

Public Schools of
Petoskey



Year Ended
June 30, 2019

Financial
Statements and
Single Audit Act
Compliance

PUBLIC SCHOOLS OF PETOSKEY

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INDEPENDENT AUDITORS' REPORT

October 14, 2019

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, 2019, 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, 2019, 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.

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 14, 2019 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 black ink that reads "Rehmann Lobson LLC". The signature is written in a cursive, flowing style.

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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, 2019. 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, 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, 2019, the District reported a net position of \$10,087,314. The table below provides a summary of the District's net position as of June 30:

	Net Position		
	Governmental Activities		Percent Change
	2019	2018	
Assets			
Current and other assets	\$10,078,195	\$ 8,795,825	14.58%
Capital assets, net	61,005,084	62,491,637	-2.38%
Total assets	71,083,279	71,287,462	-0.29%
 Deferred outflows of resources	 17,035,075	 10,010,002	 70.18%
Liabilities			
Current and other liabilities	3,962,474	4,042,980	-1.99%
Net pension and OPEB liabilities	56,772,442	52,865,715	7.39%
Long-term liabilities	10,429,229	14,832,982	-29.69%
Total liabilities	71,164,145	71,741,677	-0.81%
 Deferred inflows of resources	 6,866,895	 2,611,389	 162.96%
Net position			
Net investment in capital assets	51,236,612	48,417,386	5.82%
Restricted	2,428,064	2,059,187	17.91%
Unrestricted (deficit)	(43,577,362)	(43,532,175)	0.10%
Total net position	\$10,087,314	\$ 6,944,398	45.26%

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 \$2.43 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 \$43.58 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 \$13.20 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
	2019	2018	Change
Program revenues			
Charges for services	\$ 778,228	\$ 923,921	-15.77%
Operating grants	7,336,507	5,502,490	33.33%
Capital grants	-	28,000	-100.00%
General revenues			
Property taxes	21,732,648	21,136,344	2.82%
Unrestricted state aid	7,394,359	8,463,982	-12.64%
Other	228,582	286,657	-20.26%
Total revenues	<u>37,470,324</u>	<u>36,341,394</u>	<u>3.11%</u>
Expenses			
Instruction	21,445,138	20,205,366	6.14%
Supporting services	8,561,402	9,363,438	-8.57%
Community services	11,874	9,403	26.28%
Food services	947,339	925,513	2.36%
Athletics	624,578	684,919	-8.81%
Interest on long-term debt	286,554	350,660	-18.28%
Unallocated depreciation	2,450,523	2,425,089	1.05%
Total expenses	<u>34,327,408</u>	<u>33,964,388</u>	<u>1.07%</u>
Change in net position	<u>3,142,916</u>	<u>2,377,006</u>	<u>32.22%</u>
Net position:			
Beginning of year	6,944,398	17,678,255	-60.72%
Restatement for implementation of GASB 75	<u>-</u>	<u>(13,110,863)</u>	<u>-100.00%</u>
End of year	<u>\$10,087,314</u>	<u>\$ 6,944,398</u>	<u>45.26%</u>

Of the District's total revenues available to operate the District, 2.08% or approximately \$778,000 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 19.58% or approximately \$7.3 million. Approximately \$7.34 million or 19.58% of the District's revenues come from operating grants. Operating grants increased approximately \$1.8 million primarily due to Enhancement Millage funding passed through the Charlevoix-Emmet Intermediate School District. Revenue from other sources comprised approximately .61% of the District's 2019 funding.

The State foundation allowance accounted for 19.73% or approximately \$7.39 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 decrease of 12.6% is mainly due to a decrease in reimbursements for prior year State aid adjustments related to the results of the 2018 tax tribunal.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Local property taxes, of approximately \$21.73 million or 58.00% of total revenue, supported the remaining portion of the governmental activities. Property tax revenue increased by 2.82% 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 \$2.01 million of the \$21.73 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 November 2018, and will expire on December 31, 2026.

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 \$363,000 or 1.07%. Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for approximately \$21.45 million or 62.47% of total expenses. Support services cost approximately \$8.6 million or 24.94% 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 \$3.14 million which is a 45.26% increase compared to 2018. Overall, revenue increased 3.11%, while expenses increased 1.07%. 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.

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 \$6.2 million, which is an increase of approximately \$1.39 million from the prior year. The General Fund reported a fund balance increase of approximately \$991,000 due to the receipt of funds from the recently passed ISD-wide enhancement millage, along with actual revenues and expenditures coming in better than anticipated. This millage generated approximately \$1.9 million, of which \$524,000 remained unspent but ear-marked for those activities which this millage supports. The Sinking Fund reported a fund balance increase of approximately \$88,000 due to the delay in a roofing project in the next fiscal year. The Debt Service Fund reported a fund balance increase of approximately \$241,000 due to increased taxes to offset a large tax rebate in the prior year which depleted the reserves below optimal levels.

Of the combined governmental fund balances, 9.7% or approximately \$603,000 constitutes unassigned fund balance, which is available for spending at the District's discretion. District management has assigned approximately \$3.04 million of fund balance to indicate planned uses of fund balance. Of the assigned fund balance, approximately \$98,000 has been set aside to recognize the fund balance accumulated by the efforts of the Athletic department and supporters, and approximately \$621,000 for capital projects. Management has assigned \$524,000 related to the Enhancement Millage and \$1.8 million as the minimum amount necessary to avoid borrowing for cash flow purposes. Just over \$2.4 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 \$1.72 million is earmarked for capital improvements and approximately \$585,000 is earmarked for payments on long-term debt and approximately \$125,000 is earmarked for food service. The remaining fund balance is non-spendable as it relates to inventory and prepaid items.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, assigned fund balance of the General Fund was approximately \$2.42 million, while total fund balance was approximately \$3.07 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 10.33% of annual expenditures, up from 6.96% in the prior year.

The fund balance of the District's General Fund increased by approximately \$991,000 during the current fiscal year. This increase is significantly more than the original budgeted increase of approximately \$264,000 and the final budgeted decrease of approximately \$120,000. As noted earlier, the main positive impact on the fund balance was approximately \$524,000 of the recently passed ISD-wide enhancement millage not being expended as expected in the current year. These funds will be carried over to the next fiscal year and expended on the activities supported by this important revenue source.

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 to actual amounts spent is as follows:

- 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, 2019, the District had invested approximately \$102 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, disposals, and transfers) of approximately \$964,000 or 1.54% 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 or purchase of computer equipment, the athletic stadium, a vehicle, and the high school track renovation. Construction-in-progress consists entirely of the construction of the Lincoln Elementary roofing project.

	Capital Assets (Net of Depreciation)	
	2019	2018
Land	\$ 3,384,351	\$ 3,384,351
Construction in progress	227,894	18,611,207
Buildings and improvements	54,946,236	38,081,522
Furniture and equipment	2,446,603	2,414,557
Total capital assets, net	<u>\$61,005,084</u>	<u>\$62,491,637</u>

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Debt Administration. At year-end, the District had approximately \$10.43 million in general obligation bonds and other long-term debt outstanding - a decrease of 29.69% 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	
	2019	2018
General obligation bonds and direct placement		
land contract	\$ 8,660,000	\$12,737,335
Other long-term debt	<u>1,769,229</u>	<u>2,095,647</u>
Total long-term debt	<u>\$10,429,229</u>	<u>\$14,832,982</u>

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. During fiscal 2019, the final payment on the contract was made.

Factors Bearing on the District's Future

We considered many factors when setting the District's 2019-2020 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 2019-2020, we assumed a reduction of thirty-three (33) students based on the predictions of an independent pupil enrollment statistician, and a \$180 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 2018-19, the District saw a foundation allowance of \$7,871, which was \$240 more and 3.2% higher than in 2017-2018. 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.

Demographic projections indicate that enrollment is likely to decrease over the next several years. This past year, a loss of 53 resident students was offset by the enrollment of 12 non-resident students under the District's Schools of Choice program. Schools of choice students comprise approximately 18% 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.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

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 Char-Em ISD's 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 received \$1.9 million this fiscal year from the Enhancement Millage, which 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. Modest budget cuts and increased revenue from the new enhancement millage in 2018-19 allowed the District to turn an expected loss of approximately \$181,000 into a net increase of approximately \$991,000.

