

Public Schools of
Petoskey



Year Ended
June 30, 2020

Financial
Statements and
Single Audit Act
Compliance

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PUBLIC SCHOOLS OF PETOSKEY

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INDEPENDENT AUDITORS' REPORT

October 12, 2020

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, 2020, 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, 2020, and the respective changes in financial position, and the budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 84

As described in Note 14, the District implemented the provisions of GASB Statement No. 84, *Fiduciary Activities*, in the current year. Accordingly, beginning net position of governmental activities and beginning fund balance of the student activities special revenue fund were restated. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2020 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.

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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, 2020. 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 and the Sinking Fund with all other funds aggregated and presented in one column as nonmajor funds.

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, instructional support and community service activities are reported in the General Fund. Additional activities are reported in their relevant funds including:

- . Debt Service Funds - consisting of the 2015 refunding bonds and 2012 technology bonds.
- . Special Revenue Funds - consisting of the Food Service Fund and the Student Activities 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.

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, 2020, the District reported a net position of \$11,779,755. The table below provides a summary of the District's net position as of June 30:

	Net Position		
	Governmental Activities		Percent Change
	2020	2019	
Assets			
Current and other assets	\$12,862,448	\$10,078,195	27.63%
Capital assets, net	60,393,055	61,005,084	-1.00%
Total assets	73,255,503	71,083,279	3.06%
 Deferred outflows of resources	 19,008,607	 17,035,075	 11.59%
Liabilities			
Current and other liabilities	4,100,692	3,962,474	3.49%
Net pension and OPEB liabilities	62,048,991	56,772,442	9.29%
Long-term debt	7,559,255	10,429,229	-27.52%
Total liabilities	73,708,938	71,164,145	3.58%
 Deferred inflows of resources	 6,775,417	 6,866,895	 -1.33%
Net position			
Net investment in capital assets	53,383,028	51,236,612	4.19%
Restricted	3,484,818	2,428,064	43.52%
Unrestricted (deficit)	(45,088,091)	(43,577,362)	3.47%
Total net position	\$11,779,755	\$10,087,314	16.78%

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 \$3.5 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 \$45.1 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. 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
	2020	2019	Change
Program revenues			
Charges for services	\$ 557,166	\$ 778,228	-28.41%
Operating grants	8,974,044	7,336,507	22.32%
General revenues			
Property taxes	21,523,265	21,732,648	-0.96%
Unrestricted state aid	7,122,610	7,394,359	-3.68%
Other	200,759	228,582	-12.17%
Total revenues	<u>38,377,844</u>	<u>37,470,324</u>	<u>2.42%</u>
Expenses			
Instruction	23,523,414	21,445,138	9.69%
Supporting services	10,261,263	8,561,402	19.85%
Community services	8,997	11,874	-24.23%
Food services	837,860	947,339	-11.56%
Athletics	418,215	624,578	-33.04%
Interest on long-term debt	63,406	286,554	-77.87%
Unallocated depreciation	2,437,242	2,450,523	-0.54%
Total expenses	<u>37,550,397</u>	<u>34,327,408</u>	<u>9.39%</u>
Change in net position	<u>827,447</u>	<u>3,142,916</u>	<u>-73.67%</u>
Net position:			
Beginning of year	10,087,314	6,944,398	45.26%
Restatement for implementation of GASB 84	<u>864,994</u>	<u>-</u>	<u>100.00%</u>
End of year	<u>\$11,779,755</u>	<u>\$10,087,314</u>	<u>16.78%</u>

Of the District's total revenues available to operate the District, 1.5% or \$557,166 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 are reported as operating grants and approximated 23.4% or \$9.0 million. \$7.1 million or 18.5% of the District's revenues come from unrestricted state aid. Operating grants increased \$1.6 million primarily due to Enhancement Millage funding passed through the Charlevoix-Emmet Intermediate School District. Revenue from other sources comprised .5% of the District's 2020 funding.

