	96,500	138,874	151,195	84,179
Totals	\$ 486,781	\$ 594,387	\$ 555,214	\$ 525,954

Concluded

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2009

PURPOSE	2005 Refunding Bonds
DATE OF ISSUE	May 27, 2005
RATE OF INTEREST	3.00% to 5.00%
ORIGINAL OBLIGATION	\$ 21,370,000
AMOUNT PREVIOUSLY PAID	<u>2,200,000</u>
BALANCE OUTSTANDING - June 30, 2009	<u>\$ 19,170,000</u>

<u>Fiscal Year</u>	<u>November 1, Interest</u>	<u>May 1, Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2009-2010	\$ 412,013	\$ 412,013	\$ 1,630,000	\$ 2,454,026
2010-2011	383,488	383,488	1,685,000	2,451,976
2011-2012	354,000	354,000	1,735,000	2,443,000
2012-2013	310,625	310,625	1,825,000	2,446,250
2013-2014	278,688	278,688	1,880,000	2,437,376
2014-2015	231,688	231,688	1,970,000	2,433,376
2015-2016	182,438	182,438	2,070,000	2,434,876
2016-2017	130,688	130,688	2,125,000	2,386,376
2017-2018	86,594	86,594	2,125,000	2,298,188
2018-2019	<u>43,563</u>	<u>43,563</u>	<u>2,125,000</u>	<u>2,212,126</u>
	<u>\$ 2,413,785</u>	<u>\$ 2,413,785</u>	<u>\$ 19,170,000</u>	<u>\$ 23,997,570</u>

CALL PROVISION

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

Continued...

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2009

PURPOSE	Durant Resolution Package Bonds
DATE OF ISSUE	November 24, 1998
RATE OF INTEREST	4.76%
ORIGINAL OBLIGATION	\$ 162,282
AMOUNT PREVIOUSLY PAID	<u>121,649</u>
BALANCE OUTSTANDING - June 30, 2009	<u><u>\$ 40,633</u></u>

Fiscal Year	May 1, Interest	May 1, Principal	Annual Requirements
2009-2010	\$ 1,935	\$ 9,461	\$ 11,396
2010-2011	1,484	9,912	11,396
2011-2012	1,012	10,383	11,395
2012-2013	518	10,877	11,395
	<u>\$ 4,949</u>	<u>\$ 40,633</u>	<u>\$ 45,582</u>

CALL PROVISION

This bond is not subject to redemption prior to maturity.

Continued...

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2009

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>201,923</u>
BALANCE OUTSTANDING - June 30, 2009	<u><u>\$ 498,077</u></u>

<u>Fiscal Year</u>	<u>Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2009-2010	\$ 23,939	\$ 42,488	\$ 66,427
2010-2011	21,765	44,661	66,426
2011-2012	19,480	46,946	66,426
2012-2013	17,078	49,348	66,426
2013-2014	14,554	51,873	66,427
2014-2015	11,900	54,527	66,427
2015-2016	9,110	57,317	66,427
2016-2017	6,178	60,249	66,427
2017-2018	3,095	63,332	66,427
2018-2019	343	27,336	27,679
	<u>\$ 127,442</u>	<u>\$ 498,077</u>	<u>\$ 625,519</u>

Continued...

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2009

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>80,550</u>
BALANCE OUTSTANDING - June 30, 2009	<u><u>\$ 619,450</u></u>

<u>Fiscal Year</u>	<u>Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2009-2010	\$ 30,149	\$ 36,278	\$ 66,427
2010-2011	28,293	38,134	66,427
2011-2012	26,342	40,085	66,427
2012-2013	24,291	42,136	66,427
2013-2014	22,135	44,292	66,427
2014-2015	19,869	46,558	66,427
2015-2016	17,487	48,940	66,427
2016-2017	14,983	51,443	66,426
2017-2018	12,351	54,075	66,426
2018-2019	9,585	56,841	66,426
2019-2020	6,676	59,750	66,426
2020-2021	3,620	62,807	66,427
2021-2022	638	38,111	38,749
	<u>\$ 216,419</u>	<u>\$ 619,450</u>	<u>\$ 835,869</u>

Concluded

OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)

