

Public Schools of
Petoskey



Year Ended
June 30, 2018

Financial
Statements and
Single Audit Act
Compliance

PUBLIC SCHOOLS OF PETOSKEY

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INDEPENDENT AUDITORS' REPORT

October 5, 2018

Board of Education
Public Schools of Petoskey
Petoskey, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Public Schools of Petoskey* (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the *Public Schools of Petoskey* as of June 30, 2018, and the respective changes in financial position, and the budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 75

As described in Note 14, the District implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in the current year. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements and schedules and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other supplementary information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

As management of the Public Schools of Petoskey (the "District"), a K-12 school district located in Emmet and Charlevoix Counties, Michigan, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which comprise three components: 1) District-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

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

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

The *Statement of Fiduciary Assets and Liabilities - Agency Fund* presents financial information about activities for which the District acts solely as an agent for the benefit of students and others.

District-wide Financial Statements. The *District-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The *statement of net position* presents information on all of the District assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

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

The *statement of net position* and *statement of activities* report the governmental activities for the District, which encompass all of the District's services including instruction, supporting services, community services, food services, and athletics. Property taxes, unrestricted state aid, state grants, and federal grants finance most of these activities.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

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

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

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

- . Debt Service Fund - consisting of the 2016 refunding bonds, 2015 refunding bonds, 2012 technology bonds, and a land contract.
- . Special Revenue Fund - consisting of the Food Service Fund.
- . Capital Project Funds - consisting of the Sinking Fund, Building and Site Fund, and the Athletic Complex Fund.

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

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

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

District-Wide Financial Analysis

As stated earlier, the statement of net position provides the financial perspective of the District as a whole. At June 30, 2018, the District reported a net position of \$6,944,398. The table below provides a summary of the District's net position as of June 30:

	Net Position		
	Governmental Activities		Percent Change
	2018	2017	
Assets			
Current and other assets	\$ 8,795,825	\$ 10,003,005	-12.07%
Capital assets, net	62,491,637	64,465,342	-3.06%
Total assets	71,287,462	74,468,347	-4.27%
Deferred outflows of resources	10,010,002	5,866,826	70.62%
Liabilities			
Current and other liabilities	56,908,695	43,588,956	30.56%
Long-term liabilities	14,832,982	18,883,818	-21.45%
Total liabilities	71,741,677	62,472,774	14.84%
Deferred inflows of resources	2,611,389	184,144	1318.12%
Net position			
Net investment in capital assets	48,417,386	46,257,989	4.67%
Restricted	2,059,187	1,649,804	24.81%
Unrestricted (deficit)	(43,532,175)	(30,229,538)	44.01%
Total net position	\$ 6,944,398	\$ 17,678,255	-60.72%

Net investment in capital assets is the original cost of the District's capital assets, less depreciation, less the long-term debt outstanding used to finance the acquisition of those assets. This debt will be repaid mainly from voter-approved property taxes collected as the debt and interest payments come due. Restricted net position of approximately \$2.06 million is shown separately to recognize legal constraints from debt covenants and enabling legislation. These constraints limit the District's ability to use the restricted net position for day-to-day operations.

The remaining amount of net position, a deficit of approximately \$43.53 million represents the accumulated results of the current and all past years' operations. This deficit includes the impact of the Governmental Accounting Standards Board requirement to report the District's portion of the net pension liability and net other postemployment benefit liability on its statement of net position. Absent these net pension and other postemployment benefit liabilities, the unrestricted net position of the district would be a positive \$9.33 million. The operating results of the General Fund will also have a significant impact on the change in unrestricted net position from year to year.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

The following condensed financial information was derived from the District-wide statement of activities and reflects how the District's net position changed during the fiscal year ended June 30:

	Change in Net Position		
	Governmental Activities		Percent Change
	2018	2017	
Program revenues			
Charges for services	\$ 923,921	\$ 825,502	11.92%
Operating grants	5,502,490	4,779,157	15.14%
Capital grants	28,000	588,271	-95.24%
General revenues			
Property taxes	21,136,344	21,002,002	0.64%
Unrestricted state aid	8,463,982	7,053,576	20.00%
Other	286,657	189,531	51.25%
Total revenues	<u>36,341,394</u>	<u>34,438,039</u>	<u>5.53%</u>
Expenses			
Instruction	20,205,366	19,512,588	3.55%
Supporting services	9,363,438	7,728,358	21.16%
Community services	9,403	11,996	-21.62%
Food services	925,513	908,359	1.89%
Athletics	684,919	592,283	15.64%
Interest on long-term debt	350,660	529,454	-33.77%
Unallocated depreciation	2,425,089	2,556,278	-5.13%
Total expenses	<u>33,964,388</u>	<u>31,839,316</u>	<u>6.67%</u>
Change in net position	<u>2,377,006</u>	<u>2,598,723</u>	<u>-8.53%</u>
Net position:			
Beginning of year	17,678,255	15,079,532	17.23%
Restatement for implementation of GASB 75	(13,110,863)	-	-100.00%
End of year	<u>\$ 6,944,398</u>	<u>\$ 17,678,255</u>	<u>-60.72%</u>

Of the District's total revenues available to operate the District, 2.54% or approximately \$924,000 came from fees charged to those who benefited from the programs. Revenues from other governments or organizations that subsidize certain programs with grants and other directed types of funding approximated 15.14% or approximately \$5.5 million. Revenue from capital grants and other sources comprised approximately .87% of the District's 2018 funding.

The State foundation allowance accounted for 23.29% or approximately \$8.46 million of the revenue available. This revenue is determined by a formula that incorporates pupil headcount, the annual per pupil allowance, and the non-homestead property taxable values of the District. The increase of 20% is mainly due to a decrease in reimbursements for prior year State aid adjustments.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Local property taxes, of approximately \$21.14 million or 58.16% of total revenue, supported the remaining portion of the governmental activities. Property tax revenue increase by 0.6% due to taxable value increases. The property tax revenue comes mainly from the 18 mills on all non-homestead property, which is required to be levied by the State in order to receive the full State foundation allowance. The District enjoys the support of the community in maintaining its facilities, as approximately \$1.94 million of the \$21.14 million in tax revenue is generated by a special millage specifically for capital expenditures. The proceeds and expenditures of this special millage are accounted for exclusively in the District's Sinking Fund. This special millage was renewed by voters in May 2012, and will expire on December 31, 2019.

The expense portion of the above table shows the financial support of each functional area required during the year. In comparison to the prior year, expenses increased by approximately \$2.13 million or 6.67%. Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for approximately \$20.2 million or 59.49% of total expenses. Support services cost approximately \$9.36 million or 27.31% of total expenses, which include such items as transportation, maintenance, security, supervision, counseling, health care, and a variety of similar services that support the District's mission of educating children.

The District experienced an increase in net position of approximately \$2.38 million which is a 8.53% decrease compared to 2017. Overall, revenue increased 5.53%, while expenses increased 6.67%. It should be noted that under the accrual basis of accounting, property taxes collected for debt service are recognized as revenue, while only interest on the debt is recognized as expense. The increase in net position differs from the change in fund balance and a reconciliation appears later in the financial statements.

The District was required to implement Governmental Accounting Standards Board Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75)*. The District's primary exposure to other postemployment benefits (OPEB) is through the State's MPERS retirement system and the health care benefits it offers to MPERS retirees. While the State oversees, administers, and promulgates the rules governing this system, districts that participate in the system are required to report any liability due to underfunding as a liability of the district. The liability is allocated to each district on a pro-rata basis and the liability amount is revised annually as the many factors impacting the calculation are updated. This is the first year the OPEB liability of approximately \$13.5 million is reported in the District's financial statements. GASB 75 also requires the District to report the effect on the prior year's financial statements, had this statement been implemented at that time. This prior year impacted is reflected in the Change in Net Position chart above as the "Restatement for implementation of GASB 75". While the reporting of this OPEB liability reduced the District's net position by 74.16%, the fact there is still a healthy positive net position is a testament to the Board of Education's ongoing commitment towards financial stewardship.

Financial Analysis of the District's Funds

As noted earlier, the District uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide, and may provide more insight in the District's overall financial health. As the District completed this year, the governmental funds reported a combined fund balance of approximately \$4.83 million, which is an increase of approximately \$395,000 from the prior year. The Debt Service funds reported a fund balance decrease of approximately \$231,000 primarily due to a property tax appeal by one of the District's major taxpayers. This appeal resulted in a settlement during that year that required the District refund approximately \$1.4 million in taxes in fiscal 2018. The refund impacted the General Fund, Sinking Fund, and Debt Service funds. While the General Fund and Sinking Fund also refunded significant amounts due to this appeal, the effects of budget adjustments designed to offset the refund's impact mask the effect these payments had on the fund balances. For example, the Sinking Fund shows a healthy increase to fund balance of approximately \$593,000 which is primarily due to a cancelled roof replacement project which had an expected cost of \$800,000. The project was cancelled to free up the funds necessary to pay the tax appeal. The cancelled project is being re-evaluated for possible cost savings and the District expects to proceed forward with this roof project within the next 12-24 months.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Of the combined governmental fund balances, 6.95% or approximately \$336,000 constitutes unassigned fund balance, which is available for spending at the District's discretion. District management has assigned approximately \$2.34 million of fund balance to indicate planned uses of these funds. Of the assigned fund balance, approximately \$119,000 has been set aside to recognize the fund balance accumulated by the efforts of the Athletic department and supporters, and approximately \$618,000 for capital projects. Management has assigned \$1.6 million as the minimum amount necessary to avoid borrowing for cash flow purposes. Just over \$2.04 million of the fund balance has been designated as restricted to indicate that it is not available for spending at the District's discretion. Of the restricted fund balance, approximately \$1.64 million is earmarked for capital improvements, approximately \$344,000 is earmarked for payments on long-term debt and \$63,000 is earmarked for food service. The remaining fund balance is non-spendable, and is earmarked for inventory and prepaid items.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, assigned fund balance of the General Fund was approximately \$1.72 million, while total fund balance was approximately \$2.08 million. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund annual expenditures. Total fund balance represents 6.96% of annual expenditures, down from 7.42% in the prior year.

The fund balance of the District's General Fund increased by approximately \$35,000 during the current fiscal year. This increase is significantly less than the original budgeted decrease of approximately \$1.42 million due to better than expected pupil count, lower than anticipated fringe benefit costs, and modest expenditure reductions implemented during the year.