The State foundation allowance accounted for 18.6% or approximately \$7.1 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 3.7% is mainly due to a state aid decrease of \$175 per pupil because of the financial impact of Covid-19 on the state's economy.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Local property taxes, of approximately \$21.5 million or 56.1% of total revenue, supported the remaining portion of the governmental activities. Property tax revenue decreased by 1.0% which is not considered significant. 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 \$2.4 million of the \$21.5 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 \$3.2 million or 9.4%. Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for approximately \$23.5 million or 62.6% of total expenses. Support services cost approximately \$10.3 million or 27.3% 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 \$.8 million which is a 73.7% decrease compared to 2019. Overall, revenue increased 2.4%, while expenses increased 9.4%. 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 \$8.8 million, which is an increase of approximately \$1.7 million from the prior year. The General Fund reported a fund balance increase of approximately \$1.2 million 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. The Sinking Fund reported a fund balance increase of approximately \$610 thousand due to the delay in a roofing project in the next fiscal year.

Of the combined governmental fund balances, 5.8% or approximately \$514,972 constitutes unassigned fund balance, which is available for spending at the District's discretion. District management has assigned approximately \$3.7 million of fund balance to indicate planned uses of fund balance. Management has assigned \$1.9 million related to the Enhancement Millage and \$1.8 million as the minimum amount necessary to avoid borrowing for cash flow purposes. Just over \$3.4 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 \$2.9 million is earmarked for capital improvements and approximately \$0.3 million is earmarked for payments on long-term debt, approximately \$0.2 million is earmarked for food service and approximately \$1.0 million is committed for student activities. The remaining fund balance is nonspendable as it relates to inventory and prepaid items.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, assigned fund balance of the General Fund was approximately \$3.7 million, while total fund balance was approximately \$4.2 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 14.2% of annual expenditures.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

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.

The fund balance of the District's General Fund increased by approximately \$1.2 million during the current fiscal year. This increase is significantly more than the original budgeted decrease of approximately \$0.7 million and the final budgeted increase of approximately \$0.7 million. The greatest impact on the fund balance was the savings of operational costs not incurred by the District because of the COVID-19 shutdown that commenced on March 16th.

A summary of variances from the final amended budget to actual amounts spent is as follows:

- . State Aid Fund revenue shortfall that was signed in to law after the District's fiscal year end.
- . Timing of revenue recognition from the Federal government and Intermediate School District.
- . Changes in health and retirement benefits.
- . Timing of large expenditures that were not recongized in the current fiscal year.

Capital Asset and Debt Administration

Capital Assets. By June 30, 2020, the District had invested approximately \$60.4 million (net of accumulated depreciation) in a broad range of capital assets, including school buildings, land, athletic facilities, furniture, and equipment. This represents a net decrease (including all additions, disposals, and transfers) of approximately \$0.6 million or 1% 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 purchase of computer equipment and building-security renovations. Construction in progress consists of all summer projects including roof work, high school interior renovations, and other various site improvements.

	Capital Assets (Net of Depreciation)	
	2020	2019
Land	\$ 3,384,351	\$ 3,384,351
Construction in progress	1,156,087	227,894
Buildings and improvements	53,317,918	54,946,236
Furniture and equipment	2,534,699	2,446,603
Total capital assets, net	<u>\$60,393,055</u>	<u>\$61,005,084</u>

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Debt Administration. At year-end, the District had approximately \$7.6 million in general obligation bonds and other long-term debt outstanding - a decrease of 27.5% 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	
	2020	2019
General obligation bonds	\$ 6,130,000	\$ 8,660,000
Other long-term debt	<u>1,429,255</u>	<u>1,769,229</u>
Total long-term debt	<u>\$ 7,559,255</u>	<u>\$ 10,429,229</u>

Factors Bearing on the District's Future

We considered many factors when setting the District's 2020-2021 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. However, with the shutdown of Michigan schools on March 16th, we adjusted our final budget to reflect the various fluctuations in revenues and expenditures.

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. The initial budget for 2020-2021 was based on 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.

During fiscal year 2019-2020, the Consensus Revenue Estimating Conference expected a \$1.1 billion revenue shortfall in the State Aid Fund due to COVID-19. Since the District's revenue is heavily dependent on the health of the State Aid Fund, the District considered this information in preparation of the final 2019-2020 budget. Current economic difficulties faced by the State of Michigan with the COVID-19 pandemic has amplified uncertainty of student foundation levels for future years.