Despite this infusion of funds, due to state-level budget challenges, the District anticipates a decrease in the General Fund fund balance for 2019-2020. We believe the 2019-2020 foundation allowance will increase by \$180 to \$8,051 and student enrollment will decline by 33 students. The level of uncertainty with this forecast is higher than normal, as Michigan had not passed a school aid budget prior to the required adoption of our District budget. At the time the District adopted the initial 2019-2020 budget, the state's proposal for foundation increases ranged from \$180 to \$240. The District chose the lower amount as being the safest and most conservative way to build its budget. While this results in a use of District reserves, management believes there will still remain between \$2.2 to \$2.5 million in reserves at the end of FY 2019-20. The District believes a fund balance of \$1.8 million, or 6.0% 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, 2019

Assets	
Cash and cash equivalents	\$ 3,174,084
Investments	4,648,674
Receivables	2,110,631
Prepays and other current assets	144,806
Capital assets not being depreciated	3,612,245
Capital assets being depreciated, net	<u>57,392,839</u>
Total assets	<u>71,083,279</u>
Deferred outflows of resources	
Deferred pension amounts	14,820,472
Deferred other postemployment benefit amounts	<u>2,214,603</u>
Total deferred outflows of resources	<u>17,035,075</u>
Liabilities	
Accounts payable and accrued liabilities	3,096,519
Unearned revenue	865,955
Long-term liabilities:	
Due within one year	2,896,371
Due in more than one year	7,532,858
Net pension liability (due in more than one year)	45,029,446
Net other postemployment benefit liability (due in more than one year)	<u>11,742,996</u>
Total liabilities	<u>71,164,145</u>
Deferred inflows of resources	
Deferred pension amounts	3,912,981
Deferred other postemployment benefit amounts	<u>2,953,914</u>
Total deferred inflows of resources	<u>6,866,895</u>
Net position	
Net investment in capital assets	51,236,612
Restricted for:	
Capital projects	1,717,413
Debt service	482,764
Food service	227,887
Unrestricted (deficit)	<u>(43,577,362)</u>
Total net position	<u><u>\$ 10,087,314</u></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, 2019

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction	\$ 21,445,138	\$ 119,872	\$ 6,653,349	\$ -	\$ (14,671,917)
Supporting services	8,561,402	29,831	90,240	-	(8,441,331)
Community services	11,874	-	-	-	(11,874)
Food services	947,339	478,207	531,722	-	62,590
Athletics	624,578	150,318	61,196	-	(413,064)
Interest on long-term debt	286,554	-	-	-	(286,554)
Unallocated depreciation	2,450,523	-	-	-	(2,450,523)
Total governmental activities	<u>\$ 34,327,408</u>	<u>\$ 778,228</u>	<u>\$ 7,336,507</u>	<u>\$ -</u>	<u>(26,212,673)</u>
General revenues					
Property taxes - operations					16,019,959
Property taxes - debt service					3,706,522
Property taxes - sinking fund					2,006,167
Unrestricted state aid					7,394,359
Unrestricted investment earnings					125,043
Other					<u>103,539</u>
Total general revenues					<u>29,355,589</u>
Change in net position					3,142,916
Net position, beginning of year					<u>6,944,398</u>
Net position, end of year					<u>\$ 10,087,314</u>

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, 2019

	General Fund	Sinking Fund	Debt Service Fund
Assets			
Cash and cash equivalents	\$ 148,422	\$ 1,723,005	\$ 528,756
Investments	4,582,961	5,421	56,410
Accounts receivable	130,796	-	-
Due from other funds	1,375	-	-
Due from other governments	1,935,460	-	-
Other assets	41,961	-	-
Total assets	\$ 6,840,975	\$ 1,728,426	\$ 585,166
Liabilities			
Accounts payable	\$ 430,668	\$ -	\$ -
Contracts payable	-	11,013	-
Salaries payable	1,594,665	-	-
Accrued liabilities	910,446	-	-
Due to other funds	-	-	-
Unearned revenue	838,630	-	-
Total liabilities	3,774,409	11,013	-
Fund balances			
Nonspendable:			
Inventory	28,763	-	-
Prepaid items	13,198	-	-
Restricted:			
Food service	-	-	-
Capital outlay	-	1,717,413	-
Debt service	-	-	585,166
Assigned:			
Athletics	97,544	-	-
Capital outlay	-	-	-
Future enhancement millage funded projects	524,266	-	-
Subsequent years' expenditures	1,800,000	-	-
Unassigned	602,795	-	-
Total fund balances	3,066,566	1,717,413	585,166
Total liabilities and fund balances	\$ 6,840,975	\$ 1,728,426	\$ 585,166

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



Nonmajor Governmental Funds	Total Governmental Funds
-----------------------------------	--------------------------------

\$ 773,901	\$ 3,174,084
3,882	4,648,674
30,418	161,214
14,280	15,655
13,957	1,949,417
102,845	144,806

<u>\$ 939,283</u>	<u>\$ 10,093,850</u>
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\$ 47,325	\$ 477,993
-	11,013
-	1,594,665
-	910,446
15,655	15,655
27,325	865,955

<u>90,305</u>	<u>3,875,727</u>
---------------	------------------

17,845	46,608
85,000	98,198

125,042	125,042
-	1,717,413
-	585,166

-	97,544
621,091	621,091
-	524,266
-	1,800,000
	602,795

<u>848,978</u>	<u>6,218,123</u>
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<u>\$ 939,283</u>	<u>\$ 10,093,850</u>
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PUBLIC SCHOOLS OF PETOSKEY

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2019

Fund balances - total governmental funds	\$ 6,218,123
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	3,612,245
Capital assets being depreciated, net	57,392,839
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds payable	(8,660,000)
Unamortized bond premiums, net	(1,108,472)
Accrued interest on bonds payable	(102,402)
Compensated absences payable	(660,757)
Certain pension and OPEB-related amounts, such as the net pension liability, 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	(45,029,446)
Deferred outflows of resources related to the net pension liability	14,820,472
Deferred inflows of resources related to the net pension liability	(3,912,981)
Net other postemployment benefit liability	(11,742,996)
Deferred outflows related to the net other postemployment benefit liability	2,214,603
Deferred inflows related to the net other postemployment benefit liability	(2,953,914)
Net position of governmental activities	<u>\$ 10,087,314</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, 2019

	General Fund	Sinking Fund	Debt Service Fund
Revenues			
Local sources:			
Property taxes	\$ 15,536,858	\$ 2,006,167	\$ 3,706,522
Payment in lieu of taxes	483,101	-	-
Contributions	61,196	-	-
Charges for services	119,872	-	-
Rent income	-	-	-
Interest	74,211	21,591	21,184
Athletics	150,318	-	-
Other income	103,539	-	-
State sources	10,473,886	-	-
Federal sources	389,660	-	-
Interdistrict sources	3,274,402	-	-
Total revenues	30,667,043	2,027,758	3,727,706
Expenditures			
Current:			
Instruction	20,578,775	-	-
Supporting services	9,085,963	-	-
Community services	11,615	-	-
Food services	-	-	-
Other	-	593	2,749
Debt service:			
Principal	-	-	4,077,335
Interest	-	-	493,027
Capital outlay:			
Buildings and additions	-	852,106	-
Total expenditures	29,676,353	852,699	4,573,111
Revenues over (under) expenditures	990,690	1,175,059	(845,405)
Other financing sources (uses)			
Transfers in	-	-	1,086,763
Transfers out	-	(1,086,763)	-
Total other financing sources (uses)	-	(1,086,763)	1,086,763
Net change in fund balances	990,690	88,296	241,358
Fund balances, beginning of year	2,075,876	1,629,117	343,808
Fund balances, end of year	\$ 3,066,566	\$ 1,717,413	\$ 585,166

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



Nonmajor Governmental Funds	Total Governmental Funds
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\$ -	\$ 21,249,547
-	483,101
-	61,196
478,207	598,079
29,831	29,831
8,057	125,043
-	150,318
-	103,539
56,125	10,530,011
475,597	865,257
-	3,274,402
<u>1,047,817</u>	<u>37,470,324</u>

-	20,578,775
3,235	9,089,198
-	11,615
944,288	944,288
-	3,342
-	4,077,335
-	493,027
<u>35,790</u>	<u>887,896</u>
<u>983,313</u>	<u>36,085,476</u>
<u>64,504</u>	<u>1,384,848</u>

14,280	1,101,043
<u>(14,280)</u>	<u>(1,101,043)</u>
-	-
64,504	1,384,848
<u>784,474</u>	<u>4,833,275</u>
<u>\$ 848,978</u>	<u>\$ 6,218,123</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, 2019

Net change in fund balances - total governmental funds	\$ 1,384,848
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In addition, donated capital assets and gains on disposal of capital assets are not reported in the governmental funds.