General Fund Budgetary Highlights

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

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

- . The District's General Fund revenues were approximately \$579,000 less than the final amended budget, a variance of 1.9%. The actual revenue was under budget mainly due to state and federal grant awards not being spent in the time frame anticipated.
- . The difference between the original and final amended budget for the General Fund is mainly related to changes in health and retirement benefits, pupil count, state funding and other factors that were not known at the time of the original budget, along with modest expenditure reductions designed to bring resource usage in line with expected revenues.

Capital Asset and Debt Administration

Capital Assets. By June 30, 2018, the District had invested approximately \$101 million in a broad range of capital assets, including school buildings, land, athletic facilities, furniture, and equipment. This represents a net increase (including all additions and disposals) of approximately \$451,000 or 0.45% from last year. More detailed information about capital assets is available in Note 7 to the financial statements.

This year's major capital asset additions include the construction of McDougal Road, Northmen Drive, and technology equipment. Construction-in-progress consists mainly of the construction of the Athletic Complex, with completion expected in early fiscal year 2019.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

	Capital Assets (Net of Depreciation)	
	2018	2017
Land	\$ 3,384,351	\$ 3,384,351
Construction in progress	18,611,207	18,491,771
Buildings and improvements	38,081,522	39,608,020
Furniture and equipment	2,414,557	2,981,200
Total capital assets, net	\$62,491,637	\$64,465,342

Debt Administration. At year-end, the District had approximately \$14.8 million in general obligation bonds and other long-term debt outstanding - a decrease of 21.45% from last year - as shown in the table below. The net decrease is due to scheduled annual principal payments made throughout the year. More detailed information about the District's long-term debt is presented in Note 8 to the financial statements, and in the Other Supplementary Information section.

	Long-Term Debt	
	June 30, 2018	June 30, 2017
General obligation bonds and land contract	\$ 12,737,335	\$ 16,680,667
Other long-term debt	2,095,647	2,203,151
Total long-term debt	\$ 14,832,982	\$ 18,883,818

In fiscal 2004, the District entered into a land contract for the purchase of land. The original amount of the 2004 land contract was \$700,000, and the remaining balance at year end is approximately \$27,000.

Factors Bearing on the District's Future

We considered many factors when setting the District's 2018-2019 fiscal year budget, including anticipated increases of state and federal funding, decreasing enrollment, and increased retirement and health care costs. The District has planned for these changes, as evidenced by the cost-savings measures implemented over the past several years, and the stability in our fund balance.

Approximately 80% of total General Fund revenues are from the foundation allowance, including property taxes. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. That makes our student count estimate one of the most important factors impacting our budget. In setting the budget for 2018-19, we assumed a reduction of twenty-seven (27) students based on the predictions of an independent pupil enrollment statistician, and a \$240 increase in the Foundation allowance and related performance funding, based on State budget documents.

Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect the revenues to fund its appropriation to school districts. For fiscal year 2017-18, the District saw a foundation allowance of \$7,631, which was \$120 more and 1.6% higher than in 2016-2017. The uncertainty of student foundation funding levels, as well as funding for other K-12 education programs, reflects the economic difficulties faced by the State of Michigan, as well as the budget priorities of the State's legislators.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Demographic projections indicate that enrollment is likely to decrease over the next several years. This past year, a loss of 43 resident students was offset by the enrollment of 15 non-resident students under the District's Schools of Choice program. Schools of choice students comprise approximately 17% of the total district student enrollment. While the schools of choice program may continue to offset the anticipated losses to a degree, based upon our statistician's recommendations, we anticipate slightly declining K-12 enrollment that mirrors the state-wide trend for the next several years.

Modest budget cuts in 2017-18 allowed the district to turn an expected loss of \$1.42 million into a net increase of \$35,000. In response to financial pressures over the past decade, the District has trimmed its budget by almost \$5 million. Tired of less-than-inflationary funding increases, the District supported Charlevoix-Emmet Intermediate School District's (ISD) campaign to ask voters for a tax increase known in Michigan as an "Enhancement Millage". Due to the support of local constituents, the districts of Char-Em ISD were successful in passing the 7th Enhancement Millage in the State since 1994. Char-Em ISD is the fiduciary for these funds, but captures none of the revenue for itself. All Enhancement Millage dollars are immediately redirected to the local districts based upon pupil enrollment. The District anticipates the Enhancement Millage will generate \$1.8 million in added resources in FY 2018-19 and the millage will continue through 2027-2028. District leadership has earmarked these funds in support of career and college readiness, smaller class size, curriculum and instructional supplies, and staff professional development.

As a result of this infusion of funds, combined with tight fiscal controls, the district anticipates a modest increase in the General Fund fund balance going into 2018-2019. We believe the 2018-2019 foundation allowance will increase by \$240 to \$7,871 but student enrollment will decline by 27 students. Due to these offsetting factors, the District anticipates \$570,000 more revenue for the year. We also assume that our costs will increase by approximately \$367,000 due to staff contract provisions, retirement costs, and health care cost increases. The anticipated increase is expected to place our fund balance in a range between \$2.0-\$2.5 million by the end of the 2018-2019 fiscal year. The District believes a fund balance of \$1.6 million, or 6.5% of expenses, is the minimum necessary to meet contingencies and cash flow requirements without borrowing.

The District believes that constant monitoring of the budget and modest on-going cost cutting measures, when combined with the State's retirement reform and health care cost reforms, is sufficient to maintain the current programming for the next one to two years with only modest increases from State revenue sources. However, State funding increases over the past ten years have been less than the rate of inflation, and further cuts in the short-term will be necessary if that trend continues, absent other sources of revenue. Due to the successful passage of the Enhancement millage, the district is confident in its abilities to provide sustained programming for its students and staff, while also remaining fiscally prudent and financially sound.

The District's labor contract with the Petoskey Education Association, which represents the District's teachers, was settled in July 2018, and will expire in August 2021. The District's labor contract with the Petoskey Educational Support Personnel Association, which represents the District's support personnel, was settled in July 2018 and will expire in August 2021.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

Statement of Net Position

June 30, 2018

Assets	
Cash and cash equivalents	\$ 3,120,616
Investments	3,263,553
Receivables	2,281,858
Prepays and other current assets	129,798
Capital assets not being depreciated	21,995,558
Capital assets being depreciated, net	<u>40,496,079</u>
Total assets	<u>71,287,462</u>
Deferred outflows of resources	
Deferred pension amounts	9,154,164
Deferred other postemployment benefit amounts	<u>855,838</u>
Total deferred outflows of resources	<u>10,010,002</u>
Liabilities	
Accounts payable and accrued liabilities	3,039,011
Unearned revenue	1,003,969
Long-term liabilities:	
Due within one year	4,325,678
Due in more than one year	10,507,304
Net pension liability	39,412,671
Net other postemployment benefit liability	<u>13,453,044</u>
Total liabilities	<u>71,741,677</u>
Deferred inflows of resources	
Deferred pension amounts	2,156,578
Deferred other postemployment benefit amounts	<u>454,811</u>
Total deferred inflows of resources	<u>2,611,389</u>
Net position	
Net investment in capital assets	48,417,386
Restricted for:	
Capital projects	1,635,025
Debt service	263,378
Food service	160,784
Unrestricted (deficit)	<u>(43,532,175)</u>
Total net position	<u>\$ 6,944,398</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, 2018

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction	\$ 20,205,366	\$ 186,019	\$ 4,837,650	\$ -	\$ (15,181,697)
Supporting services	9,363,438	55,457	89,081	-	(9,218,900)
Community services	9,403	-	-	-	(9,403)
Food services	925,513	449,211	502,609	-	26,307
Athletics	684,919	233,234	73,150	28,000	(350,535)
Interest on long-term debt	350,660	-	-	-	(350,660)
Unallocated depreciation	2,425,089	-	-	-	(2,425,089)
Total governmental activities	\$ 33,964,388	\$ 923,921	\$ 5,502,490	\$ 28,000	(27,509,977)
General revenues					
Property taxes - operations					15,793,976
Property taxes - debt service					3,398,061
Property taxes - sinking fund					1,944,307
Unrestricted state aid					8,463,982
Unrestricted investment earnings					66,900
Other					219,757
Total general revenues					29,886,983
Change in net position					2,377,006
Net position, beginning of year, as restated					4,567,392
Net position, end of year					\$ 6,944,398

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

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FUND FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

Governmental Funds

June 30, 2018

	General Fund	Sinking Fund	Athletic Complex Fund
Assets			
Cash and cash equivalents	\$ 447,515	\$ 1,607,020	\$ 70,239
Investments	3,127,459	5,299	75,648
Accounts receivable	29,832	-	-
Due from other funds	-	19,085	-
Due from other governments	2,209,551	-	-
Other assets	20,898	-	11,325
Total assets	\$ 5,835,255	\$ 1,631,404	\$ 157,212
Liabilities			
Accounts payable	\$ 345,794	\$ -	\$ -
Contracts payable	-	2,287	151,304
Salaries payable	1,545,630	-	-
Accrued liabilities	888,059	-	-
Due to other funds	-	-	-
Unearned revenue	979,896	-	-
Total liabilities	3,759,379	2,287	151,304
Fund balances			
Nonspendable:			
Inventory	8,140	-	-
Prepaid items	12,758	-	-
Restricted:			
Food service	-	-	-
Debt service	-	-	-
Capital outlay	-	1,629,117	5,908
Assigned:			
Athletics	118,907	-	-
Capital outlay	-	-	-
Subsequent years' expenditures	1,600,000	-	-
Unassigned	336,071	-	-
Total fund balances	2,075,876	1,629,117	5,908
Total liabilities and fund balances	\$ 5,835,255	\$ 1,631,404	\$ 157,212

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



Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 307,746	\$ 688,096	\$ 3,120,616
55,147	-	3,263,553
-	27,224	57,056
-	-	19,085
-	15,251	2,224,802
-	97,575	129,798
<u>\$ 362,893</u>	<u>\$ 828,146</u>	<u>\$ 8,814,910</u>
\$ -	\$ 25,507	\$ 371,301
-	-	153,591
-	-	1,545,630
-	-	888,059
19,085	-	19,085
-	24,073	1,003,969
<u>19,085</u>	<u>49,580</u>	<u>3,981,635</u>
-	12,575	20,715
-	85,000	97,758
-	63,209	63,209
343,808	-	343,808
-	-	1,635,025
-	-	118,907
-	617,782	617,782
-	-	1,600,000
-	-	336,071
<u>343,808</u>	<u>778,566</u>	<u>4,833,275</u>
<u>\$ 362,893</u>	<u>\$ 828,146</u>	<u>\$ 8,814,910</u>