Demographic projections indicate that enrollment is likely to increase one year, and then decrease over the next several years. These projections consider survival ratios for the past year five years and county births. The District's 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, we anticipate slightly declining K-12 enrollment that mirrors the state-wide trend for the next several years.

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 \$2.0 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.

PUBLIC SCHOOLS OF PETOSKEY

Management's Discussion and Analysis

Despite this infusion of funds, the District anticipates a decrease in the General Fund fund balance in 2020-2021 because of significant state-level budget concerns relating to the COVID-19 pandemic. In response, the District has further trimmed its budget and applied operational savings in fiscal year 2019-2020 to offset anticipated decreases to funding in 2020-2021 and beyond. 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 despite the anticipated loss of State revenue sources in the near future. Due to the successful passage of the Enhancement millage in 2018-2019, 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.

The budget for the year ended June 30, 2021 was adopted in June 2020 when there was a high degree of uncertainty related to the funding and operations for districts in the State of Michigan due to the novel coronavirus outbreak (COVID-19). Subsequent to year end, additional funding has been provided by the State of Michigan through various restricted federal grant programs. Despite this, there continues to be a high degree of uncertainty regarding potential changes to state and federal funding. In addition, the District is continuously evaluating the impacts of the pandemic as it determines the appropriate methods to deliver education to students in a safe environment. These factors will have a significant impact on the operational and financial performance of the District.

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.

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BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

Statement of Net Position

June 30, 2020

Assets	
Cash and cash equivalents	\$ 4,830,136
Investments	6,098,730
Receivables	1,807,041
Prepays and other current assets	126,541
Capital assets not being depreciated	4,540,438
Capital assets being depreciated, net	<u>55,852,617</u>
Total assets	<u>73,255,503</u>
Deferred outflows of resources	
Deferred pension amounts	15,053,094
Deferred other postemployment benefit amounts	<u>3,955,513</u>
Total deferred outflows of resources	<u>19,008,607</u>
Liabilities	
Accounts payable and accrued liabilities	3,245,069
Unearned revenue	855,623
Long-term debt:	
Due within one year	1,714,318
Due in more than one year	5,844,937
Net pension liability (due in more than one year)	50,803,396
Net other postemployment benefit liability (due in more than one year)	<u>11,245,595</u>
Total liabilities	<u>73,708,938</u>
Deferred inflows of resources	
Deferred pension amounts	2,194,774
Deferred other postemployment benefit amounts	<u>4,580,643</u>
Total deferred inflows of resources	<u>6,775,417</u>
Net position	
Net investment in capital assets	53,383,028
Restricted for:	
Capital projects	2,941,598
Debt service	252,482
Food service	290,738
Unrestricted (deficit)	<u>(45,088,091)</u>
Total net position	<u><u>\$ 11,779,755</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, 2020

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction	23,523,414	86,916	7,053,287	-	\$ (16,383,211)
Supporting services	10,261,263	72,485	1,276,837	-	(8,911,941)
Community services	8,997	-	-	-	(8,997)
Food services	837,860	282,324	615,200	-	59,664
Athletics	418,215	115,441	28,720	-	(274,054)
Interest on long-term debt	63,406	-	-	-	(63,406)
Unallocated depreciation	2,437,242	-	-	-	(2,437,242)
Total governmental activities	<u>\$ 37,550,397</u>	<u>\$ 557,166</u>	<u>\$ 8,974,044</u>	<u>\$ -</u>	<u>(28,019,187)</u>
General revenues					
Property taxes - operations					16,535,258
Property taxes - debt service					2,586,953
Property taxes - sinking fund					2,401,054
Unrestricted state aid					7,122,610
Unrestricted investment earnings					91,273
Other					<u>109,486</u>
Total general revenues					<u>28,846,634</u>
Change in net position					827,447
Net position, beginning of year, as restated					<u>10,952,308</u>
Net position, end of year					<u>\$ 11,779,755</u>