Capital assets purchased/constructed	963,970
Depreciation expense	(2,450,523)

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	4,077,335
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Amortization of bond premium	228,444
Change in net pension liability and related deferred amounts	(1,706,870)
Change in the net other postemployment benefit liability and related deferred amounts	569,710
Change in the accrual for compensated absences	97,974
Change in accrued interest payable on bonds	(21,972)

Change in net position of governmental activities	<u>\$ 3,142,916</u>
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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, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 16,458,609	\$ 16,523,108	\$ 16,529,095	\$ 5,987
State sources	10,767,723	10,445,701	10,473,886	28,185
Federal sources	514,965	573,603	389,660	(183,943)
Interdistrict sources	3,267,020	3,285,274	3,274,402	(10,872)
Total revenues	31,008,317	30,827,686	30,667,043	(160,643)
Expenditures				
Current:				
Instruction:				
Basic programs	15,806,721	15,923,199	15,535,372	(387,827)
Added needs	5,574,299	5,339,339	5,043,403	(295,936)
Supporting services:				
Pupil services	897,957	886,985	893,577	6,592
Instructional staff services	1,045,426	1,191,138	1,030,489	(160,649)
General administration	594,231	577,847	550,093	(27,754)
School administration	1,828,882	1,877,062	1,788,256	(88,806)
Business services	643,255	666,024	564,119	(101,905)
Operations and maintenance	2,354,136	2,391,307	2,235,521	(155,786)
Pupil transportation services	1,269,967	1,348,260	1,338,153	(10,107)
Security services	2,000	2,000	-	(2,000)
Staff/personnel services	99,318	88,767	82,580	(6,187)
Support services - other	611,026	624,847	603,175	(21,672)
Community services:				
Community activities	8,946	14,892	3,816	(11,076)
Non-public school pupils	7,797	16,182	7,799	(8,383)
Total expenditures	30,743,961	30,947,849	29,676,353	(1,271,496)
Net change in fund balance	264,356	(120,163)	990,690	1,110,853
Fund balance, beginning of year	2,075,876	2,075,876	2,075,876	-
Fund balance, end of year	\$ 2,340,232	\$ 1,955,713	\$ 3,066,566	\$ 1,110,853

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, 2019

Assets

Cash and cash equivalents	\$ 431,799
Investments	425,000
Receivables	<u>8,195</u>

Total assets	<u><u>\$ 864,994</u></u>
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Liabilities

Due to student groups	\$ 383,077
Scholarships payable	248,692
Due to others	<u>233,225</u>

Total liabilities	<u><u>\$ 864,994</u></u>
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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, 2019.

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 *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, 2019.

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/Receivables

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, 2019 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. The 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.

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. The budgets shown in the financial statements 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, 2019, the District incurred expenditures in excess of the amount appropriated in the following categories:

	Final Budget	Actual Expenditures	Unfavorable Variance
General Fund			
Pupil services	\$ 886,985	\$ 893,577	\$ 6,592

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, 2019:

	Totals
Statement of Net Position	
Cash and cash equivalents	\$ 3,174,084
Investments	4,648,674
Statement of Fiduciary Assets and Liabilities	
Agency funds	
Cash and cash equivalents	431,799
Investments	425,000
Total	<u>\$ 8,679,557</u>
Deposits and investments	
Bank deposits:	
Checking / savings accounts	\$ 3,605,153
Certificates of deposit:	
Maturing in less than one year	425,000
Investments	4,648,674
Cash on hand	730
Total	<u>\$ 8,679,557</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

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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, 2019, the District had the following investments:

	Maturity	Amortized Cost	Rating
Michigan Liquid Asset Fund	n/a	\$ 4,648,674	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 \$4,119,000 of the District's bank balance of approximately \$4,619,000 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.

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4. RECEIVABLES

Receivables as of June 30, 2019, are comprised of the following:

	Accounts Receivable	Due from Other Governments	Total
General Fund	\$ 130,796	\$ 1,935,460	\$ 2,066,256
Nonmajor Governmental Funds	30,418	13,957	44,375
	<u>\$ 161,214</u>	<u>\$ 1,949,417</u>	<u>\$ 2,110,631</u>

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2019, are comprised of the following:

	General Fund	Sinking Fund	Nonmajor Governmental Funds	Total
Fund financial statements:				
Accounts payable	\$ 430,668	\$ -	\$ 47,325	\$ 477,993
Construction contracts	-	11,013	-	11,013
Payroll and other related benefits	1,594,665	-	-	1,594,665
Other accrued liabilities	910,446	-	-	910,446
	<u>\$ 2,935,779</u>	<u>\$ 11,013</u>	<u>\$ 47,325</u>	<u>2,994,117</u>
District-wide financial statements:				
Accrued interest on bonds payable				<u>102,402</u>
Total accounts payable and accrued liabilities				<u>\$ 3,096,519</u>

6. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2019, was as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 1,375	\$ -
Nonmajor Governmental Funds	14,280	15,655
	<u>\$ 15,655</u>	<u>\$ 15,655</u>

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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, 2019, interfund transfers consisted of the following:

	Transfers in	Transfers out
Sinking Fund	\$ -	\$ 1,086,763
Debt Service Fund	1,086,763	-
Nonmajor Governmental Funds	14,280	14,280
	<u>\$ 1,101,043</u>	<u>\$ 1,101,043</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, 2019:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,384,351	\$ -	\$ -	\$ -	\$ 3,384,351
Construction-in-progress	18,611,207	419,780	-	(18,803,093)	227,894
	<u>21,995,558</u>	<u>419,780</u>	<u>-</u>	<u>(18,803,093)</u>	<u>3,612,245</u>
Capital assets, being depreciated:					
Buildings and improvements	70,252,849	22,010	-	18,803,093	89,077,952
Furniture and equipment	8,759,374	522,180	-	-	9,281,554
	<u>79,012,223</u>	<u>544,190</u>	<u>-</u>	<u>18,803,093</u>	<u>98,359,506</u>
Less accumulated depreciation for:					
Buildings and improvements	(32,171,327)	(1,960,389)	-	-	(34,131,716)
Furniture and equipment	(6,344,817)	(490,134)	-	-	(6,834,951)
	<u>(38,516,144)</u>	<u>(2,450,523)</u>	<u>-</u>	<u>-</u>	<u>(40,966,667)</u>
Total capital assets					
being depreciated, net	<u>40,496,079</u>	<u>(1,906,333)</u>	<u>-</u>	<u>18,803,093</u>	<u>57,392,839</u>
Governmental activities					
capital assets, net	<u>\$ 62,491,637</u>	<u>\$ (1,486,553)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,005,084</u>

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8. LONG-TERM DEBT

Long-term debt of the District consists of the following at June 30, 2019:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Installment debt					
General obligation bonds	\$ 12,710,000	\$ -	\$ (4,050,000)	\$ 8,660,000	\$ 2,530,000
Direct placement - land contract	27,335	-	(27,335)	-	-
Total installment debt	12,737,335	-	(4,077,335)	8,660,000	2,530,000
Other long-term liabilities					
Premium on bonds	1,336,916	-	(228,444)	1,108,472	228,445
Compensated absences	758,731	211,518	(309,492)	660,757	137,926
Total other long-term liabilities	2,095,647	211,518	(537,936)	1,769,229	366,371
Total long-term liabilities	<u>\$ 14,832,982</u>	<u>\$ 211,518</u>	<u>\$ (4,615,271)</u>	<u>\$ 10,429,229</u>	<u>\$ 2,896,371</u>

Long-term debt at June 30, 2019, includes the following:

General obligation bonds

2012 technology bonds due in a final annual installment of \$1,225,000 plus interest of 2.00%; final payment due May 2020.

\$ 1,225,000

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.

7,435,000

Premium on bonds

1,108,472

Total general obligation bonds

9,768,472

Other long-term liabilities

Compensated absences

660,757

Total long-term debt

\$ 10,429,229

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Debt service requirements on installment debt

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

Year Ended June 30,	Principal	Interest	Total
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	1,625,000	35,750	1,660,750
Total	<u>\$ 8,660,000</u>	<u>\$ 951,000</u>	<u>\$ 9,611,000</u>

Interest expense charged to governmental activities in fiscal 2019 was \$286,554.

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, 2019, 22 retirees elected to receive or were eligible to begin receiving the senior teacher incentive, with \$87,000 being paid to these individuals during 2019. The total early retirement senior teacher incentive was \$77,000 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.

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.

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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 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.

Participants in the defined contribution plan consist of one of the following: (1) members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan; (2) members who elected to transfer from the defined benefit plan to the defined contribution plan under the reform (P.A. 300) of 2012; or (3) members who worked for a Michigan public school on or after February 1, 2018 and did not elect participation in the Pension Plus 2 plan. Members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan receive a 100% match of the member contribution rate up to a maximum of 3% based on the member's gross earnings. Additionally, there is a mandatory employer contribution of 4% of the member's gross earnings for MPSERS members who elected to convert from a Basic or MIP benefit plan to the defined contribution benefit plan. Members electing the Pension Plus or Pension Plus 2 benefit plan receive a 50% match of the member's contribution percent up to a maximum of 1% based on the member's gross earnings. Effective October 1, 2017, there is a mandatory employer contribution of 4% of the member's gross earnings for members who elect the Defined Contribution benefit plan. The employer must match 100% of the employee contribution for any member who elected the Personal Healthcare Fund up to a maximum of 2% of the member's gross earnings. For all members with a Personal Health Care Fund (PHF), the first 2% of DC contributions must go into the PHF and must be matched 100% by the employer.

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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

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, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

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Notes To Financial Statements

The table below summarizes pension contribution rates in effect for fiscal year 2019:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	17.89% - 18.25%
Member Investment Plan (MIP)	3.00% - 7.00%	17.89% - 18.25%
Pension Plus	3.00% - 6.40%	16.46% - 16.61%
Pension Plus 2	6.20%	19.59% - 19.74%
Defined Contribution	0.00%	13.39% - 13.54%

For the year ended June 30, 2019, required and actual contributions from the District to the pension plan were \$4,078,544, which included \$1,628,284, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

The table below summarizes OPEB contribution rates in effect for fiscal year 2019:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	7.67% - 7.93%
Personal Healthcare Fund (PHF)	0.00%	7.42% - 7.57%

For the year ended June 30, 2019, required and actual contributions from the District to the OPEB plan were \$1,070,163.