PUBLIC SCHOOLS OF PETOSKEY

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2018

Fund balances - total governmental funds	\$ 4,833,275
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	21,995,558
Capital assets being depreciated, net	40,496,079
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds and land contract payable	(12,737,335)
Unamortized bond premiums, net	(1,336,916)
Accrued interest on bonds payable	(80,430)
Compensated absences payable	(758,731)
Certain pension-related amounts, such as the net pension, net OPEB liability and related deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(39,412,671)
Deferred outflows of resources related to the net pension liability	9,154,164
Deferred inflows of resources related to the net pension liability	(2,156,578)
Net other postemployment benefit liability	(13,453,044)
Deferred outflows related to the net other postemployment benefit liability	855,838
Deferred inflows related to the net other postemployment benefit liability	(454,811)
Net position of governmental activities	<u>\$ 6,944,398</u>

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

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PUBLIC SCHOOLS OF PETOSKEY

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2018

	General Fund	Sinking Fund	Athletic Complex Fund
Revenues			
Local sources:			
Property taxes	\$ 15,310,130	\$ 1,944,307	\$ -
Payment in lieu of taxes	483,846	-	-
Contributions	-	-	28,000
Charges for services	186,019	-	-
Rent income	-	-	-
Interest	48,001	5,313	1,756
Athletics	306,384	-	-
Other income	133,664	-	-
State sources	11,515,100	-	-
Federal sources	470,334	-	-
Interdistrict sources	1,405,279	-	-
Total revenues	29,858,757	1,949,620	29,756
Expenditures			
Current:			
Instruction	20,027,621	-	-
Supporting services	9,786,318	-	-
Community services	9,391	-	-
Food services	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Other	-	-	-
Capital outlay:			
Buildings and additions	-	176,404	62,520
Other	-	88,696	-
Total expenditures	29,823,330	265,100	62,520
Revenues over (under) expenditures	35,427	1,684,520	(32,764)
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	(1,091,512)	-
Total other financing sources (uses)	-	(1,091,512)	-
Net change in fund balances	35,427	593,008	(32,764)
Fund balances, beginning of year	2,040,449	1,036,109	38,672
Fund balances, end of year	\$ 2,075,876	\$ 1,629,117	\$ 5,908

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



Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 3,398,061	\$ -	\$ 20,652,498
-	-	483,846
-	-	28,000
-	449,211	635,230
-	55,457	55,457
9,673	2,157	66,900
-	-	306,384
-	-	133,664
-	53,653	11,568,753
-	448,956	919,290
-	-	1,405,279
<u>3,407,734</u>	<u>1,009,434</u>	<u>36,255,301</u>
-	-	20,027,621
-	-	9,786,318
-	-	9,391
-	925,091	925,091
3,943,332	-	3,943,332
632,080	-	632,080
154,465	-	154,465
-	50,453	289,377
-	3,950	92,646
<u>4,729,877</u>	<u>979,494</u>	<u>35,478,298</u>
<u>(1,322,143)</u>	<u>29,940</u>	<u>777,003</u>
1,091,512	-	1,091,512
-	-	(1,091,512)
<u>1,091,512</u>	<u>-</u>	<u>-</u>
(230,631)	29,940	394,980
<u>574,439</u>	<u>748,626</u>	<u>4,438,295</u>
<u>\$ 343,808</u>	<u>\$ 778,566</u>	<u>\$ 4,833,275</u>

PUBLIC SCHOOLS OF PETOSKEY

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds	\$ 394,980
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In addition, donated capital assets and gains on disposal of capital assets are not reported in the governmental funds.	
Capital assets purchased/constructed	451,384
Depreciation expense	(2,425,089)
Repayment of debt principal is an expenditure in the governmental funds, but a reduction in long-term liabilities in the statement of net position.	
Principal payments on general obligation bonds and land contracts	3,943,332
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Amortization of bond premium	228,442
Change in net pension liability and related deferred amounts	(206,928)
Change in the net other postemployment benefit liability and related deferred amounts	58,846
Change in the accrual for compensated absences	(120,938)
Change in accrued interest payable on bonds	52,977
Change in net position of governmental activities	<u>\$ 2,377,006</u>

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, 2018

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 16,569,854	\$ 16,337,747	\$ 16,468,044	\$ 130,297
State sources	9,405,386	12,108,460	11,515,100	(593,360)
Federal sources	607,128	586,699	470,334	(116,365)
Interdistrict sources	1,267,311	1,404,455	1,405,279	824
Total revenues	27,849,679	30,437,361	29,858,757	(578,604)
Expenditures				
Current:				
Instruction:				
Basic programs	14,938,840	15,341,665	15,161,933	(179,732)
Added needs	5,347,768	5,537,278	4,865,688	(671,590)
Supporting services:				
Pupil services	750,506	773,234	750,360	(22,874)
Instructional staff services	903,452	1,107,634	1,004,450	(103,184)
General administration	602,472	508,842	478,535	(30,307)
School administration	1,809,395	1,811,419	1,754,231	(57,188)
Business services	700,823	1,773,792	1,683,821	(89,971)
Operations and maintenance	2,205,734	2,242,380	2,160,187	(82,193)
Pupil transportation services	1,317,424	1,302,192	1,296,106	(6,086)
Security services	1,843	1,843	1,618	(225)
Staff/personnel services	74,505	83,346	81,569	(1,777)
Support services - other	601,032	611,908	575,441	(36,467)
Community services:				
Community activities	2,000	7,315	445	(6,870)
Non-public school pupils	16,074	13,747	8,946	(4,801)
Total expenditures	29,271,868	31,116,595	29,823,330	(1,293,265)
Net change in fund balance	(1,422,189)	(679,234)	35,427	714,661
Fund balance, beginning of year	2,040,449	2,040,449	2,040,449	-
Fund balance, end of year	\$ 618,260	\$ 1,361,215	\$ 2,075,876	\$ 714,661

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, 2018

Assets	
Cash and cash equivalents	\$ 312,982
Investments	425,000
Receivables	<u>14,243</u>
Total assets	<u>\$ 752,225</u>
Liabilities	
Due to student groups	\$ 404,609
Scholarships payable	244,607
Due to others	<u>103,009</u>
Total liabilities	<u>\$ 752,225</u>

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

NOTES TO FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Public Schools of Petoskey (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 61 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit includes significant operational or financial relationships with the District.

District-wide and Fund Financial Statements

The District-wide financial statements (i.e., the *statement of net position* and the *statement of activities*) report information on all of the non-fiduciary activities of the District. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2018.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period, except taxes which must be collected within 60 days, and reimbursement type grants which must be collected within one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state school aid, expenditure-driven grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

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

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

The *Athletic Complex Fund* is used to account for capital project activities funded with the 2016 School building & site bond proceeds.

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

Additionally, the District reports the following fund types:

The *Special Revenue Fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects that comprise, or are expected to comprise a substantial portion of the fund's total reported inflows.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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

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

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

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Deposits and Investments

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

Investments are reported at amortized cost.

Receivables and Payables

The District follows the practice of recording revenues that have been earned but not yet received as receivables at year end. Receivables consist primarily of state school aid payments from the State of Michigan and Federal grant funds earned but not yet collected. No amounts have been identified as potentially uncollectible by management, and therefore, no amount has been recorded as a provision for uncollectible accounts.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). There were no interfund advances outstanding at June 30, 2018.

Prepays and Other Current Assets

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

Payments made to vendors for services that will benefit future periods are reported as prepaid items. Prepaid items are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of current assets.

Capital Assets

Capital assets, which include buildings and improvements, furniture and fixtures, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

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

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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

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

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows of resources related to the net pension liability and the net other postemployment benefit liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

Interfund Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either interfund receivables/payables (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30, 2018 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these amounts for this period as a part of the compensation for services rendered in the preceding school year.

Compensated Absences

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

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Long-term Obligations

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Bonded Construction Costs and Sinking Funds

The Sinking Fund records capital project activities funded with a sinking fund millage. For this fund, the District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan. The Capital Projects Fund included capital project activities funded with bonds issued after May 1, 1994. For the athletic complex capital project, the school district has complied with the applicable provisions of Section 1351a of the Revised School Code.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District reports deferred inflows of resources related to the net pension liability and the net other postemployment benefits liability.

Fund Balances

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

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

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District.

Pensions and Other Postemployment Benefits

For purposes of measuring the net pension and other postemployment benefit liabilities, deferred outflows of resources and deferred inflows of resources related to pension and other postemployment benefits, and pension and other postemployment benefits expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. The most significant accounting estimates affecting the financial statements include management's estimate of the useful lives of depreciable capital assets and management's estimate of the accrued compensated absences, and management's estimate of the present value of the net pension liability and other postemployment benefit liability.