PUBLIC SCHOOLS OF PETOSKEY
PROPERTY TAX INFORMATION (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2009

Taxing District	Tax Levy	Collections and Other Reductions	Delinquent Personal Property Taxes	Percentage of Current Year Levy Collected
Bear Creek Township	\$ 5,275,810	\$ 5,248,278	\$ 27,532	99.48%
Littlefield Township	62,571	62,571	-	100.00%
Little Traverse Township	461,545	460,894	651	99.86%
Resort Township	3,312,223	3,311,718	505	99.98%
Springvale Township	867,222	867,147	75	99.99%
City of Petoskey	8,048,554	8,037,592	10,962	99.86%
Chandler Township	271,842	271,842	-	100.00%
Hayes Township	46,526	46,526	-	100.00%
Melrose Township	948,275	948,275	-	100.00%
Total	<u>\$ 19,294,568</u>	<u>\$ 19,254,843</u>	<u>\$ 39,725</u>	99.79%
Allocated as follows				
General Fund	\$ 15,027,184	\$ 15,008,800	\$ 18,384	99.88%
Debt Service Funds	2,405,143	2,390,022	15,121	99.37%
Capital Projects Fund	1,862,241	1,856,021	6,220	99.67%
Total allocated to all funds	<u>\$ 19,294,568</u>	<u>\$ 19,254,843</u>	<u>\$ 39,725</u>	99.79%

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

FOR THE YEAR ENDED JUNE 30, 2009

Year	Special Education	Elementary School	Middle School	High School	Total	Non-Resident	Resident
1998	27.50	1,214.47	765.75	924.87	2,932.59	136.00	2,796.59
1999	32.13	1,209.31	734.97	941.78	2,918.19	164.33	2,753.86
2000	37.45	1,208.86	743.03	963.84	2,953.18	202.00	2,751.18
2001	47.45	1,212.21	734.35	1,027.19	3,021.20	209.00	2,812.20
2002	49.59	1,240.31	719.32	1,065.06	3,074.28	260.00	2,814.28
2003	67.10	1,265.09	693.36	1,057.77	3,083.32	270.00	2,813.32
2004	79.38	1,240.37	712.35	1,062.48	3,094.58	287.00	2,807.58
2005	73.51	1,271.12	692.69	1,037.45	3,074.77	300.51	2,774.26
2006	75.71	1,261.31	669.92	1,050.16	3,057.10	324.00	2,733.10
2007	76.17	1,243.99	659.59	1,026.97	3,006.72	341.28	2,665.44
2008	73.36	1,224.31	669.43	1,020.37	2,987.47	342.02	2,645.45
2009	75.90	1,245.78	669.48	983.71	2,974.87	349.99	2,624.88

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

PUBLIC SCHOOLS OF PETOSKEY
TEN-YEAR SUMMARY OF GENERAL FUND
EXPENDITURES, STUDENT ENROLLMENT AND
PER PUPIL COSTS (UNAUDITED)

Year	Expenditures and Transfers*	Enrollment	Expenditures Per Pupil
1999	\$ 17,473,707	2,918.19	\$ 5,988
2000	18,718,957	2,953.18	6,339
2001	20,110,469	3,021.20	6,656
2002	21,642,904	3,074.28	7,040
2003	22,412,914	3,083.32	7,269
2004	23,051,973	3,094.58	7,449
2005	24,942,607	3,074.77	8,112
2006	23,785,212	3,087.10	7,705
2007	24,725,450	3,006.72	8,223
2008	24,959,034	2,987.47	8,355
2009	25,666,499	2,974.87	8,628

* General Fund expenditures and transfers only.

INTERNAL CONTROL AND COMPLIANCE

**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 12, 2009

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Public Schools of Petoskey* (the "District") as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affect the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

Compliance and Other Matters

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

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

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

SINGLE AUDIT

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2008
U.S. Department of Education			
Indian Education			
07/08	84.060A	\$ 50,910	\$ -
08/09	84.060A	51,803	-
Total Indian Education		102,713	-
Passed Through the Michigan Department of Education			
ECIA Title I			
081530-0708 Regular	84.010	409,509	138,206
091530-0809 Regular	84.010	377,335	-
Total ECIA Title I		786,844	138,206
Title IIA - Improving Teacher Quality			
080520-0708 Regular	84.367	108,690	28,818
090520-0809 Regular	84.367	107,823	-
Total Title IIA		216,513	28,818
Title V, Part A - Innovative Education			
08250-0708 Regular	84.298	654	-
Title II D - Enhancing Education Through Technology			
084290-0708	84.318	3,849	-
094290-0809	84.318	3,256	-
Total Title IID		7,105	-
State Fiscal Stabilization Fund	84.394	1,105,112	-
Total Passed Through Michigan Department of Education		2,116,228	167,024

(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts Cash Basis	Accrued (Deferred) Revenue June 30, 2009
\$ 50,910	\$ -	\$ -	\$ -
-	51,803	46,924	4,879
50,910	51,803	46,924	4,879
370,139	39,443	177,649	-
-	340,748	-	340,748
370,139	380,191	177,649	340,748
102,917	5,773	34,591	-
-	98,929	-	98,929
102,917	104,702	34,591	98,929
654	-	-	-
3,849	-	-	-
-	3,256	-	3,256
3,849	3,256	-	3,256
-	1,105,112	-	1,105,112
477,559	1,593,261	212,240	1,548,045

Continued...