The table below summarizes defined contribution rates in effect for fiscal year 2019:

Benefit Structure	Member Rates	Employer Rates
Defined Contribution	0.00% - 3.00%	0.00% - 7.00%
Personal Healthcare Fund (PHF)	0.00% - 2.00%	0.00% - 2.00%

For the year ended June 30, 2019, required and actual contributions from the District for those members with a defined contribution benefit were \$67,530.

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

At June 30, 2019, the District reported a liability of \$45,029,446 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2017. 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, 2018, the District's proportion was 0.14979%, which was a decrease of 0.00230% from its proportion measured as of September 30, 2017.

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For the year ended June 30, 2019, the District recognized pension expense of \$5,795,567. At June 30, 2019, 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	\$ 208,945	\$ 327,221	\$ (118,276)
Changes in assumptions	10,428,783	-	10,428,783
Net difference between projected and actual earnings on pension plan investments	-	3,078,869	(3,078,869)
Changes in proportion and differences between employer contributions and proportionate share of contributions	340,612	506,891	(166,279)
	<u>10,978,340</u>	<u>3,912,981</u>	<u>7,065,359</u>
District contributions subsequent to the measurement date	3,842,132	-	3,842,132
Total	<u>\$ 14,820,472</u>	<u>\$ 3,912,981</u>	<u>\$ 10,907,491</u>

The \$3,842,132 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, 2020. 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
2020	\$ 3,038,159
2021	2,102,579
2022	1,383,681
2023	<u>540,940</u>
Total	<u>\$ 7,065,359</u>

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

At June 30, 2019, the District reported a liability of \$11,742,996 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2017. 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, 2018, the District's proportion was 0.14773% which was a decrease of 0.00419% from its proportion measured as of September 30, 2017.

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For the year ended June 30, 2019, the District recognized OPEB expense of \$505,093. At June 30, 2019, 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	\$ -	\$ 2,185,673	\$ (2,185,673)
Changes in assumptions	1,243,589	-	1,243,589
Net difference between projected and actual earnings on OPEB plan investments	-	451,311	(451,311)
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,570	316,930	(314,360)
	<u>1,246,159</u>	<u>2,953,914</u>	<u>(1,707,755)</u>
District contributions subsequent to the measurement date	968,444	-	968,444
Total	<u>\$ 2,214,603</u>	<u>\$ 2,953,914</u>	<u>\$ (739,311)</u>

The \$968,444 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, 2020. 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
2020	\$ (412,243)
2021	(412,243)
2022	(412,243)
2023	(320,520)
2024	<u>(150,506)</u>
Total	<u>\$ (1,707,755)</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 and OPEB liabilities in the September 30, 2017 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	7.05%
Pension Plus plan (hybrid)	7.00%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	7.15%
Projected salary increases	2.75% - 11.55%, including wage inflation at 2.75%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.5% Year 1 graded to 3.0% Year 12
Mortality	RP-2014 Male and Female Healthy Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and 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 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.5304 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.6018 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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Long-Term Expected Return on Pension Plan Assets

The long-term expected rate of return on pension 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 pension plan's target asset allocation as of September 30, 2018, 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%	5.70%	1.60%
Alternative investment pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.50%	0.05%
Real estate and infrastructure pools	10.00%	3.90%	0.39%
Absolute return pools	15.50%	5.20%	0.81%
Short-term investment pools	2.00%	0.00%	0.00%
	<u>100.00%</u>		5.66%
Inflation			2.30%
Risk adjustment			<u>-0.91%</u>
Investment rate of return			<u>7.05%</u>

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Long-term Expected Return on OPEB Plan Assets

The long-term expected rate of return on OPEB 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 OPEB 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 OPEB plan's target asset allocation as of September 30, 2018, 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%	5.70%	1.60%
Private equity pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.50%	0.05%
Real estate and infrastructure pools	10.00%	3.90%	0.39%
Absolute return pools	15.50%	5.20%	0.81%
Short-term investment pools	2.00%	0.00%	0.00%
	<u>100.00%</u>		5.66%
Inflation			2.30%
Risk adjustment			<u>-0.81%</u>
Investment rate of return			<u>7.15%</u>

Discount Rate

A discount rate of 7.05% was used to measure the total pension liability (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 7.15% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 7.05% (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan) and 7.15%, respectively. The projection of cash flows used to determine these discount rates 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 7.05% (7.00% for the Pension Plus plan and 6.00% for the Pension Plus 2 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 (6.05%/6.00%/5.00%)	Current Discount Rate (7.05%/7.00%/6.00%)	1% Increase (8.05%/8.00%/7.00%)
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District's proportionate share of the net pension liability	\$ 59,120,185	\$ 45,029,446	\$ 33,322,333
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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 7.15%, 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 (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
------------------------	-------------------------------------	------------------------

District's proportionate share of the net OPEB liability	\$ 14,097,228	\$ 11,742,996	\$ 9,762,799
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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	\$ 9,658,485	\$ 11,742,996	\$ 14,134,356
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PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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.

Payable to the Pension Plan

At June 30, 2019, the District reported a payable of \$587,211 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2019.

Payable to the OPEB Plan

At June 30, 2019, the District reported a payable of \$126,457 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2019.

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 34% of the District's general fund revenue during the 2019 fiscal year.

12. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2019, was as follows:

	Governmental Activities
Capital assets:	
Capital assets not being depreciated	\$ 3,612,245
Capital assets being depreciated, net	57,392,839
Total capital assets	<u>61,005,084</u>
Related debt:	
General obligation bonds	8,660,000
Unamortized bond premiums	1,108,472
Total related debt	<u>9,768,472</u>
Net investment in capital assets	<u>\$ 51,236,612</u>

13. COMMITMENTS AND CONTINGENCIES

On September 20, 2018, the District entered into a contract to replace the roof at Lincoln Elementary School. The total project cost is \$320,070. The amount remaining to be paid, at June 30, 2019, is \$110,154.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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, 2019.

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.

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REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC SCHOOLS OF PETOSKEY

Required Supplementary Information

MPERS Cost-Sharing Multiple-Employer Plan

Pension Required Supplementary Information

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

	Year Ended June 30,				
	2015	2016	2017	2018	2019
District's proportionate share of the net pension liability	\$32,093,122	\$36,634,250	\$ 37,890,839	\$ 39,412,671	\$ 45,029,446
District's proportion of the net pension liability	0.14570%	0.14999%	0.15187%	0.15209%	0.14979%
District's covered payroll	\$12,742,819	\$12,460,245	\$ 12,848,982	\$ 12,681,026	\$ 12,548,276
District's proportionate share of the net pension liability as a percentage of its covered payroll	251.85%	294.01%	294.89%	310.80%	358.85%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%	63.27%	64.21%	62.36%

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 Pension Contributions

	Year Ended June 30,				
	2015	2016	2017	2018	2019
Statutorily required contributions	\$ 3,024,425	\$ 3,375,387	\$ 3,555,982	\$ 3,852,705	\$ 4,078,544
Contributions in relation to the statutorily required contributions	<u>(3,024,425)</u>	<u>(3,375,387)</u>	<u>(3,555,982)</u>	<u>(3,852,705)</u>	<u>(4,078,544)</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 12,850,648	\$ 12,337,346	\$ 12,296,962	\$ 14,205,094	\$ 13,725,034
Contributions as a percentage of covered payroll	23.54%	27.36%	28.92%	27.12%	29.72%

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

OPEB Required Supplementary Information

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

	Year Ended June 30,	
	2018	2019
District's proportion of the net OPEB liability	\$ 13,453,044	\$ 11,742,996
District's proportionate share of the net OPEB liability	0.15192%	0.14773%
District's covered payroll	\$ 12,681,026	\$ 12,548,276
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	106.09%	93.58%
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%	42.95%

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

MPERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30,	
	2018	2019
Statutorily required contributions	\$ 954,956	\$ 1,070,163
Contributions in relation to the statutorily required contributions	<u>(954,956)</u>	<u>(1,070,163)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 14,205,094	\$ 13,725,034
Contributions as a percentage of covered payroll	6.72%	7.80%