2. BUDGETARY INFORMATION

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

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

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2018, the District did not incur expenditures in excess of the amount appropriated.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

3. DEPOSITS AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of June 30, 2018:

	Totals
Statement of Net Position	
Cash and cash equivalents	\$ 3,120,616
Investments	3,263,553
Statement of Fiduciary Assets and Liabilities	
Agency funds	
Cash and cash equivalents	312,982
Investments	425,000
Total	<u>\$ 7,122,151</u>
Deposits and investments	
Bank deposits:	
Checking / savings accounts	\$ 3,432,868
Certificates of deposit:	
Maturing in less than one year	425,000
Investments	3,263,553
Cash on hand	730
Total	<u>\$ 7,122,151</u>

Michigan law authorizes the District to deposit and invest in:

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

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

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

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

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

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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

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

The District chooses to disclose its investments by specifically identifying each. As of June 30, 2018, the District had the following investments:

	Maturity	Amortized Cost	Rating
Michigan Liquid Asset Fund	n/a	\$ 3,263,553	S&P - AAAM

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

Investment and Deposit Risk

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

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, approximately \$4,061,000 of the District's bank balance of approximately \$4,311,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

4. RECEIVABLES

Accounts receivables as of June 30, 2018, are comprised of the following:

	Accounts Receivable	Due from Other Governments	Total
General Fund	\$ 29,832	\$ 2,209,551	\$ 2,239,383
Nonmajor Governmental Funds	27,224	15,251	42,475
	<u>\$ 57,056</u>	<u>\$ 2,224,802</u>	<u>\$ 2,281,858</u>

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2018, are comprised of the following:

	General Fund	Sinking Fund	Athletic Complex Fund	Nonmajor Governmental Funds	Total
Fund financial statements:					
Accounts payable	\$ 345,794	\$ -	\$ -	\$ 25,507	\$ 371,301
Construction contracts	-	2,287	151,304	-	153,591
Payroll and other related benefits	1,545,630	-	-	-	1,545,630
Other accrued liabilities	888,059	-	-	-	888,059
	<u>\$ 2,779,483</u>	<u>\$ 2,287</u>	<u>\$ 151,304</u>	<u>\$ 25,507</u>	<u>2,958,581</u>
District-wide financial statements:					
Accrued interest on bonds payable					<u>80,430</u>
Total accounts payable and accrued liabilities					<u>\$ 3,039,011</u>

6. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2018, was as follows:

	Due from Other Funds	Due to Other Funds
Sinking Fund	\$ 19,085	\$ -
Debt Service Fund	-	19,085
	<u>\$ 19,085</u>	<u>\$ 19,085</u>

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Notes To Financial Statements

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.

For the year ended June 30, 2018, interfund transfers consisted of the following:

	Transfers in	Transfers out
Sinking Fund	\$ -	\$ 1,091,512
Debt Service Fund	1,091,512	-
	<u>\$ 1,091,512</u>	<u>\$ 1,091,512</u>

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

7. CAPITAL ASSETS

Capital assets activity was as follows for the year ended June 30, 2018:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,384,351	\$ -	\$ -	\$ -	\$ 3,384,351
Construction-in-progress	18,491,771	119,436	-	-	18,611,207
	<u>21,876,122</u>	<u>119,436</u>	<u>-</u>	<u>-</u>	<u>21,995,558</u>
Capital assets, being depreciated:					
Buildings and improvements	70,135,860	116,989	-	-	70,252,849
Furniture and equipment	8,544,415	214,959	-	-	8,759,374
	<u>78,680,275</u>	<u>331,948</u>	<u>-</u>	<u>-</u>	<u>79,012,223</u>
Less accumulated depreciation for:					
Buildings and improvements	(30,527,840)	(1,643,487)	-	-	(32,171,327)
Furniture and equipment	(5,563,215)	(781,602)	-	-	(6,344,817)
	<u>(36,091,055)</u>	<u>(2,425,089)</u>	<u>-</u>	<u>-</u>	<u>(38,516,144)</u>
Total capital assets being depreciated, net	<u>42,589,220</u>	<u>(2,093,141)</u>	<u>-</u>	<u>-</u>	<u>40,496,079</u>
Governmental activities capital assets, net	<u>\$ 64,465,342</u>	<u>\$ (1,973,705)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,491,637</u>

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

8. LONG-TERM DEBT

Long-term debt of the District consists of the following at June 30, 2018:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Installment Debt					
General obligation bonds	\$ 16,590,000	\$ -	\$ (3,880,000)	\$ 12,710,000	\$ 4,050,000
Land contract	90,667	-	(63,332)	27,335	27,335
Total installment debt	16,680,667	-	(3,943,332)	12,737,335	4,077,335
Other long-term liabilities					
Premium on bonds	1,565,358	-	(228,442)	1,336,916	228,444
Compensated absences	637,793	122,073	(1,135)	758,731	19,899
Total other long-term liabilities	2,203,151	122,073	(229,577)	2,095,647	248,343
Total long-term liabilities	\$ 18,883,818	\$ 122,073	\$ (4,172,909)	\$ 14,832,982	\$ 4,325,678

Long-term debt at June 30, 2018, includes the following:

General Obligation Bonds

2012 technology bonds due in annual installments ranging from \$730,000 to \$1,225,000 plus interest of 2.00%; final payment due May 2020.	\$ 1,955,000
2015 school building and site refunding bonds due in annual installments ranging from \$1,305,000 to \$2,275,000 plus interest ranging from 4.00% to 5.00%; final payment due May 2024.	9,710,000
2016 school building and site bonds; one remaining annual installment of \$1,045,000 plus interest of 1.15%; final payment due May 2019.	1,045,000
Premium on bonds	<u>1,336,916</u>
Total general obligation bonds	<u>14,046,916</u>

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Notes To Financial Statements

Other Long-term Liabilities

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 15, 2019.	\$ 27,335
Compensated absences	<u>758,731</u>
Total other long-term liabilities	<u>786,066</u>
Total long-term debt	<u><u>\$ 14,832,982</u></u>

Debt service requirements on installment debt

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

Year Ended June 30,	Principal	Interest	Total
2019	\$ 4,077,335	\$ 493,028	\$ 4,570,363
2020	2,530,000	350,750	2,880,750
2021	1,435,000	261,000	1,696,000
2022	1,500,000	189,250	1,689,250
2023	1,570,000	114,250	1,684,250
2024	<u>1,625,000</u>	<u>35,750</u>	<u>1,660,750</u>
Total	<u><u>\$ 12,737,335</u></u>	<u><u>\$ 1,444,028</u></u>	<u><u>\$ 14,181,363</u></u>

Interest expense charged to governmental activities in fiscal 2018 was \$350,660.

Compensated absences are generally liquidated by the General Fund.

Senior Teacher Incentive

Senior teacher incentive applies to current employment contracts with teachers. Teachers who qualify for retirement are eligible to receive payments, in addition to their salary, \$5,000 each year for two years or \$4,000 each year for three years. At June 30, 2018, 14 retirees elected to receive or were eligible to begin receiving the senior teacher incentive, with \$62,000 being paid to these individuals during 2018. The total early retirement senior teacher incentive was \$94,000 and is included in compensated absences.

9. PROPERTY TAXES

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 of the following year. School related property taxes are levied on December 1 each year, based on the previous year's assessment, by township governments whose boundaries include property within the District, and are due on February 28. Delinquent real taxes are advanced to the District by the Revolving Tax Fund of the applicable County. Taxes are recognized as current property tax revenue to the extent that they are collected during the year or within 60 days after year end.

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Notes To Financial Statements

During the year the District was a party in a property valuation settlement with Bay View Association, one of the district's top ten property tax paying entities. This resulted in the District returning taxes received in earlier years in the amount of \$1,371,725 to the property owner. The portion of the taxes returned that applied to the District's operational millage, an amount of \$1,137,172 was subsequently rebated back to the District by the State. The remaining amount of \$234,553 was allocated to the Debt Service Funds and the Sinking Fund based on the millage rates each fund levied in each of the years this settlement covered and netted against current property tax revenue.

10. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

Plan Description

The Michigan Public School Employees' Retirement System (the "System" or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available at the ORS website at www.michigan.gov/orsschools.

Pension Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB member plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

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Notes To Financial Statements

Other Postemployment Benefits Provided

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions and Funded Status

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 22-year period for the 2017 fiscal year.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

The table below summarizes pension contribution rates in effect for fiscal year 2018:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	17.89% - 19.03%
Member Investment Plan (MIP)	3.00% - 7.00%	17.89% - 19.03%
Pension Plus	3.00% - 6.40%	16.61% - 18.40%
Pension Plus 2	6.20%	19.74%
Defined Contribution	0.00%	13.54% - 15.27%

Required contributions to the pension plans from the District were \$4,157,373 for the year ended June 30, 2018.

The table below summarizes OPEB contribution rates in effect for fiscal year 2018:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	5.91% - 7.67%
Personal Healthcare Fund (PHF)	0.00%	5.69% - 7.42%

Required contributions to the OPEB plan from the District were \$954,956 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$39,412,671 for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was 0.15209%, which was an increase of 0.00022% from its proportion measured as of September 30, 2016.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

For the year ended June 30, 2018, the District recognized pension expense of \$4,363,384. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 342,523	\$ 193,390	\$ 149,133
Changes in assumptions	4,317,971	-	4,317,971
Net difference between projected and actual earnings on pension plan investments	-	1,884,185	(1,884,185)
Changes in proportion and differences between employer contributions and proportionate share of contributions	664,213	79,003	585,210
	<u>5,324,707</u>	<u>2,156,578</u>	<u>3,168,129</u>
District contributions subsequent to the measurement date	3,829,457	-	3,829,457
	<u>3,829,457</u>	<u>-</u>	<u>3,829,457</u>
Total	<u>\$ 9,154,164</u>	<u>\$ 2,156,578</u>	<u>\$ 6,997,586</u>

\$3,829,457 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2019	\$ 996,213
2020	1,598,482
2021	651,312
2022	<u>(77,878)</u>
Total	<u>\$ 3,168,129</u>

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reported a liability of \$13,453,044 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was 0.15192%.

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Notes To Financial Statements

For the year ended June 30, 2018, the District recognized OPEB expense of \$900,581. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 143,235	\$ (143,235)
Net difference between projected and actual earnings on OPEB plan investments	-	311,576	(311,576)
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,309	-	3,309
	<u>3,309</u>	<u>454,811</u>	<u>(451,502)</u>
District contributions subsequent to the measurement date	852,529	-	852,529
	<u>852,529</u>	<u>-</u>	<u>852,529</u>
Total	<u>\$ 855,838</u>	<u>\$ 454,811</u>	<u>\$ 401,027</u>

\$852,529 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2019	\$ (109,167)
2020	(109,167)
2021	(109,167)
2022	(109,167)
2023	<u>(14,834)</u>
Total	<u>\$ (451,502)</u>

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Notes To Financial Statements

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability in the September 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	7.5%
Pension Plus plan (hybrid)	7.0%
OPEB plans	7.5%
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.5% Year 1 graded to 3.5% Year 12
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.
Other OPEB assumptions:	
Opt out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.5188 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.4744 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

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Notes To Financial Statements

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.60%	1.56%
Alternative investment pools	18.00%	8.70%	1.57%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	-0.10%	-0.01%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.00%	0.78%
Short-term investment pools	2.00%	-0.90%	-0.02%
	<u>100.00%</u>		5.45%
Inflation			<u>2.05%</u>
Investment rate of return			<u>7.50%</u>

Discount Rate

A discount rate of 7.5% was used to measure the total pension and OPEB liabilities (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension and OPEB plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

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Notes To Financial Statements

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
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District's proportionate share of the net pension liability	\$ 51,341,601	\$ 39,412,671	\$ 29,369,271
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Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
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District's proportionate share of the net OPEB liability	\$ 15,757,403	\$ 13,453,044	\$ 11,497,365
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Sensitivity of the District's Proportionate Share of the Net OPEB Liability to the Healthcare Cost Trend Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the assumed trend rates, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1% Increase (8.5%)
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District's proportionate share of the net OPEB liability	\$ 11,392,920	\$ 13,453,044	\$ 15,792,171
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Pension and OPEB Plans Fiduciary Net Position

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Payable to the Pension Plan

At June 30, 2018, the District reported a payable of \$558,623 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2018.