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

FUND FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

Governmental Funds

June 30, 2020

	General Fund	Sinking Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 161,028	\$ 2,628,816	\$ 2,040,292	\$ 4,830,136
Investments	6,031,979	5,507	61,244	6,098,730
Accounts receivable	72,206	-	64,501	136,707
Due from other funds	-	-	56,887	56,887
Due from other governments	1,644,622	-	25,712	1,670,334
Prepaid items	4,590	-	85,000	89,590
Inventory	21,909	-	15,042	36,951
Total assets	\$ 7,936,334	\$ 2,634,323	\$ 2,348,678	\$ 12,919,335
Liabilities				
Accounts payable	\$ 355,726	-	\$ 20,976	\$ 376,702
Contracts payable	-	307,290	7,500	314,790
Salaries payable	1,594,666	-	-	1,594,666
Accrued liabilities	915,411	-	-	915,411
Due to other funds	-	-	56,887	56,887
Unearned revenue	820,719	-	34,904	855,623
Total liabilities	3,686,522	307,290	120,267	4,114,079
Fund balances				
Nonspendable:				
Inventory	21,909	-	15,042	36,951
Prepaid items	4,590	-	85,000	89,590
Restricted:				
Food service	-	-	190,696	190,696
Capital outlay	-	2,327,033	614,565	2,941,598
Debt service	-	-	295,982	295,982
Committed:				
Student activities	-	-	1,027,126	1,027,126
Assigned:				
Future enhancement millage funded projects	1,908,341	-	-	1,908,341
Subsequent years' expenditures	1,800,000	-	-	1,800,000
Unassigned	514,972	-	-	514,972
Total fund balances	4,249,812	2,327,033	2,228,411	8,805,256
Total liabilities and fund balances	\$ 7,936,334	\$ 2,634,323	\$ 2,348,678	\$ 12,919,335

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

PUBLIC SCHOOLS OF PETOSKEY

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2020

Fund balances - total governmental funds	\$ 8,805,256
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Amounts reported for *governmental activities* 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	4,540,438
Capital assets being depreciated, net	55,852,617

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	(6,130,000)
Unamortized bond premiums, net	(880,027)
Accrued interest on bonds payable	(43,500)
Compensated absences payable	(549,228)

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	(50,803,396)
Deferred outflows of resources related to the net pension liability	15,053,094
Deferred inflows of resources related to the net pension liability	(2,194,774)
Net other postemployment benefit liability	(11,245,595)
Deferred outflows related to the net other postemployment benefit liability	3,955,513
Deferred inflows related to the net other postemployment benefit liability	<u>(4,580,643)</u>

Net position of governmental activities	<u>\$ 11,779,755</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 Balances

Governmental Funds

For the Year Ended June 30, 2020

	General Fund	Sinking Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 16,936,573	\$ 2,416,130	\$ 4,152,389	23,505,092
State sources	10,446,667	-	39,562	10,486,229
Federal sources	484,605	-	575,638	1,060,243
Interdistrict sources	3,326,280	-	-	3,326,280
Total revenues	31,194,125	2,416,130	4,767,589	38,377,844
Expenditures				
Current:				
Instruction	20,852,553	-	-	20,852,553
Supporting services	9,149,529	-	-	9,149,529
Community services	8,797	-	-	8,797
Food services	-	-	835,498	835,498
Student activities	-	-	1,033,050	1,033,050
Other	-	3,045	10,077	13,122
Debt service:				
Principal	-	-	2,530,000	2,530,000
Interest	-	-	350,750	350,750
Capital outlay:				
Buildings and additions	-	1,803,465	78,941	1,882,406
Total expenditures	30,010,879	1,806,510	4,838,316	36,655,705
Net change in fund balances	1,183,246	609,620	(70,727)	1,722,139
Fund balances, beginning of year, as restated	3,066,566	1,717,413	2,299,138	7,083,117
Fund balances, end of year	\$ 4,249,812	\$ 2,327,033	\$ 2,228,411	\$ 8,805,256

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

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, 2020

Net change in fund balances - total governmental funds	\$ 1,722,139
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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	1,825,213
Depreciation expense	(2,437,242)

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	2,530,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in net pension liability and related deferred amounts	(3,823,083)
Change in the net other postemployment benefit liability and related deferred amounts	611,544
Change in the accrual for compensated absences	111,529
Change in accrued interest payable on bonds	287,347

Change in net position of governmental activities	<u>\$ 827,447</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, 2020