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

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

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2019

	Special Revenue Fund	Capital Project Funds		
	Food Service	Building and Site	Athletic Complex	Total
Assets				
Cash and cash equivalents	\$ 136,492	\$ 636,746	\$ 663	\$ 773,901
Investments	-	-	3,882	3,882
Accounts receivable	30,418	-	-	30,418
Due from other funds	-	-	14,280	14,280
Due from other governmental units	13,957	-	-	13,957
Other assets	102,845	-	-	102,845
Total assets	\$ 283,712	\$ 636,746	\$ 18,825	\$ 939,283
Liabilities				
Accounts payable	\$ 28,500	\$ -	\$ 18,825	\$ 47,325
Due to other funds	-	15,655	-	15,655
Unearned revenue	27,325	-	-	27,325
Total liabilities	55,825	15,655	18,825	90,305
Fund balances				
Nonspendable:				
Inventory	17,845	-	-	17,845
Prepaid items	85,000	-	-	85,000
Restricted:				
Food service	125,042	-	-	125,042
Assigned:				
Capital outlay	-	621,091	-	621,091
Total fund balances	227,887	621,091	-	848,978
Total liabilities and fund balances	\$ 283,712	\$ 636,746	\$ 18,825	\$ 939,283

PUBLIC SCHOOLS OF PETOSKEY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2019

	Special Revenue Fund	Capital Project Funds		
	Food Service	Building and Site	Athletic Complex	Total
Revenues				
Local sources:				
Charges for services	\$ 478,207	\$ -	\$ -	\$ 478,207
Rent income	-	29,831	-	29,831
Interest	1,462	6,289	306	8,057
State sources	56,125	-	-	56,125
Federal sources	475,597	-	-	475,597
Total revenues	1,011,391	36,120	306	1,047,817
Expenditures				
Current:				
Food services	944,288	-	-	944,288
Other	-	3,235	-	3,235
Capital outlay	-	15,296	20,494	35,790
Total expenditures	944,288	18,531	20,494	983,313
Revenues over expenditures	67,103	17,589	(20,188)	64,504
Other financing sources (uses)				
Transfers in	-	-	14,280	14,280
Transfers out	-	(14,280)	-	(14,280)
Total other financing sources (uses)	-	(14,280)	14,280	-
Net change in fund balances	67,103	3,309	(5,908)	64,504
Fund balances, beginning of year	160,784	617,782	5,908	784,474
Fund balances, end of year	\$ 227,887	\$ 621,091	\$ -	\$ 848,978

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

General Fund

June 30, 2019

(With Comparative Totals as of June 30, 2018)

	2019	2018
Assets		
Cash and cash equivalents	\$ 148,422	\$ 447,515
Investments	4,582,961	3,127,459
Accounts receivable	130,796	29,832
Due from other funds	1,375	-
Due from other governments	1,935,460	2,209,551
Other assets	41,961	20,898
Total assets	\$ 6,840,975	\$ 5,835,255
Liabilities		
Accounts payable	\$ 430,668	\$ 345,794
Salaries payable	1,594,665	1,545,630
Accrued liabilities	910,446	888,059
Unearned revenue	838,630	979,896
Total liabilities	3,774,409	3,759,379
Fund balances		
Nonspendable:		
Inventory	28,763	8,140
Prepaid items	13,198	12,758
Assigned:		
Athletics	97,544	118,907
Future enhancement millage funded projects	524,266	-
Subsequent years' expenditures	1,800,000	1,600,000
Unassigned	602,795	336,071
Total fund balances	3,066,566	2,075,876
Total liabilities and fund balances	\$ 6,840,975	\$ 5,835,255

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Revenues

General Fund

For the Year Ended June 30, 2019

(With Comparative Totals For the Year Ended June 30, 2018)

	2019	2018
Revenues		
Local Sources		
Property taxes	\$ 15,536,858	\$ 15,310,130
Payment in lieu of taxes	483,101	483,846
Charges for services	119,872	186,019
Interest	74,211	48,001
Athletics	150,318	234,384
Contributions - Athletics	61,196	72,000
Other income	103,539	133,664
Total local sources	16,529,095	16,468,044
State sources		
State aid - foundation allowance:		
Discretionary payment	6,210,913	6,161,446
Prior year adjustments	165,509	1,293,483
Special education Headlee obligation	924,522	879,356
State aid - other unrestricted grants:		
Early literacy	37,450	37,170
Dual enrollment	11,280	-
Computer adaptive tests 104d	18,243	11,761
State aid - restricted grants:		
At-risk	1,031,045	830,706
Pupil support	23,680	23,222
MPSERS cost offset	1,958,242	2,131,331
CTE additional payments	14,125	-
MI STEM	-	60,185
Data collection	71,997	72,370
Artists in residence	6,880	9,120
First robotics	-	4,950
Total state sources	10,473,886	11,515,100
Federal sources		
Title I	265,144	349,364
Title II	89,042	71,545
Title IVA	8,186	5,503
Title VII	25,760	-
Title IX	-	40,892
Other	1,528	3,030
Total federal sources	389,660	470,334
Interdistrict sources		
Enhancement - millage	1,892,371	-
Vocational education - millage	468,278	470,334
Vocational education - added cost	126,986	140,125
Expense reimbursements	786,767	794,820
Total interdistrict sources	3,274,402	1,405,279
Total revenues	\$ 30,667,043	\$ 29,858,757

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2019

(With Comparative Totals For the Year Ended June 30, 2018)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
Instruction					
Basic programs					
Elementary	\$ 3,862,819	\$ 2,703,873	\$ 137,498	\$ 94,034	\$ -
Middle school	2,226,752	1,622,480	67,791	50,156	-
High school	2,490,936	1,764,224	473,729	41,080	-
Total basic programs	8,580,507	6,090,577	679,018	185,270	-
Added needs					
Special education	1,389,598	955,787	441,805	5,087	-
Compensatory education	175,250	134,321	450,259	41,830	-
Vocational education	574,331	428,213	172,477	254,079	20,366
Total added needs	2,139,179	1,518,321	1,064,541	300,996	20,366
Total instruction	10,719,686	7,608,898	1,743,559	486,266	20,366
Supporting services					
Pupil services					
Guidance services	375,272	290,185	-	500	-
Health services	-	-	179,031	-	-
Other	20,242	8,500	19,847	-	-
Total pupil services	395,514	298,685	198,878	500	-
Instructional staff services					
Improvement of instruction	185,728	112,546	47,062	6,336	-
Library	52,649	61,093	67,561	29,013	-
Technology assisted instruction	115,846	90,445	890	1,034	-
Supervision	115,005	117,125	3,699	3,442	-
Academic student assessment	-	-	-	21,015	-
Total instructional staff services	469,228	381,209	119,212	60,840	-



Total	
2019	2018
\$ 6,798,224	\$ 6,793,397
3,967,179	3,821,123
<u>4,769,969</u>	<u>4,547,413</u>
<u>15,535,372</u>	<u>15,161,933</u>
2,792,277	2,757,481
801,660	719,257
<u>1,449,466</u>	<u>1,388,950</u>
<u>5,043,403</u>	<u>4,865,688</u>
<u>20,578,775</u>	<u>20,027,621</u>
665,957	537,952
179,031	162,784
<u>48,589</u>	<u>49,624</u>
<u>893,577</u>	<u>750,360</u>
351,672	373,250
210,316	210,091
208,215	200,297
239,271	190,927
<u>21,015</u>	<u>29,885</u>
<u>1,030,489</u>	<u>1,004,450</u>

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2019

(With Comparative Totals For the Year Ended June 30, 2018)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
General administration					
Board of education	\$ -	\$ -	\$ 60,115	\$ 4,030	\$ -
Executive administration	194,312	188,027	96,801	6,808	-
Total general administration	194,312	188,027	156,916	10,838	-
School administration					
Office of the principal	1,008,453	726,054	23,545	24,200	-
Other school administration	-	-	-	6,004	-
Total school administration	1,008,453	726,054	23,545	30,204	-
Business services					
Fiscal services	274,733	200,068	18,886	3,810	-
Other business services	-	-	-	66,622	-
Total business services	274,733	200,068	18,886	70,432	-
Operations and maintenance	299,741	229,616	982,064	678,452	45,648
Transportation	-	-	1,338,153	-	-
Security services	-	-	-	-	-
Staff/personnel services	39,742	38,757	4,081	-	-
Athletic activities	234,404	115,545	155,551	97,675	-
Total supporting services	2,916,127	2,177,961	2,997,286	948,941	45,648
Community services					
Community services direction	1,440	987	-	1,389	-
Non-public school pupils	4,874	923	2,002	-	-
Total community services	6,314	1,910	2,002	1,389	-
Total expenditures	\$ 13,642,127	\$ 9,788,769	\$ 4,742,847	\$ 1,436,596	\$ 66,014

Total	
2019	2018

\$	64,145	\$	53,114
	485,948		425,421

	550,093		478,535
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	1,782,252		1,746,708
	6,004		7,523

	1,788,256		1,754,231
--	-----------	--	-----------

	497,497		464,897
	66,622		1,218,924

	564,119		1,683,821
--	---------	--	-----------

	2,235,521		2,160,187
--	-----------	--	-----------

	1,338,153		1,296,106
--	-----------	--	-----------

	-		1,618
--	---	--	-------

	82,580		81,569
--	--------	--	--------

	603,175		575,441
--	---------	--	---------

	9,085,963		9,786,318
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	3,816		445
	7,799		8,946

	11,615		9,391
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\$	29,676,353	\$	29,823,330
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Concluded

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

Food Service Special Revenue Fund

June 30, 2019

(With Comparative Totals as of June 30, 2018)