Payable to the OPEB Plan

At June 30, 2018, the District reported a payable of \$117,899 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2018.

The net pension and OPEB liabilities are generally liquidated by the General Fund.

11. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan school aid appropriation acts. State funding represented 39% of the District's general fund revenue during the 2018 fiscal year.

12. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2018, was as follows:

	Governmental Activities
Capital assets:	
Capital assets not being depreciated	\$ 21,995,558
Capital assets being depreciated, net	<u>40,496,079</u>
	62,491,637
Less related debt:	
Noncurrent liabilities:	
Due within one year	(4,325,678)
Due in more than one year	(10,507,304)
Add back: compensated absences	<u>758,731</u>
Net investment in capital assets	<u>\$ 48,417,386</u>

13. COMMITMENTS AND CONTINGENCIES

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

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2018.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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

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

The District has approximately \$154,000 of costs to be incurred on the athletic stadium as of June 30, 2018.

14. RESTATEMENT

The District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result of this change, beginning net position of governmental activities was decreased by \$13,110,863.



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REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC SCHOOLS OF PETOSKEY

Required Supplementary Information
MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,			
	2015	2016	2017	2018
District's proportionate share of the net pension liability	\$ 32,093,122	\$ 36,634,250	\$ 37,890,839	\$ 39,412,671
District's proportion of the net pension liability	0.14570%	0.14999%	0.15187%	0.15209%
District's covered-employee payroll	\$ 12,742,819	\$ 12,460,245	\$ 12,848,982	\$ 12,681,026
District's proportionate share of the net pension liability as a percentage of its covered payroll	251.85%	294.01%	294.89%	310.80%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%	63.27%	64.21%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

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

PUBLIC SCHOOLS OF PETOSKEY

Required Supplementary Information
 MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of District Contributions

	Year Ended June 30,			
	2015	2016	2017	2018
Contractually required contribution	\$ 3,024,425	\$ 3,375,387	\$ 3,555,982	\$ 3,852,705
Contributions in relation to the contractually required contribution	<u>(3,024,425)</u>	<u>(3,375,387)</u>	<u>(3,555,982)</u>	<u>(3,852,705)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 12,850,648	\$ 12,337,346	\$ 12,296,962	\$ 14,205,094
Contributions as a percentage of covered payroll	23.54%	27.36%	28.92%	27.12%

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

PUBLIC SCHOOLS OF PETOSKEY

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Proportionate Share of the Net Other Postemployment Benefit Liability

	Year Ended June 30, 2018
District's proportion of the net OPEB liability	\$ 13,453,044
District's proportionate share of the net OPEB liability	0.15192%
District's covered payroll	\$ 12,681,026
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	106.09%
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

PUBLIC SCHOOLS OF PETOSKEY

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30, 2018
Statutorily required contribution	\$ 954,956
Contributions in relation to the statutorily required contribution	<u>(954,956)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered payroll	\$ 14,205,094
Contributions as a percentage of covered payroll	6.72%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2018

	Special Revenue Fund	Capital Projects Fund	
	Food Service	Building and Site	Total
Assets			
Cash and cash equivalents	\$ 71,294	\$ 616,802	\$ 688,096
Accounts receivable	26,244	980	27,224
Due from other governments	15,251	-	15,251
Other assets	97,575	-	97,575
Total assets	\$ 210,364	\$ 617,782	\$ 828,146
Liabilities			
Accounts payable	\$ 25,507	\$ -	\$ 25,507
Unearned revenue	24,073	-	24,073
Total liabilities	49,580	-	49,580
Fund balances			
Nonspendable:			
Inventory	12,575	-	12,575
Prepaid items	85,000	-	85,000
Restricted:			
Food service	63,209	-	63,209
Assigned:			
Capital outlay	-	617,782	617,782
Total fund balances	160,784	617,782	778,566
Total liabilities and fund balances	\$ 210,364	\$ 617,782	\$ 828,146

PUBLIC SCHOOLS OF PETOSKEY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended June 30, 2018

	Special Revenue Fund	Capital Projects Fund	
	Food Service	Building and Site	Total
Revenues			
Local sources:			
Charges for services	\$ 449,211	\$ -	\$ 449,211
Rent income	-	55,457	55,457
Interest	64	2,093	2,157
State sources	53,653	-	53,653
Federal sources	448,956	-	448,956
Total revenues	951,884	57,550	1,009,434
Expenditures			
Current:			
Food services	925,091	-	925,091
Other	-	3,950	3,950
Capital outlay	-	50,453	50,453
Total expenditures	925,091	54,403	979,494
Net change in fund balances	26,793	3,147	29,940
Fund balances, beginning of year	133,991	614,635	748,626
Fund balances, end of year	\$ 160,784	\$ 617,782	\$ 778,566

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

General Fund

June 30, 2018

(With Comparative Totals as of June 30, 2017)

	2018	2017
Assets		
Cash and cash equivalents	\$ 447,515	\$ 396,791
Investments	3,127,459	3,222,112
Accounts receivable	29,832	90,206
Due from other funds	-	1,287
Due from other governments	2,209,551	2,054,013
Other assets	20,898	27,000
Total assets	\$ 5,835,255	\$ 5,791,409
Liabilities		
Accounts payable	\$ 345,794	\$ 479,186
Salaries payable	1,545,630	1,525,194
Accrued liabilities	888,059	825,384
Unearned revenue	979,896	921,196
Total liabilities	3,759,379	3,750,960
Fund balances		
Nonspendable:		
Inventory	8,140	7,685
Prepaid items	12,758	19,315
Assigned:		
Athletics	118,907	119,349
Subsequent years' expenditures	1,600,000	1,600,000
Unassigned	336,071	294,100
Total fund balances	2,075,876	2,040,449
Total liabilities and fund balances	\$ 5,835,255	\$ 5,791,409

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Revenues

General Fund

For the Year Ended June 30, 2018

(With Comparative Totals For the Year Ended June 30, 2017)

	2018	2017
Revenues		
Local Sources		
Property taxes	\$ 15,310,130	\$ 15,142,056
Payment in lieu of taxes	483,846	508,327
Charges for services	186,019	112,591
Interest	48,001	23,430
Athletics	306,384	294,905
Other income	133,664	102,066
Total local sources	16,468,044	16,183,375
State sources		
State aid - foundation allowance:		
Discretionary payment	6,161,446	6,077,191
Prior year adjustments	1,293,483	59,331
Special education headlee obligation	879,356	855,314
State aid - other unrestricted grants:		
Early literacy	37,170	30,360
Wellness	-	21,000
Dual enrollment	-	10,380
Computer Adaptive tests 104d	11,761	-
State aid - restricted grants:		
At-risk	830,706	453,687
Pupil support	23,222	-
MPSERS cost offset	2,131,331	1,789,128
MI STEM	60,185	-
Data collection	72,370	72,670
Artists in residence	9,120	-
First robotics	4,950	-
Total state sources	11,515,100	9,369,061
Federal sources		
Title I	349,364	314,829
Title II	71,545	92,303
Title IVA	5,503	-
Title IX	40,892	45,388
Other	3,030	5,046
Total federal sources	470,334	457,566
Interdistrict sources		
Vocational education - millage	470,334	602,532
Vocational education - added cost	140,125	32,561
Expense reimbursements	794,820	817,969
Total interdistrict sources	1,405,279	1,453,062
Total revenues	\$ 29,858,757	\$ 27,463,064

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PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2018

(With Comparative Totals For the Year Ended June 30, 2017)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
Instruction					
Basic programs					
Elementary	\$ 3,769,524	\$ 2,734,167	\$ 153,131	\$ 136,575	\$ -
Middle school	2,023,981	1,698,537	57,788	40,817	-
High school	2,415,005	1,628,762	441,648	61,998	-
Total basic programs	8,208,510	6,061,466	652,567	239,390	-
Added needs					
Special education	1,343,993	939,101	472,061	2,326	-
Compensatory education	157,859	120,414	410,295	30,689	-
Vocational education	551,732	425,697	119,356	259,725	32,440
Total added needs	2,053,584	1,485,212	1,001,712	292,740	32,440
Total instruction	10,262,094	7,546,678	1,654,279	532,130	32,440
Supporting services					
Pupil services					
Guidance services	299,119	236,450	-	2,383	-
Health services	-	-	162,784	-	-
Other	20,250	9,196	20,178	-	-
Total pupil services	319,369	245,646	182,962	2,383	-
Instructional staff services					
Improvement of instruction	160,073	108,437	44,333	60,407	-
Library	51,987	60,529	69,266	28,309	-
Technology assisted instruction	111,525	79,502	8,220	1,050	-
Supervision	114,220	72,828	2,491	1,388	-
Academic student assessment	-	-	-	29,885	-
Total instructional staff services	437,805	321,296	124,310	121,039	-



Total	
2018	2017

\$ 6,793,397	\$ 6,567,631
3,821,123	3,512,906
<u>4,547,413</u>	<u>4,574,038</u>
15,161,933	14,654,575

2,757,481	2,613,125
719,257	720,432
<u>1,388,950</u>	<u>1,288,069</u>
4,865,688	4,621,626
<u>20,027,621</u>	<u>19,276,201</u>

537,952	520,385
162,784	122,933
<u>49,624</u>	<u>36,082</u>
750,360	679,400

373,250	126,786
210,091	204,817
200,297	188,668
190,927	185,929
<u>29,885</u>	<u>30,958</u>
<u>1,004,450</u>	<u>737,158</u>