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 01, 2008
U.S. Department of Education (concluded)			
Passed Through ISD			
IDEA			
080490-TS, Transition	84.027A	\$ 1,418	\$ -
090490-TS, Transition	84.027A	542	-
Total IDEA, Transition		1,960	-
Vocational Education Secondary CTE Perkins			
V048A070022	84.048	7,891	-
V048A070022	84.048	4,709	-
Total Perkins		12,600	-
Drug Free Schools			
082860-0708 Regular	84.186A	3,000	3,000
092860-0809 Regular	84.186A	1,282	-
Total Drug Free Schools		4,282	3,000
Medicaid Outreach			
0708 Regular	93.778	12,341	-
0809 Regular	93.778	6,850	-
Total Medicaid Outreach		19,191	-
Tech-Prep Education	84.243A	6,369	-
Total Passed Through ISD		44,402	3,000
Total U.S. Department of Education		2,263,343	170,024
U.S. Department of Agriculture			
Commodities			
Entitlement Commodities	10.550	49,418	-
Bonus Commodities	10.550	6,597	-
Total Commodities		56,015	-

(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2009
\$ 1,418	\$ -	\$ -	\$ -
-	542	542	-
1,418	542	542	-
7,891	-	-	-
-	4,709	4,709	-
7,891	4,709	4,709	-
3,000	-	3,000	-
-	1,282	1,282	-
3,000	1,282	4,282	-
12,341	-	-	-
-	6,850	6,850	-
12,341	6,850	6,850	-
-	6,369	6,369	-
24,650	19,752	22,752	-
553,119	1,664,816	281,916	1,552,924
-	49,418	49,418	-
-	6,597	6,597	-
-	56,015	56,015	-

Continued...

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2008
Passed Through the Michigan Department of Education			
National School Lunch - Breakfast			
81970	10.553	63,731	-
91970	10.553	68,679	-
Total National School Lunch - Breakfast		132,410	-
National School Lunch			
Section 4 All Lunches - 81950	10.555	\$ 57,974	\$ -
Section 4 All Lunches - 91950	10.555	52,982	-
Section 11 Free & Reduced - 81960	10.555	238,188	-
Section 11 Free & Reduced - 91960	10.555	249,854	-
Total National School Lunch		598,998	-
Total U.S. Department of Agriculture		787,423	-
Total Federal Financial Awards		\$ 3,050,766	\$ 170,024

Notes to Schedule of Expenditures of Federal Awards

1) Basis of Presentation-

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

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

2) Management has utilized the Grants Section Auditors Report (Form 7120) and CMS Grant Auditors Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.

(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2009
56,305	7,426	7,426	-
-	68,679	68,679	-
56,305	76,105	76,105	-
\$ 51,295	\$ 6,679	\$ 6,679	\$ -
-	52,982	52,982	-
208,109	30,079	30,079	-
-	249,854	249,854	-
259,404	339,594	339,594	-
315,709	471,714	471,714	-
\$ 868,828	\$ 2,136,530	\$ 753,630	\$ 1,552,924

Continued...

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2009

RECONCILIATION TO GRANT SECTION AUDITORS' REPORT

Current payments per the grant section auditors' report	\$ 415,699
Plus	
Amounts passed through Charlevoix-Emmet Intermediate School District	22,752
Entitlement and bonus commodities	56,015
Grant auditor report	212,240
Direct award from Department of Education	<u>46,924</u>
Total current year receipts per schedule of expenditures of federal awards	<u><u>\$ 753,630</u></u>

Concluded

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

October 12, 2009

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

Compliance

We have audited the compliance of *Public Schools of Petoskey* (the "District") with the types of compliance requirements described in the *U. S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance, 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 *control deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

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

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

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large initial 'L'.

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2009

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 deficiencies identified
not considered to be material weaknesses? _____ 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 deficiencies identified
not considered to be material weaknesses? _____ yes X none reported

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

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

Continued...

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2009

SECTION I – SUMMARY OF AUDITORS’ RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.394	State Fiscal Stabilization 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 matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

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