	2019	2018
Assets		
Cash and cash equivalents	\$ 136,492	\$ 71,294
Accounts receivable	30,418	26,244
Due from other governmental units	13,957	15,251
Other assets	102,845	97,575
Total assets	<u>\$ 283,712</u>	<u>\$ 210,364</u>
Liabilities		
Accounts payable	\$ 28,500	\$ 25,507
Unearned revenue	27,325	24,073
Total liabilities	<u>55,825</u>	<u>49,580</u>
Fund balances		
Nonspendable - inventory	17,845	12,575
Nonspendable - prepaid items	85,000	85,000
Restricted - food service	125,042	63,209
Total fund balances	<u>227,887</u>	<u>160,784</u>
Total liabilities and fund balances	<u>\$ 283,712</u>	<u>\$ 210,364</u>

PUBLIC SCHOOLS OF PETOSKEY

Statement of Revenues, Expenditures and Change in Fund Balance

Food Service Special Revenue Fund

For the Year Ended June 30, 2019

(With Comparative Totals For the Year Ended June 30, 2018)

	2019	2018
Revenues		
Local sources:		
Charges for services:		
Lunch sales	\$ 184,789	\$ 171,733
Breakfast sales	7,860	7,723
Ala carte and other sales	285,558	269,755
Interest	1,462	64
State sources	56,125	53,653
Federal sources	475,597	448,956
Total revenues	<u>1,011,391</u>	<u>951,884</u>
Expenditures		
Current:		
Food services:		
Salaries	40,232	40,208
Employee benefits	34,335	34,473
Purchased services	387,597	380,397
Supplies, materials and other expenditures	67,661	68,807
Food costs	414,463	401,206
Total expenditures	<u>944,288</u>	<u>925,091</u>
Net change in fund balance	67,103	26,793
Fund balance, beginning of year	<u>160,784</u>	<u>133,991</u>
Fund balance, end of year	<u>\$ 227,887</u>	<u>\$ 160,784</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Schedule

Capital Projects Funds

June 30, 2019

(With Comparative Totals as of June 30, 2018)

	Sinking Fund	Building and Site Fund	Athletic Complex Fund
Assets			
Cash and cash equivalents	\$ 1,723,005	\$ 636,746	\$ 663
Investments	5,421	-	3,882
Accounts receivable	-	-	-
Due from other funds	-	-	14,280
Other assets	-	-	-
Total assets	<u>\$ 1,728,426</u>	<u>\$ 636,746</u>	<u>\$ 18,825</u>
Liabilities			
Due to other funds	\$ -	\$ 15,655	\$ -
Contracts payable	11,013	-	18,825
Total liabilities	<u>11,013</u>	<u>15,655</u>	<u>18,825</u>
Fund balances			
Restricted - capital outlay	1,717,413	-	-
Assigned - capital outlay	-	621,091	-
Total fund balances	<u>1,717,413</u>	<u>621,091</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,728,426</u>	<u>\$ 636,746</u>	<u>\$ 18,825</u>



Total	
2019	2018
\$ 2,360,414	\$ 2,294,061
9,303	80,947
-	980
14,280	19,085
-	11,325
<u>\$ 2,383,997</u>	<u>\$ 2,406,398</u>
\$ 15,655	\$ -
29,838	153,591
<u>45,493</u>	<u>153,591</u>
1,717,413	1,635,025
621,091	617,782
<u>2,338,504</u>	<u>2,252,807</u>
<u>\$ 2,383,997</u>	<u>\$ 2,406,398</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

Capital Projects Funds

For the Year Ended June 30, 2019

(With Comparative Totals For the Year Ended June 30, 2018)

	Sinking Fund	Building and Site Fund	Athletic Complex Fund
Revenues			
Property taxes	\$ 2,006,167	\$ -	\$ -
Rent income	-	29,831	-
Contributions	-	-	-
Interest	21,591	6,289	306
Total revenues	2,027,758	36,120	306
Expenditures			
Other	593	3,235	-
Capital outlay	852,106	15,296	20,494
Total expenditures	852,699	18,531	20,494
Revenues over (under) expenditures	1,175,059	17,589	(20,188)
Other financing sources (uses)			
Transfers in	-	-	14,280
Transfers out	(1,086,763)	(14,280)	-
Total other financing sources (uses)	(1,086,763)	(14,280)	14,280
Net change in fund balances	88,296	3,309	(5,908)
Fund balances, beginning of year	1,629,117	617,782	5,908
Fund balances, end of year	\$ 1,717,413	\$ 621,091	\$ -



Total	
2019	2018
\$ 2,006,167	\$ 1,944,307
29,831	55,457
-	28,000
<u>28,186</u>	<u>9,162</u>
<u>2,064,184</u>	<u>2,036,926</u>
3,828	92,646
<u>887,896</u>	<u>289,377</u>
<u>891,724</u>	<u>382,023</u>
<u>1,172,460</u>	<u>1,654,903</u>
14,280	-
<u>(1,101,043)</u>	<u>(1,091,512)</u>
<u>(1,086,763)</u>	<u>(1,091,512)</u>
85,697	563,391
<u>2,252,807</u>	<u>1,689,416</u>
<u>\$ 2,338,504</u>	<u>\$ 2,252,807</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Schedule

Debt Service Fund

June 30, 2019

(With Comparative Totals as of June 30, 2018)

	Foster Land Contract	2012 Technology Bonds	2015 Refunding Bonds	2016 Building & Site Bonds
Assets				
Cash and cash equivalents	\$ -	\$ 218,609	\$ 310,147	\$ -
Investments	-	-	56,410	-
Total assets	<u>\$ -</u>	<u>\$ 218,609</u>	<u>\$ 366,557</u>	<u>\$ -</u>
Liabilities				
Due to other funds	\$ -	-	-	-
Fund balances				
Restricted	-	218,609	366,557	-
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 218,609</u>	<u>\$ 366,557</u>	<u>\$ -</u>

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

Total	
2019	2018

\$	528,756	\$	307,746
	56,410		55,147
<hr/>		<hr/>	

\$	585,166	\$	362,893
<hr/>		<hr/>	

\$	-	\$	19,085
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	585,166		343,808
<hr/>		<hr/>	

\$	585,166	\$	362,893
<hr/>		<hr/>	

PUBLIC SCHOOLS OF PETOSKEY

Combining Schedule of Debt Service Activities and Change in Fund Balance

Debt Service Fund

For the Year Ended June 30, 2019

(With Comparative Totals For the Year Ended June 30, 2018)

	Foster Land Contract	2012 Technology Bonds	2015 Refunding Bonds	2016 Building & Site Bonds
Revenues				
Local sources:				
Property taxes	\$ -	\$ 854,390	\$ 2,852,132	\$ -
Interest income	-	-	21,184	-
Total revenues	-	854,390	2,873,316	-
Expenditures				
Other	-	547	1,701	501
Debt service:				
Principal	27,335	730,000	2,275,000	1,045,000
Interest	342	39,100	440,000	13,585
Total expenditures	27,677	769,647	2,716,701	1,059,086
Revenues over (under) expenditures	(27,677)	84,743	156,615	(1,059,086)
Other financing sources (uses)				
Transfers in	27,677	-	-	1,059,086
Net change in fund balance	-	84,743	156,615	-
Fund balance, beginning of year	-	133,866	209,942	-
Fund balance, end of year	\$ -	\$ 218,609	\$ 366,557	\$ -

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

Total	
2019	2018

\$ 3,706,522	\$ 3,398,061
21,184	9,673

<u>3,727,706</u>	<u>3,407,734</u>
------------------	------------------

2,749	154,465
-------	---------

4,077,335	3,943,332
<u>493,027</u>	<u>632,080</u>

<u>4,573,111</u>	<u>4,729,877</u>
------------------	------------------

(845,405)	(1,322,143)
-----------	-------------

<u>1,086,763</u>	<u>1,091,512</u>
------------------	------------------

241,358	(230,631)
---------	-----------

<u>343,808</u>	<u>574,439</u>
----------------	----------------

<u>\$ 585,166</u>	<u>\$ 343,808</u>
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PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2019