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2018

(With Comparative Totals For the Year Ended June 30, 2017)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
General administration					
Board of education	\$ -	\$ -	\$ 51,797	\$ 1,317	\$ -
Executive administration	190,249	130,694	98,722	5,756	-
Total general administration	190,249	130,694	150,519	7,073	-
School administration					
Office of the principal	991,318	703,211	31,419	20,760	-
Other school administration	-	-	-	7,523	-
Total school administration	991,318	703,211	31,419	28,283	-
Business services					
Fiscal services	258,051	186,970	18,223	1,653	-
Other business services	-	-	-	1,218,924	-
Total business services	258,051	186,970	18,223	1,220,577	-
Operations and maintenance	291,953	226,235	894,017	702,508	45,474
Transportation	-	-	1,296,106	-	-
Security services	-	-	1,618	-	-
Staff/personnel services	37,699	34,670	9,200	-	-
Athletic activities	214,854	109,916	146,422	104,249	-
Total supporting services	2,741,298	1,958,638	2,854,796	2,186,112	45,474
Community services					
Community services direction	-	-	-	445	-
Non-public school pupils	3,626	1,011	4,085	224	-
Total community services	3,626	1,011	4,085	669	-
Total expenditures	\$ 13,007,018	\$ 9,506,327	\$ 4,513,160	\$ 2,718,911	\$ 77,914



Total	
2018	2017

\$ 53,114	\$ 66,136
<u>425,421</u>	<u>433,212</u>
478,535	499,348
1,746,708	1,736,084
<u>7,523</u>	<u>-</u>
<u>1,754,231</u>	<u>1,736,084</u>
464,897	461,086
<u>1,218,924</u>	<u>143,668</u>
1,683,821	604,754
<u>2,160,187</u>	<u>2,061,626</u>
<u>1,296,106</u>	<u>1,266,371</u>
<u>1,618</u>	<u>-</u>
<u>81,569</u>	<u>71,140</u>
<u>575,441</u>	<u>567,185</u>
<u>9,786,318</u>	<u>8,223,066</u>
445	536
<u>8,946</u>	<u>10,626</u>
<u>9,391</u>	<u>11,162</u>
<u>\$ 29,823,330</u>	<u>\$ 27,510,429</u>

Concluded

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

Food Service Special Revenue Fund

June 30, 2018

(With Comparative Totals as of June 30, 2017)

	2018	2017
Assets		
Cash and cash equivalents	\$ 71,294	\$ 39,950
Accounts receivable	26,244	31,685
Due from other governmental units	15,251	14,867
Other assets	97,575	92,960
Total assets	\$ 210,364	\$ 179,462
Liabilities		
Accounts payable	\$ 25,507	\$ 25,495
Unearned revenue	24,073	19,976
Total liabilities	49,580	45,471
Fund balances		
Nonspendable - inventory	12,575	7,960
Nonspendable - prepaid items	85,000	85,000
Restricted - food service	63,209	41,031
Total fund balances	160,784	133,991
Total liabilities and fund balances	\$ 210,364	\$ 179,462

PUBLIC SCHOOLS OF PETOSKEY

Statement of Revenues, Expenditures and Change in Fund Balance

Food Service Special Revenue Fund

For the Year Ended June 30, 2018

(With Comparative Totals For the Year Ended June 30, 2017)

	2018	2017
Revenues		
Local sources:		
Charges for services:		
Lunch sales	\$ 171,733	\$ 172,589
Breakfast sales	7,723	8,138
Ala carte sales	269,755	270,231
Interest	64	32
State sources	53,653	39,694
Federal sources	448,956	433,997
Total revenues	951,884	924,681
Expenditures		
Current:		
Food services:		
Salaries	40,208	41,401
Employee benefits	34,473	31,398
Purchased services	380,397	380,496
Supplies, materials and other expenditures	68,807	83,294
Food costs	401,206	370,569
Total expenditures	925,091	907,158
Net change in fund balance	26,793	17,523
Fund balance, beginning of year	133,991	116,468
Fund balance, end of year	\$ 160,784	\$ 133,991

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Schedule

Capital Projects Funds

June 30, 2018

(With Comparative Totals as of June 30, 2017)

	Sinking Fund	Building and Site Fund	Athletic Complex Fund
Assets			
Cash and cash equivalents	\$ 1,607,020	\$ 616,802	\$ 70,239
Investments	5,299	-	75,648
Accounts receivable	-	980	-
Other assets	-	-	11,325
Due from other funds	19,085	-	-
Total assets	\$ 1,631,404	\$ 617,782	\$ 157,212
Liabilities			
Due to other funds	\$ -	\$ -	\$ -
Contracts payable	2,287	-	151,304
Total liabilities	2,287	-	151,304
Fund balances			
Restricted - capital outlay	1,629,117	-	5,908
Assigned - capital outlay	-	617,782	-
Total fund balances	1,629,117	617,782	5,908
Total liabilities and fund balances	\$ 1,631,404	\$ 617,782	\$ 157,212



Total	
2018	2017

\$ 2,294,061	\$ 2,179,729
80,947	1,279,253
980	-
11,325	-
19,085	-
<u>2,406,398</u>	<u>3,458,982</u>

\$ 2,406,398	\$ 3,458,982
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\$ -	\$ 1,287
153,591	1,768,279
<u>153,591</u>	<u>1,769,566</u>

153,591	1,769,566
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1,635,025	1,074,781
617,782	614,635
<u>2,252,807</u>	<u>1,689,416</u>

2,252,807	1,689,416
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\$ 2,406,398	\$ 3,458,982
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PUBLIC SCHOOLS OF PETOSKEY

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

Capital Projects Funds

For the Year Ended June 30, 2018

(With Comparative Totals For the Year Ended June 30, 2017)

	Sinking Fund	Building and Site Fund	Athletic Complex Fund
Revenues			
Property taxes	\$ 1,944,307	\$ -	\$ -
Rent income	-	55,457	-
Contributions	-	-	28,000
Interest	5,313	2,093	1,756
Total revenues	<u>1,949,620</u>	<u>57,550</u>	<u>29,756</u>
Expenditures			
Other	88,696	3,950	-
Capital outlay	176,404	50,453	62,520
Total expenditures	<u>265,100</u>	<u>54,403</u>	<u>62,520</u>
Revenues over (under) expenditures	1,684,520	3,147	(32,764)
Other financing sources (uses)			
Transfers out	(1,091,512)	-	-
Net change in fund balances	593,008	3,147	(32,764)
Fund balances, beginning of year	1,036,109	614,635	38,672
Fund balances, end of year	<u>\$ 1,629,117</u>	<u>\$ 617,782</u>	<u>\$ 5,908</u>



Total	
2018	2017

\$ 1,944,307	\$ 1,890,815
55,457	46,401
28,000	615,846
9,162	20,856
<u>2,036,926</u>	<u>2,573,918</u>
92,646	21,279
<u>289,377</u>	<u>6,528,009</u>
<u>382,023</u>	<u>6,549,288</u>
1,654,903	(3,975,370)
<u>(1,091,512)</u>	<u>(1,062,730)</u>
563,391	(5,038,100)
<u>1,689,416</u>	<u>6,727,516</u>
<u>\$ 2,252,807</u>	<u>\$ 1,689,416</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Schedule

Debt Service Fund

June 30, 2018

(With Comparative Totals as of June 30, 2017)

	Foster Land Contract	2012 Technology Bonds	2015 Refunding Bonds	2016 Building & Site Bonds
Assets				
Cash and cash equivalents	\$ -	\$ 133,866	\$ 173,880	\$ -
Investments	-	-	55,147	-
Total assets	\$ -	\$ 133,866	\$ 229,027	\$ -
Liabilities				
Due to other funds	\$ -	\$ -	\$ 19,085	\$ -
Fund balances				
Restricted	-	133,866	209,942	-
Total liabilities and fund balances	\$ -	\$ 133,866	\$ 229,027	\$ -

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



Total	
2018	2017

\$ 307,746	\$ 520,039
55,147	54,400

<u>\$ 362,893</u>	<u>\$ 574,439</u>
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\$ 19,085	\$ -
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<u>343,808</u>	<u>574,439</u>
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<u>\$ 362,893</u>	<u>\$ 574,439</u>
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PUBLIC SCHOOLS OF PETOSKEY

Combining Schedule of Debt Service Activities and Change in Fund Balance

Debt Service Fund

For the Year Ended June 30, 2018

(With Comparative Totals For the Year Ended June 30, 2017)

	Foster Land Contract	2012 Technology Bonds	2015 Refunding Bonds	2016 Building & Site Bonds
Revenues				
Local sources:				
Property taxes	\$ -	\$ 812,580	\$ 2,585,481	\$ -
Interest income	-	-	9,173	500
Total revenues	-	812,580	2,594,654	500
Expenditures				
Debt service:				
Principal	63,332	640,000	2,240,000	1,000,000
Interest	3,095	51,900	552,000	25,085
Other	-	27,946	126,019	500
Total expenditures	66,427	719,846	2,918,019	1,025,585
Revenues over (under) expenditures	(66,427)	92,734	(323,365)	(1,025,085)
Other financing sources (uses)				
Transfers in	66,427	-	-	1,025,085
Net change in fund balance	-	92,734	(323,365)	-
Fund balance, beginning of year	-	41,132	533,307	-
Fund balance, end of year	\$ -	\$ 133,866	\$ 209,942	\$ -

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



Total	
2018	2017

\$ 3,398,061	\$ 3,460,804
9,673	9,819
<u>3,407,734</u>	<u>3,470,623</u>

3,943,332	3,800,249
632,080	741,580
154,465	13,294
<u>4,729,877</u>	<u>4,555,123</u>

(1,322,143) (1,084,500)

<u>1,091,512</u>	<u>1,062,730</u>
------------------	------------------

(230,631) (21,770)

<u>574,439</u>	<u>596,209</u>
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<u>\$ 343,808</u>	<u>\$ 574,439</u>
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PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund
For the Year Ended June 30, 2018