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 17,120,123	\$ 16,933,508	\$ 16,936,573	\$ 3,065
State sources	10,311,045	11,174,965	10,446,667	(728,298)
Federal sources	397,879	740,502	484,605	(255,897)
Interdistrict sources	3,352,347	3,536,455	3,326,280	(210,175)
Total revenues	31,181,394	32,385,430	31,194,125	(1,191,305)
Expenditures				
Current:				
Instruction:				
Basic programs	16,644,716	16,133,783	15,920,477	(213,306)
Added needs	5,480,857	5,785,567	4,932,076	(853,491)
Supporting services:				
Pupil services	922,677	939,358	878,867	(60,491)
Instructional staff services	1,253,926	1,210,568	1,030,551	(180,017)
General administration	578,286	616,911	593,451	(23,460)
School administration	1,909,553	1,940,197	1,827,204	(112,993)
Business services	670,694	694,818	667,784	(27,034)
Operations and maintenance	2,308,361	2,379,218	2,233,583	(145,635)
Pupil transportation services	1,393,903	1,320,947	1,305,277	(15,670)
Security services	2,000	2,000	-	(2,000)
Staff/personnel services	83,523	86,374	84,851	(1,523)
Athletics	619,364	565,200	527,961	(37,239)
Community services:				
Community activities	9,775	1,050	-	(1,050)
Non-public school pupils	13,857	32,487	8,797	(23,690)
Total expenditures	31,891,492	31,708,478	30,010,879	(1,697,599)
Net change in fund balance	(710,098)	676,952	1,183,246	506,294
Fund balance, beginning of year	3,066,566	3,066,566	3,066,566	-
Fund balance, end of year	\$ 2,356,468	\$ 3,743,518	\$ 4,249,812	\$ 506,294

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.

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. 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.

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.

Additionally, the District reports the following fund types:

The *Special Revenue Funds* are 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 *Debt Service Funds* are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

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.

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

PUBLIC SCHOOLS OF PETOSKEY

Notes To 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.

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 year end 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.

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 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 and special revenue funds are 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, 2020, the District did not incur expenditures in excess of the amount appropriated.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

3. DEPOSITS AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of June 30, 2020:

	Totals
Statement of Net Position	
Cash and cash equivalents	\$ 4,830,136
Investments	<u>6,098,730</u>
	<u>\$ 10,928,866</u>
Deposits and investments	
Bank deposits:	
Checking / savings accounts	\$ 4,394,955
Certificates of deposit:	
Maturing in less than one year	434,881
Investments	6,098,730
Cash on hand	<u>300</u>
Total	<u>\$ 10,928,866</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.

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

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

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

The District chooses to disclose its investments by specifically identifying each. As of June 30, 2020, the District had the following investments:

	Maturity	Amortized Cost	Rating
Michigan Liquid Asset Fund	n/a	\$ 6,098,730	S&P - AAAM

Certificates of deposit of \$434,881 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, \$5,040,025 of the District's bank balance of approximately \$5,540,025 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

4. RECEIVABLES

Receivables as of June 30, 2020, are comprised of the following:

	Accounts Receivable	Due from Other Governments	Total
General Fund	\$ 72,206	\$ 1,644,622	\$ 1,716,828
Nonmajor Governmental Funds	64,501	25,712	90,213
	<u>\$ 136,707</u>	<u>\$ 1,670,334</u>	<u>\$ 1,807,041</u>

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2020, are comprised of the following:

	General Fund	Sinking Fund	Nonmajor Governmental Funds	Total
Accounts payable	\$ 355,726	\$ -	\$ 20,976	\$ 376,702
Construction contracts	-	307,290	7,500	314,790
Payroll and other related benefits	1,594,666	-	-	1,594,666
Other accrued liabilities	915,411	-	-	915,411
	<u>\$ 2,865,803</u>	<u>\$ 307,290</u>	<u>\$ 28,476</u>	3,201,569
Accrued interest on bonds payable				<u>43,500</u>
Total accounts payable and accrued liabilities				<u>\$ 3,245,069</u>

6. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2020, was as follows:

	Due from Other Funds	Due to Other Funds
Nonmajor Governmental Funds	<u>\$ 56,887</u>	<u>\$ 56,887</u>

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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