	Balances July 1, 2018	Receipts	Disbursements	Balances June 30, 2019
Assets				
Cash	\$ 312,982	\$ 1,154,490	\$ 1,035,673	\$ 431,799
Investments	425,000	-	-	425,000
Accounts receivable	14,243	-	6,048	8,195
Total assets	\$ 752,225	\$ 1,154,490	\$ 1,041,721	\$ 864,994
Liabilities				
Due to student groups	\$ 404,609	\$ 778,025	\$ 799,557	\$ 383,077
Scholarships payable	244,607	4,677	592	248,692
Due to others	103,009	371,788	241,572	233,225
Total liabilities	\$ 752,225	\$ 1,154,490	\$ 1,041,721	\$ 864,994
The balances consist of the following:				
Deposits due to student groups				
Central Elementary				
Central 3rd Grade	\$ 44	\$ -	\$ -	\$ 44
Central School Fund	29	1,827	1,825	31
Central School Store	56	-	-	56
Central VanSlot STEAM	2,951	4,000	1,574	5,377
Central scholarship fund	628	-	-	628
Central book fair	53	3,601	3,598	56
Lincoln Elementary				
Lincoln School Fund	5,608	2,330	1,038	6,900
Lincoln Student Council	1,183	125	546	762
Ottawa Elementary				
Ottawa 4th Grade Field Trip	485	-	149	336
Ottawa 5th Grade Field Trip	9,520	13,232	13,009	9,743
Ottawa Field Trip Fund	883	4,224	3,632	1,475
Ottawa instructional supplies	8,300	3,199	2,879	8,620
Ottawa Learning Center	90	-	90	-
Ottawa Garden Club	3,480	-	346	3,134
Ottawa Popcorn Sales	4,553	1,442	1,397	4,598
Ottawa School Fund	3,365	13,550	14,832	2,083
Ottawa Kindergarten	103	-	-	103
Sheridan Elementary				
Sheridan 3rd Grade	748	3,374	3,623	499
Sheridan 4th Grade	1,919	976	775	2,120
Sheridan 5th Grade	1,380	1,424	1,516	1,288
Sheridan Garden Fund	109	-	-	109
Sheridan School	650	8,234	8,121	763
Sheridan Student Council	418	2,446	1,256	1,608
Sheridan PTO	7,732	14,173	15,370	6,535
Sheridan PTO - Supplies	-	1,200	789	411
Sheridan PTO - Field Trips	-	2,808	2,808	-
Petoskey Middle School				
6th Grade Club	828	31,746	30,958	1,616
7th Grade Club	10,358	9,650	7,275	12,733
8th Grade Club	13,340	12,431	15,558	10,213
Builder's Club	574	361	832	103

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2019

	Balances July 1, 2018	Receipts	Disbursements	Balances June 30, 2019
Petoskey Middle School (continued)				
Middle School Adventure Education	\$ 164	\$ -	\$ 108	\$ 56
Middle School Art Club	876	850	833	893
Middle School Enrichment	3,233	100	623	2,710
Middle School Celebration Garden	216	-	-	216
Middle School Ecology Club	935	1,310	1,620	625
Middle School Fall Play	3,476	4,382	5,029	2,829
Middle School Photo Club	104	-	-	104
Middle School Student Council	1,912	1,309	2,292	929
Middle School Student Special needs	6,993	-	-	6,993
Middle School Yearbook	3,326	6,439	6,309	3,456
Middle School Greenhouse	73	-	-	73
Middle School Washington DC Trip	3,721	4,176	3,744	4,153
Middle School Wood Shop	3,348	2,325	3,065	2,608
Middle School Youth In Government	3,625	9,090	9,697	3,018
Middle School Fund	16,800	1,595	1,400	16,995
Middle School Store	1,230	3,880	4,823	287
Middle School Science Club Fund	516	225	234	507
Middle School Box Tops for Education	1,676	412	45	2,043
Middle School Student Caring Fund	500	-	-	500
Middle School Special Caring Fund	284	267	286	265
Middle School Vocal	1,021	-	496	525
Middle School Weight Room Improvements	117	-	-	117
Petoskey Middle School Athletics				
Middle School Dance	53	188	240	1
Middle School Athletics	15	-	-	15
Middle School Football	1,213	1,082	519	1,776
Middle School Track	3,882	9,682	11,010	2,554
Middle School Volleyball	3,247	1,345	1,923	2,669
Middle School Boys Basketball	1,290	633	43	1,880
Middle School Girls Basketball	1,012	384	113	1,283
Middle School Cheer	-	5,225	5,057	168
Middle School Downhill Ski/Snowboard Club	-	1,995	1,765	230
Petoskey High School				
Auto Shop Tool Fund	206	500	703	3
Building Trades Fund	3,004	4,529	4,065	3,468
Business Club	439	-	181	258
Blue Crew	517	-	-	517
Class of 2018	1,816	-	250	1,566
Class of 2019	2,784	52	-	2,836
Class of 2020	958	6,411	3,673	3,696
Class of 2021	1,955	-	550	1,405
DECA	12,282	72,585	73,379	11,488
Debate Club	5,056	414	5,470	-
Diversity Club	741	250	201	790
Drafting	-	15,617	11,989	3,628
Forensics	5	100	-	105
French Club	417	542	858	101
Future Farmers of America	1,832	5,696	3,456	4,072
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, 2019

	Balances July 1, 2018	Receipts	Disbursements	Balances June 30, 2019
Petoskey High School (continued)				
Guidance Dept Testing	\$ 2,412	\$ 23,825	\$ 25,548	\$ 689
HOSA	93	4,050	4,019	124
High School Art Club	2,759	250	239	2,770
High School Fall Play	1,284	6,009	3,320	3,973
High School Journalism	1,505	200	-	1,705
High School Learning Center	834	2,000	-	2,834
High School Quiz Bowl Team	542	-	-	542
High School Spring Musical	1,837	10,830	11,795	872
High School Steel Drum Band	-	17,535	17,535	-
High School Student Council	1,849	6,811	3,339	5,321
High School Vocal	7,394	34,815	39,124	3,085
High School Yearbook	12,770	7,671	10,079	10,362
High School Fund	135	5,076	4,081	1,130
Hospitality Foods Tip Fund	1,928	639	243	2,324
Indian Education/Unity Trip	281	-	-	281
Key Club	254	1,064	959	359
Model UN/H.S. Enrichment	423	4,193	4,616	-
National Honor Society	756	730	971	515
Petoskey High School Papermakers	1,459	190	-	1,649
Robotics	43,121	50,448	68,780	24,789
Renaissance Fund	117	78	142	53
Science Class	164	1,145	1,153	156
Spanish Club	185	-	-	185
High School Special Needs Counseling	908	1,000	825	1,083
High School 8th & 9th Transition Fund	1,930	-	1,830	100
STEM Projects	180	-	180	-
Freshman Mentor Fund	389	1,290	1,119	560
World History Trip Fund	62	-	-	62
Academic World Quest	2	-	2	-
PE Class Fund	158	4,941	5,099	-
Reach Higher Grant	794	-	794	-
CHEETOS Club	-	6,155	4,755	1,400
Art & Wellness Club	-	500	160	340
Service Dog Fund	-	500	500	-
Petoskey High School Athletics				
Athletic Hall Of Fame	104	166	270	-
Northmen Fund	10,489	25,146	32,995	2,640
Boys Basketball	6,081	7,823	8,552	5,352
Boys Golf	1,490	1,837	1,584	1,743
Boys Tennis	6,080	18,067	17,073	7,074
Girls Basketball	2,763	8,718	4,798	6,683
Girls Golf	2,221	2,587	3,346	1,462
Girls Tennis	7,697	18,064	13,223	12,538
Girls Track	1,106	3,087	2,699	1,494
Girls Softball	25,005	15,254	22,407	17,852
High School Baseball	104	2,322	2,426	-
High School Boys Soccer	-	1,500	1,450	50
High School Cross Country	3,317	20,285	15,225	8,377
High School Football	10,054	3,512	13,566	-
High School Girls Soccer	-	567	-	567
High School Hockey	12,245	79,921	80,855	11,311
Cross Country Ski Club	2	-	-	2
Cheerleading	885	124	1,009	-
High School/Middle School Ski Team	-	5,563	5,563	-
Stadium Improvements	-	5,541	5,541	-
Turcott Field Fundraiser	-	7,000	2,150	4,850

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2019

	Balances July 1, 2018	Receipts	Disbursements	Balances June 30, 2019
Petoskey High School Athletics (continued)				
Volleyball	\$ 3,240	\$ 500	\$ 2,198	\$ 1,542
Wrestling	5,688	5,760	6,208	5,240
Boys Track	295	-	158	137
Pink Game	2,949	9,233	10,009	2,173
Weight Room Improvements	-	3,783	2,774	1,009
Bowling	4,495	5,051	4,725	4,821
Lacrosse Team	-	8,076	8,076	-
District-Wide Accounts				
Elementary Enrichment	2,745	5,526	6,361	1,910
Elementary Enrichment Play	4,752	7,640	6,692	5,700
Elementary Music Fund	1,064	825	804	1,085
Student Reserve	17,893	9,329	3,136	24,086
Girls on the run	4,531	3,330	2,632	5,229
Total due to student groups	404,609	778,025	799,557	383,077
Scholarships payable				
Doris Reber - Class of 1932 Scholarship	214,114	3,629	-	217,743
Eric Greyerbiehl Memorial Fund	732	-	-	732
McClutchey Memorial Scholarship	5,157	91	-	5,248
Midshipmen Scholarship	7,336	127	-	7,463
Vaughn Memorial Scholarship	16,146	290	300	16,136
Wil Moyer Music Scholarship	582	500	292	790
Memorial Scholarship - Scott Sweany	540	40	-	580
Total scholarships payable	244,607	4,677	592	248,692
Due to others				
Central PTO	35,029	29,624	41,872	22,781
High School Staff Fund	515	-	-	515
Lincoln PTO	9,606	31,512	26,800	14,318
Maintenance Fund	2,316	563	1,409	1,470
Northmen Night	526	49,341	49,460	407
Ottawa PTO Board Fund	10,084	24,609	22,914	11,779
PEF Grants - Central	-	1,475	1,475	-
PEF Grants - High School	536	5,474	4,479	1,531
PEF Grants - Middle School	517	1,710	1,473	754
PEF Grants - Ottawa	-	1,012	943	69
PEF Grants - Sheridan	136	536	672	-
PEF Grants - ACT/SAT Seminar	-	1,944	1,207	737
PEF Grants - STEM	366	1,133	1,473	26
PEF Grants - District	-	6,251	6,251	-
PEF Grants - District	-	10,828	10,828	-
Pet Waste Stations Project	-	5,767	-	5,767
Petoskey Family Fund	34,170	13,921	9,105	38,986
Robert Motely Memorial Fund	106	-	-	106
Senior Parent Committee	589	42,624	39,747	3,466
Spitler Building Pop Fund	735	712	1,180	267
Accounts payable	7,778	142,752	20,284	130,246
Total due to others	103,009	371,788	241,572	233,225
Totals	\$ 752,225	\$ 1,154,490	\$ 1,041,721	\$ 864,994