	Balances July 1, 2017	Receipts	Disbursements	Balances June 30, 2018
Assets				
Cash	\$ 391,642	\$ 1,090,682	\$ 1,169,342	\$ 312,982
Investments	425,000	-	-	425,000
Accounts receivable	19,312	-	5,069	14,243
Total assets	\$ 835,954	\$ 1,090,682	\$ 1,174,411	\$ 752,225
Liabilities				
Due to student groups	\$ 426,571	\$ 665,083	\$ 687,045	\$ 404,609
Scholarships payable	241,802	5,887	3,082	244,607
Due to others	167,581	419,712	484,284	103,009
Total liabilities	\$ 835,954	\$ 1,090,682	\$ 1,174,411	\$ 752,225
The balances consist of the following:				
Deposits due to student groups				
Central Elementary				
Central 3rd Grade	\$ 39	\$ 5	\$ -	\$ 44
Central 5th Grade	355	-	355	-
Central School Fund	7	932	910	29
Central School Store	57	-	1	56
Central VanSlot STEAM	348	4,000	1,397	2,951
Central scholarship fund	-	681	53	628
Central book fair	845	3,836	4,628	53
Lincoln Elementary				
Lincoln School Fund	5,371	551	314	5,608
Lincoln Student Council	801	962	580	1,183
Ottawa Elementary				
Ottawa 4th Grade Field Trip	618	146	279	485
Ottawa 5th Grade Field Trip	6,811	18,102	15,393	9,520
Ottawa Field Trip Fund	400	3,687	3,204	883
Ottawa instructional supplies	6,729	4,300	2,729	8,300
Ottawa Learning Center	102	-	12	90
Ottawa Garden Club	3,530	-	50	3,480
Ottawa Popcorn Sales	4,817	1,259	1,523	4,553
Ottawa School Fund	3,895	1,543	2,073	3,365
Ottawa Kindergarten	103	-	-	103
Sheridan Elementary				
Sheridan 3rd Grade	501	3,653	3,406	748
Sheridan 4th Grade	1,559	711	351	1,919
Sheridan 5th Grade	1,468	1,768	1,856	1,380
Sheridan Garden Fund	108	1	-	109
Sheridan School	1,012	6,800	7,162	650
Sheridan Student Council	91	2,182	1,855	418
Sheridan PTO	-	14,385	6,653	7,732
Donations - Food Service	-	3,400	3,400	-
Petoskey Middle School				
6th Grade Club	1,317	24,693	25,182	828
7th Grade Club	9,153	7,636	6,431	10,358
8th Grade Club	10,764	17,178	14,602	13,340
Builder's Club	662	938	1,026	574

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2018

	Balances July 1, 2017	Receipts	Disbursements	Balances June 30, 2018
Petoskey Middle School (continued)				
Middle School Adventure Education	\$ 164	\$ -	\$ -	\$ 164
Middle School Art Club	1,146	685	955	876
Middle School Enrichment	3,233	-	-	3,233
Middle School Celebration Garden	216	-	-	216
Middle School Ecology Club	445	1,485	995	935
Middle School Fall Play	2,763	5,313	4,600	3,476
Middle School Photo Club	104	-	-	104
Middle School Student Council	2,037	1,505	1,630	1,912
Middle School Student Special needs	6,993	-	-	6,993
Middle School Yearbook	3,497	6,015	6,186	3,326
Middle School Greenhouse	73	-	-	73
Middle School Washington DC Trip	3,673	4,239	4,191	3,721
Middle School Wood Shop	744	3,835	1,231	3,348
Middle School Youth In Government	3,836	8,788	8,999	3,625
Middle School Book Fair	-	2,111	2,111	-
Middle School Fund	16,135	1,880	1,215	16,800
Middle School Store	1,207	5,037	5,014	1,230
Middle School Science Club Fund	361	675	520	516
Middle School Box Tops for Education	1,499	215	38	1,676
Middle School Student Caring Fund	500	-	-	500
Middle School Special Caring Fund	233	1,264	1,213	284
Middle School Vocal	1,714	1,074	1,767	1,021
Middle School Weight Room Improvements	-	11,000	10,883	117
Petoskey Middle School Athletics				
Middle School Dance	34	334	315	53
Middle School Athletics	15	-	-	15
Middle School Football	73	1,927	787	1,213
Middle School Track	2,032	6,460	4,610	3,882
Middle School Volleyball	2,772	1,143	668	3,247
Middle School Boys Basketball	1,427	938	1,075	1,290
Middle School Girls Basketball	1,079	794	861	1,012
Petoskey High School				
Auto Shop Tool Fund	99	492	385	206
Building Trades Fund	830	4,235	2,061	3,004
Business Club	525	-	86	439
Blue Crew	517	-	-	517
Class of 2017	2,886	-	2,886	-
Class of 2018	2,465	50	699	1,816
Class of 2019	347	6,830	4,393	2,784
Class of 2020	1,208	-	250	958
Class of 2021	-	1,955	-	1,955
DECA	15,771	48,240	51,729	12,282
Debate Club	4,706	1,000	650	5,056
Diversity Club	-	1,294	553	741
FCCLA	499	-	499	-
Forensics	5	-	-	5
French Club	159	258	-	417
Future Farmers of America	1,872	4,254	4,294	1,832
Graduated Classes	4,532	-	-	4,532

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund
For the Year Ended June 30, 2018

	Balances July 1, 2017	Receipts	Disbursements	Balances June 30, 2018
Petoskey High School (continued)				
Guidance Dept Testing	\$ 3,698	\$ 23,147	\$ 24,433	\$ 2,412
HOSA	12	890	809	93
High School Art Club	2,759	-	-	2,759
High School Fall Play	1,930	6,440	7,086	1,284
High School Journalism	5	1,500	-	1,505
High School Learning Center	834	-	-	834
High School Quiz Bowl Team	542	-	-	542
High School Spring Musical	1,873	12,905	12,941	1,837
High School Steel Drum Band	-	13,966	13,966	-
High School Student Council	662	6,108	4,921	1,849
High School Vocal	1,673	9,755	4,034	7,394
High School Yearbook	10,750	9,787	7,767	12,770
High School Fund	1,347	1,389	2,601	135
Hospitality Foods Tip Fund	1,846	157	75	1,928
Indian Education/Unity Trip	280	1	-	281
Key Club	1,462	226	1,434	254
Model UN/H.S. Enrichment	63	7,925	7,565	423
National Honor Society	1,079	795	1,118	756
Petoskey High School Papermakers	1,459	-	-	1,459
Robotics	40,870	62,307	60,056	43,121
Renaissance Fund	254	-	137	117
Science Class	163	71	70	164
Skateboarding Club	91	-	91	-
Spanish Club	516	-	331	185
High School Special Needs Counseling	1,413	730	1,235	908
High School 8th & 9th Transition Fund	2,296	-	366	1,930
STEM Projects	248	20	88	180
Freshman Mentor Fund	1,203	1,000	1,814	389
World History Trip Fund	62	-	-	62
Academic World Quest	2	-	-	2
PE Class Fund	-	4,595	4,437	158
Reach Higher Grant	-	5,016	4,222	794
High School Athletics				
Athletic Hall Of Fame	1,023	226	1,145	104
Northmen Fund	51,811	11,284	52,606	10,489
Boys Basketball	6,907	7,731	8,557	6,081
Boys Golf	2,154	2,436	3,100	1,490
Boys Tennis	2,068	19,351	15,339	6,080
Girls Basketball	2,518	5,017	4,772	2,763
Girls Golf	2,608	300	687	2,221
Girls Tennis	7,357	15,064	14,724	7,697
Girls Track	1,023	6,040	5,957	1,106
Girls Softball	7,712	23,683	6,390	25,005
High School Baseball	178	1,083	1,157	104
High School Boys Soccer	-	3,185	3,185	-
High School Cross Country	4,316	6,089	7,088	3,317
High School Football	11,582	538	2,066	10,054
High School Girls Soccer	-	1,065	1,065	-
High School Hockey	27,748	73,938	89,441	12,245
Pay To Participate Donations	1,450	-	1,450	-
Cross Country Ski Club	-	877	875	2
Cheerleading	2,646	1,186	2,947	885
High School/Middle School Ski Team	-	6,924	6,924	-

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund
For the Year Ended June 30, 2018

	Balances July 1, 2017	Receipts	Disbursements	Balances June 30, 2018
High School Athletics (continued)				
Volleyball	\$ 4,602	-	\$ 1,362	\$ 3,240
Wrestling	6,169	9,277	9,758	5,688
Boys Track	559	534	798	295
Pink Game	8,163	7,663	12,877	2,949
Weight Room Improvements	1,965	2,445	4,410	-
Bowling	5,606	5,900	7,011	4,495
LaCrosse Team	-	3,413	3,413	-
District-Wide Accounts				
Elementary Enrichment	3,158	5,922	6,335	2,745
Elementary Enrichment Play	6,215	7,627	9,090	4,752
Elementary Music Fund	1,308	675	919	1,064
Student Reserve	18,766	4,757	5,630	17,893
Girls on the run	1,678	3,449	596	4,531
Total due to student groups	426,571	665,083	687,045	404,609
Scholarships payable				
Doris Reber - Class of 1932 Scholarship	210,696	4,219	801	214,114
Eric Greyerbiehl Memorial Fund	732	-	-	732
McClutchey Memorial Scholarship	5,893	866	1,602	5,157
Midshipmen Scholarship	7,244	92	-	7,336
Vaughn Memorial Scholarship	16,186	210	250	16,146
Wil Moyer Music Scholarship	511	500	429	582
Memorial Scholarship - Scott Sweany	540	-	-	540
Total scholarships payable	241,802	5,887	3,082	244,607
Due to others				
Central PTO	36,077	27,812	28,860	35,029
High School Staff Fund	515	-	-	515
Lincoln PTO	9,445	32,534	32,373	9,606
Maintenance Fund	491	3,244	1,419	2,316
Northmen Night	897	58,118	58,489	526
Ottawa PTO Board Fund	13,729	24,363	28,008	10,084
PEF Grants - Central	-	3,440	3,440	-
PEF Grants - High School	658	2,441	2,563	536
PEF Grants - Lincoln	-	591	591	-
PEF Grants - Middle School	89	2,623	2,195	517
PEF Grants - Sheridan	-	1,719	1,583	136
PEF Grants - ACT/SAT Seminar	-	1,500	1,500	-
PEF Grants - District	-	3,185	2,819	366
Petoskey Family Fund	24,677	12,279	2,786	34,170
Robert Motely Memorial Fund	106	-	-	106
Senior Parent Committee	2,696	43,772	45,879	589
Spitler Building Pop Fund	423	4,651	4,339	735
Due to General Fund	77,778	197,440	267,440	7,778
Total due to others	167,581	419,712	484,284	103,009
Totals	\$ 835,954	\$ 1,090,682	\$ 1,174,411	\$ 752,225