7. CAPITAL ASSETS

Capital assets activity was as follows for the year ended June 30, 2020:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,384,351	\$ -	\$ -	\$ -	\$ 3,384,351
Construction in progress	227,894	1,156,087	-	(227,894)	1,156,087
	<u>3,612,245</u>	<u>1,156,087</u>	<u>-</u>	<u>(227,894)</u>	<u>4,540,438</u>
Capital assets, being depreciated:					
Buildings and improvements	89,077,952	179,507	-	227,894	89,485,353
Furniture and equipment	9,281,554	489,619	-	-	9,771,173
	<u>98,359,506</u>	<u>669,126</u>	<u>-</u>	<u>227,894</u>	<u>99,256,526</u>
Less accumulated depreciation for:					
Buildings and improvements	(34,131,716)	(2,035,719)	-	-	(36,167,435)
Furniture and equipment	(6,834,951)	(401,523)	-	-	(7,236,474)
	<u>(40,966,667)</u>	<u>(2,437,242)</u>	<u>-</u>	<u>-</u>	<u>(43,403,909)</u>
Total capital assets being depreciated, net	<u>57,392,839</u>	<u>(1,768,116)</u>	<u>-</u>	<u>227,894</u>	<u>55,852,617</u>
Governmental activities capital assets, net	<u>\$ 61,005,084</u>	<u>\$ (612,029)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,393,055</u>

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

8. LONG-TERM DEBT

Long-term debt of the District consists of the following at June 30, 2020:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Installment debt					
General obligation bonds	\$ 8,660,000	\$ -	\$ (2,530,000)	\$ 6,130,000	\$ 1,435,000
Other long-term debt					
Premium on bonds	1,108,472	-	(228,445)	880,027	220,007
Compensated absences	660,757	247,579	(359,108)	549,228	59,311
Total other long-term debt	1,769,229	247,579	(587,553)	1,429,255	279,318
Total long-term debt	<u>\$ 10,429,229</u>	<u>\$ 247,579</u>	<u>\$ (3,117,553)</u>	<u>\$ 7,559,255</u>	<u>\$ 1,714,318</u>

Long-term debt at June 30, 2020, includes the following:

General obligation bonds

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.

6,130,000

Premium on bonds 880,027

Total general obligation bonds 7,010,027

Other long-term liabilities

Compensated absences 549,228

Total long-term debt \$ 7,559,255

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Debt service requirements on installment debt

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

Year Ended June 30,	Principal	Interest	Total
2021	\$ 1,435,000	\$ 261,000	\$ 1,696,000
2022	1,500,000	189,250	1,689,250
2023	1,570,000	114,250	1,684,250
2024	<u>1,625,000</u>	<u>35,750</u>	<u>1,660,750</u>
Total	<u>\$ 6,130,000</u>	<u>\$ 600,250</u>	<u>\$ 6,730,250</u>

Interest expense charged to governmental activities in fiscal 2020 was \$63,406.

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, 2020, 27 retirees elected to receive or were eligible to begin receiving the senior teacher incentive, with \$86,000 being paid to these individuals during 2020. The total early retirement senior teacher incentive was \$73,000 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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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

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

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

Pension Benefits Provided

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

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

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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Other Postemployment Benefits Provided

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

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

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

Contributions

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, 2018 valuation will be amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

The table below summarizes pension contribution rates in effect for fiscal year 2020:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	18.25% - 19.41%
Member Investment Plan (MIP)	3.00% - 7.00%	18.25% - 19.41%
Pension Plus	3.00% - 6.40%	16.46%
Pension Plus 2	6.20%	19.59%
Defined Contribution	0.00%	13.39%

For the year ended June 30, 2020, required and actual contributions from the District to the pension plan were \$4,341,777, which included \$1,718,171, 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 2020:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	7.93% - 8.09%
Personal Healthcare Fund (PHF)	0.00%	7.57%

For the year ended June 30, 2020, required and actual contributions from the District to the OPEB plan were \$927,995.

The table below summarizes defined contribution rates in effect for fiscal year 2020:

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, 2020, required and actual contributions from the District for those members with a defined contribution benefit were \$136,739.