Concluded

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OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Bond Indebtedness (Unaudited)

For the Year Ended June 30, 2019

Purpose	2012 Technology Bonds
Date of issue	June 21, 2012
Rate of interest	2.00%
Original obligation	\$ 4,930,000
Amount previously paid	<u>3,705,000</u>
Balance outstanding - June 30, 2019	<u>\$ 1,225,000</u>

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
2019-2020	<u>\$ 12,250</u>	<u>\$ 12,250</u>	<u>\$ 1,225,000</u>	<u>\$ 1,249,500</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, 2019

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 8,825,000

Balance outstanding - June 30, 2019 \$ 7,435,000

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
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>\$ 463,250</u>	<u>\$ 463,250</u>	<u>\$ 7,435,000</u>	<u>\$ 8,361,500</u>

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

Concluded

PUBLIC SCHOOLS OF PETOSKEY

Property Tax Information (Unaudited)

For the Year Ended June 30, 2019

Taxing District	Tax Levy	Collections and Other Reductions	Delinquent Property Taxes	Percentage of Current Year Levy Collected
Bear Creek Township	\$ 6,057,538	\$ 5,761,829	\$ 295,709	95.12%
Littlefield Township	77,515	73,471	4,044	94.78%
Little Traverse Township	562,745	524,772	37,973	93.25%
Resort Township	4,523,396	4,258,969	264,427	94.15%
Springvale Township	958,547	891,666	66,881	93.02%
City of Petoskey	7,419,258	7,148,329	270,929	96.35%
Chandler Township	114,872	107,718	7,154	93.77%
Hayes Township	54,207	52,156	2,051	96.22%
Melrose Township	1,336,483	1,257,428	79,055	94.08%
Total	\$ 21,104,561	\$ 20,076,338	\$ 1,028,223	95.13%
Allocated as follows				
General Fund	\$ 15,470,286	\$ 14,698,038	\$ 772,248	95.01%
Sinking Fund	1,977,137	1,887,338	89,799	95.46%
Debt Service Fund	3,657,138	3,490,962	166,176	95.46%
Total allocated to all funds	\$ 21,104,561	\$ 20,076,338	\$ 1,028,223	95.13%

PUBLIC SCHOOLS OF PETOSKEY

Ten-Year Summary of Enrollment (Unaudited)

For the Year Ended June 30, 2019

Year	Special Education	Elementary School	Middle School	High School	Total	Non-Resident	Resident
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
2019	70	1,090	663	986	2,809	497	2,312

Note: Data above extracted from the September pupil counts only. Non-Resident data from Form DS-4061.

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, 2019

Year	Expenditures and Transfers*	Student Enrollment	Expenditures Per Pupil
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
2019	29,676,353	2,809	10,565

* General Fund expenditures and transfers only.

Note: Student enrollment data above extracted from the September pupil counts only.

SINGLE AUDIT ACT COMPLIANCE

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

October 14, 2019

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Public Schools of Petoskey* (the "District") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 14, 2019, 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, 2019

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	181970	\$ 57,083
National school lunch - breakfast	10.553	MDE	191970	62,825
				<u>119,908</u>
National school lunch section 11 all lunches	10.555	MDE	181960	328,555
National school lunch section 11 all lunches	10.555	MDE	191960	307,064
Entitlement commodities (noncash)	10.555	MDE	n/a	45,430
				<u>681,049</u>
Summer food service program for children	10.559	MDE	180900	10,882
Summer food service program for children	10.559	MDE	181900	1,129
Summer food service program for children	10.559	MDE	190900	5,171
Summer food service program for children	10.559	MDE	191900	536
				<u>17,718</u>
Total Child Nutrition Cluster				<u>818,675</u>
Total U.S. Department of Agriculture				<u>818,675</u>
U.S. Department of Education				
Title I, Part A - Improving Basic Programs	84.010	MDE	181530-1718	368,483
Title I, Part A - Improving Basic Programs	84.010	MDE	191530-1819	306,227
				<u>674,710</u>
Indian Education	84.060A	Direct	S060A170636	39,290
Indian Education	84.060A	Direct	S060A180636	39,639
				<u>78,929</u>
Title II, Part A - Improving Teacher Quality	84.367	MDE	180520-1718	115,139
Title II, Part A - Improving Teacher Quality	84.367	MDE	190520-1819	151,861
Title II, Part A - Improving Teacher Quality	84.367	MDE	180532-19	28,980
				<u>295,980</u>
Title IV - Student Support and Academic Enrichment	84.424	MDE	180750-1718	10,000
Title IV - Student Support and Academic Enrichment	84.424	MDE	190750-1819	24,854
				<u>34,854</u>
Total U.S. Department of Education				<u>1,084,473</u>

Accrued (Deferred) Revenue June 30, 2018	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2019	Accrued (Deferred) Revenue June 30, 2019
\$ -	\$ 6,430	\$ 50,653	\$ 6,430	\$ -
-	61,030	-	62,825	1,795
-	67,460	50,653	69,255	1,795
-	36,130	292,425	36,130	-
-	300,609	-	307,064	6,455
-	45,430	-	45,430	-
-	382,169	292,425	388,624	6,455
-	10,882	-	10,882	-
-	1,129	-	1,129	-
-	-	-	5,171	5,171
-	-	-	536	536
-	12,011	-	17,718	5,707
-	461,640	343,078	475,597	13,957
-	461,640	343,078	475,597	13,957
322,962	332,871	322,962	9,909	-
-	233,764	-	255,235	21,471
322,962	566,635	322,962	265,144	21,471
7,160	7,160	35,228	-	-
-	25,760	-	25,760	-
7,160	32,920	35,228	25,760	-
54,700	60,649	54,700	5,949	-
-	36,001	-	73,621	37,620
-	5,625	-	9,472	3,847
54,700	102,275	54,700	89,042	41,467
5,503	6,936	5,503	1,433	-
-	4,203	-	6,753	2,550
5,503	11,139	5,503	8,186	2,550
390,325	712,969	418,393	388,132	65,488

continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
U.S. Department of Health and Human Services				
Medicaid Cluster:				
Medicaid Outreach	93.778	ISD	18/19	\$ 1,528
Total Federal Financial Assistance				\$ 1,904,676

See notes to schedule of expenditures of federal awards.



Accrued (Deferred) Revenue June 30, 2018	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2019	Accrued (Deferred) Revenue June 30, 2019
\$ -	\$ 1,528	\$ -	\$ 1,528	\$ -
<u>\$ 390,325</u>	<u>\$ 1,176,137</u>	<u>\$ 761,471</u>	<u>\$ 865,257</u>	<u>\$ 79,445</u>

concluded

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2019

Reconciliation to grant section auditors' report

Current payments per the grant auditor report	\$ 1,115,259
Less	
USDA Farm to School Grant - state revenue	(19,000)
Plus	
Amounts passed through Charlevoix-Emmet Intermediate School District	1,528
Entitlement commodities	45,430
Direct award from Department of Education	<u>32,920</u>
Total current year cash receipts per schedule of expenditures of federal awards	<u>\$ 1,176,137</u>

PUBLIC SCHOOLS OF PETOSKEY

Notes to Schedule of Expenditures of Federal Awards

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2019. 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.

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.

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.

2. 10% DE MINIMIS COST RATE

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
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 14, 2019

Board of Education
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, 2019, 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 14, 2019.

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.

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

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

October 14, 2019

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

Report on Compliance for the 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, 2019. 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, 2019.

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, 2019

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

Type of auditors' report issued on compliance for major programs: Unmodified

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:

CFDA Number

Name of Federal Program or Cluster

10.553, 10.555 and 10.559

Child Nutrition Cluster

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, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

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PUBLIC SCHOOLS OF PETOSKEY

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2019

No findings in the prior year.

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