Concluded

OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Bond Indebtedness (Unaudited)

For the Year Ended June 30, 2018

Purpose	2012 Technology Bonds
Date of issue	June 21, 2012
Rate of interest	2.00%
Original obligation	\$ 4,930,000
Amount previously paid	<u>2,975,000</u>
Balance outstanding - June 30, 2018	<u>\$ 1,955,000</u>

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
2018-2019	\$ 19,550	\$ 19,550	\$ 730,000	\$ 769,100
2019-2020	12,250	12,250	1,225,000	1,249,500
	<u>\$ 31,800</u>	<u>\$ 31,800</u>	<u>\$ 1,955,000</u>	<u>\$ 2,018,600</u>

Call Provision

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

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Bond Indebtedness (Unaudited) For the Year Ended June 30, 2018

Purpose 2015 School Building & Site Refunding Bonds

Date of issue February 25, 2015

Rate of interest 4.00% to 5.00%

Original obligation \$ 16,260,000

Amount previously paid 6,550,000

Balance outstanding - June 30, 2018 \$ 9,710,000

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
2018-2019	\$ 220,000	\$ 220,000	\$ 2,275,000	\$ 2,715,000
2019-2020	163,125	163,125	1,305,000	1,631,250
2020-2021	130,500	130,500	1,435,000	1,696,000
2021-2022	94,625	94,625	1,500,000	1,689,250
2022-2023	57,125	57,125	1,570,000	1,684,250
2023-2024	17,875	17,875	1,625,000	1,660,750
	<u>\$ 683,250</u>	<u>\$ 683,250</u>	<u>\$ 9,710,000</u>	<u>\$ 11,076,500</u>

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

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Other Installment Debt (Unaudited)
 For the Year Ended June 30, 2018

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>672,665</u>
Balance outstanding - June 30, 2018	<u>\$ 27,335</u>

Fiscal Year	Interest	May 15, Principal	Annual Requirements
2018-2019	\$ 343	\$ 27,335	\$ 27,678

PUBLIC SCHOOLS OF PETOSKEY

Property Tax Information (Unaudited)

For the Year Ended June 30, 2018

Taxing District	Tax Levy	Collections and Other Reductions	Delinquent Property Taxes	Percentage of Current Year Levy Collected
Bear Creek Township	\$ 5,819,717	\$ 5,452,189	\$ 367,528	93.68%
Littlefield Township	77,041	76,352	689	99.11%
Little Traverse Township	526,646	487,205	39,441	92.51%
Resort Township	4,307,456	4,114,870	192,586	95.53%
Springvale Township	928,958	868,403	60,555	93.48%
City of Petoskey	7,303,004	7,097,466	205,538	97.19%
Chandler Township	112,199	105,664	6,535	94.18%
Hayes Township	52,543	48,061	4,482	91.47%
Melrose Township	1,289,603	1,216,957	72,646	94.37%
Total	\$ 20,417,167	\$ 19,467,167	\$ 950,000	95.35%
Allocated as follows				
General Fund	\$ 15,139,800	\$ 14,419,001	\$ 720,799	95.24%
Debt Service Fund	3,373,994	3,227,459	146,535	95.66%
Sinking Fund	1,903,373	1,820,707	82,666	95.66%
Total allocated to all funds	\$ 20,417,167	\$ 19,467,167	\$ 950,000	95.35%

PUBLIC SCHOOLS OF PETOSKEY

Ten-Year Summary of Enrollment (Unaudited)

For the Year Ended June 30, 2018

Year	Special Education	Elementary School	Middle School	High School	Total	Non-Resident	Resident
2009	76	1,246	669	984	2,975	350	2,625
2010	68	1,218	651	994	2,932	367	2,565
2011	63	1,207	637	980	2,887	356	2,531
2012	59	1,223	687	982	2,951	359	2,592
2013	58	1,223	657	991	2,929	377	2,553
2014	64	1,258	657	969	2,949	391	2,558
2015	61	1,193	669	987	2,910	412	2,498
2016	74	1,161	679	965	2,879	417	2,462
2017	68	1,173	684	953	2,878	470	2,408
2018	69	1,146	658	978	2,850	485	2,365

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
Student Enrollment And Per Pupil Costs (Unaudited)
For the Year Ended June 30, 2018

Year	Expenditures and Transfers*	Student Enrollment	Expenditures Per Pupil
2009	\$ 25,666,499	2,975	\$ 8,628
2010	25,517,943	2,932	8,703
2011	24,962,122	2,887	8,646
2012	25,193,996	2,951	8,536
2013	25,549,194	2,929	8,721
2014	25,350,870	2,949	8,597
2015	26,752,231	2,910	9,193
2016	27,194,239	2,879	9,446
2017	27,510,429	2,878	9,559
2018	29,823,330	2,850	10,463

* General Fund expenditures and transfers only.

SINGLE AUDIT ACT COMPLIANCE

Independent Auditors' Report on the Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance

October 5, 2018

Honorable members of the Board of Education
of the 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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 5, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



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PUBLIC SCHOOLS OF PETOSKEY

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2018

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
U.S. Department of Agriculture				
Child Nutrition Cluster:				
Cash assistance:				
National school lunch - breakfast	10.553	MDE	171970	\$ 56,944
National school lunch - breakfast	10.553	MDE	181970	50,653
National school lunch section 11 all lunches	10.555	MDE	171960	305,450
National school lunch section 11 all lunches	10.555	MDE	181960	292,425
Summer food service program - operating	10.559	MDE	170900	1,685
Summer food service program - admin	10.559	MDE	171900	175
				<u>707,332</u>
Non-cash assistance:				
Entitlement commodities	10.555	MDE	n/a	<u>55,877</u>
Total U.S. Department of Agriculture				<u><u>763,209</u></u>
U.S. Department of Education				
Title I, Part A - Improving Basic Programs	84.010	MDE	171530-1617	365,077
Title I, Part A - Improving Basic Programs	84.010	MDE	181530-1718	368,483
				<u>733,560</u>
Indian Education	84.060A	Direct	16/17	44,082
Indian Education	84.060A	Direct	17/18	39,290
				<u>83,372</u>
Homeless Children and Youths	84.196	ESD	n/a	<u>26</u>
Title II, Part A - Improving Teacher Quality	84.367	MDE	170520-1617	128,367
Title II, Part A - Improving Teacher Quality	84.367	MDE	180520-1718	115,139
				<u>243,506</u>
Title IV - Student Support and Academic Enrichment	84.424A	MDE	n/a	<u>10,000</u>
Total U.S. Department of Education				<u><u>1,070,464</u></u>
U.S. Department of Health and Human Services				
Medicaid Cluster:				
Medicaid Outreach	93.778	ISD	17/18	<u>3,004</u>
Total Federal Financial Assistance				<u><u>\$ 1,836,677</u></u>

See notes to schedule of expenditures of federal awards.

Accrued (Deferred) Revenue June 30, 2017	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2018	Accrued (Deferred) Revenue June 30, 2018
\$ -	\$ 7,461	\$ 49,483	\$ 7,461	\$ -
-	50,653	-	50,653	-
-	40,680	264,770	40,680	-
-	292,425	-	292,425	-
-	1,685	-	1,685	-
-	175	-	175	-
-	<u>393,079</u>	<u>314,253</u>	<u>393,079</u>	-
-	55,877	-	55,877	-
-	<u>448,956</u>	<u>314,253</u>	<u>448,956</u>	-
279,462	305,864	279,462	26,402	-
-	-	-	322,962	322,962
<u>279,462</u>	<u>305,864</u>	<u>279,462</u>	<u>349,364</u>	<u>322,962</u>
7,686	13,350	38,418	5,664	-
-	28,068	-	35,228	7,160
<u>7,686</u>	<u>41,418</u>	<u>38,418</u>	<u>40,892</u>	<u>7,160</u>
-	26	-	26	-
78,982	95,827	78,982	16,845	-
-	-	-	54,700	54,700
<u>78,982</u>	<u>95,827</u>	<u>78,982</u>	<u>71,545</u>	<u>54,700</u>
-	-	-	5,503	5,503
<u>366,130</u>	<u>443,135</u>	<u>396,862</u>	<u>467,330</u>	<u>390,325</u>
-	3,004	-	3,004	-
<u>\$ 366,130</u>	<u>\$ 895,095</u>	<u>\$ 711,115</u>	<u>\$ 919,290</u>	<u>\$ 390,325</u>

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

Reconciliation to grant section auditors' report

Current payments per the grant auditor report	\$	794,770
Plus		
Amounts passed through Charlevoix-Emmet Intermediate School District		3,004
Amounts passed through Cheboygan-Otsego-Presque Isle Educational Service District		26
Entitlement commodities		55,877
Direct award from Department of Education		<u>41,418</u>
Total current year cash receipts per schedule of expenditures of federal awards	\$	<u><u>895,095</u></u>

PUBLIC SCHOOLS OF PETOSKEY

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Public Schools of Petoskey (the "District") under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met. Total expenditures on the Schedule agree to total federal revenues on the Statement of Revenues, Expenditures and Changes in Fund Balances.

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

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities. Spoilage and pilferage are included in expenditure amounts reported.

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

3. PASS-THROUGH AGENCIES

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

Pass-through Agency Abbreviation	Pass-through Agency Name
ESD	Cheboygan-Otsego-Presque Isle Educational Service District
ISD	Charlevoix-Emmet Intermediate School District
MDE	Michigan Department of Education



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**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

October 5, 2018

Honorable Members of the Board of Education
of the Public Schools of Petoskey
Petoskey, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Public Schools of Petoskey* (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 5, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rehmann Lobson LLC

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

October 5, 2018

Honorable Members of the Board of Education
of the Public Schools of Petoskey
Petoskey, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of the *Public Schools of Petoskey* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2018. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
84.010	Title I, Part A - Improving Basic Programs	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X yes no

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

No financial statement findings.

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2018

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings and questioned costs.

PUBLIC SCHOOLS OF PETOSKEY

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2018

No findings in the prior year.