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

At June 30, 2020, the District reported a liability of \$50,803,396 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. 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, 2019, the District's proportion was .15341%, which was an increase of 0.00362% from its proportion measured as of September 30, 2018.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

For the year ended June 30, 2020, the District recognized pension expense of \$8,138,327. At June 30, 2020, 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	\$ 227,717	\$ 211,845	\$ 15,872
Changes in assumptions	9,947,341	-	9,947,341
Net difference between projected and actual earnings on pension plan investments	-	1,628,163	(1,628,163)
Changes in proportion and differences between employer contributions and proportionate share of contributions	788,147	354,766	433,381
	<u>10,963,205</u>	<u>2,194,774</u>	<u>8,768,431</u>
District contributions subsequent to the measurement date	4,089,889	-	4,089,889
Total	<u>\$ 15,053,094</u>	<u>\$ 2,194,774</u>	<u>\$ 12,858,320</u>

The \$4,089,889 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, 2021. 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
2021	\$ 3,439,266
2022	2,704,176
2023	1,839,716
2024	<u>785,273</u>
Total	<u>\$ 8,768,431</u>

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

At June 30, 2020, the District reported a liability of \$11,245,595 for its proportionate share of the MPERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2018. 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, 2019, the District's proportion was 0.15667% which was an increase of 0.00894% from its proportion measured as of September 30, 2018.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

For the year ended June 30, 2020, the District recognized OPEB expense of \$356,508. At June 30, 2020, 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	\$ -	\$ 4,126,327	\$ (4,126,327)
Changes in assumptions	2,436,693	-	2,436,693
Net difference between projected and actual earnings on OPEB plan investments	-	195,566	(195,566)
Changes in proportion and differences between employer contributions and proportionate share of contributions	657,783	258,750	399,033
	<u>3,094,476</u>	<u>4,580,643</u>	<u>(1,486,167)</u>
District contributions subsequent to the measurement date	861,037	-	861,037
Total	<u>\$ 3,955,513</u>	<u>\$ 4,580,643</u>	<u>\$ (625,130)</u>

The \$861,037 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2021	\$ (454,664)
2022	(454,664)
2023	(357,366)
2024	(178,699)
2025	<u>(40,774)</u>
Total	<u>\$ (1,486,167)</u>

PUBLIC SCHOOLS OF PETOSKEY

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, 2018 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)	6.80%
Pension Plus plan (hybrid)	6.80%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	6.95%
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 3.5% Year 12
Mortality	RP-2014 Male and Female Employee 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 and OPEB valuations beginning with the September 30, 2017 valuation. The total pension and OPEB liabilities as of September 30, 2019, are based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.4977 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.7101 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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, 2019, 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%	5.50%	1.54%
Alternative investment pools	18.00%	8.60%	1.55%
International equity	16.00%	7.30%	1.17%
Fixed income pools	10.50%	1.20%	0.13%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.40%	0.84%
Short-term investment pools	2.00%	0.08%	0.00%
	<u>100.00%</u>		5.65%
Inflation			2.30%
Risk adjustment			<u>-1.15%</u>
Investment rate of return			<u>6.80%</u>

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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, 2019, 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%	5.50%	1.54%
Private equity pools	18.00%	8.60%	1.55%
International equity pools	16.00%	7.30%	1.17%
Fixed income pools	10.50%	1.20%	0.13%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.40%	0.84%
Short-term investment pools	2.00%	0.08%	0.00%
	<u>100.00%</u>		5.65%
Inflation			2.30%
Risk adjustment			<u>-1.00%</u>
Investment rate of return			<u>6.95%</u>

Rate of Return

For the fiscal year ended September 30, 2019, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 5.14% and 5.37%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 6.95% 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 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan) and 6.95%, 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.

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 6.80% (6.80% for the Pension Plus plan, 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 point higher:

1% Decrease (5.80% / 5.80% / 5.00%)	Current Discount Rate (6.80% / 6.80% / 6.00%)	1% Increase (7.80% / 7.80% / 7.00%)
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District's proportionate share of the net pension liability	\$ 66,047,665	\$ 50,803,396	\$ 38,165,372
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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 6.95%, 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 point higher:

1% Decrease (5.95%)	Current Discount Rate (6.95%)	1% Increase (7.95%)
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District's proportionate share of the net OPEB liability	\$ 13,794,412	\$ 11,245,595	\$ 9,105,296
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PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

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 (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net OPEB liability	\$ 9,014,557	\$ 11,245,595	\$ 13,794,109

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, 2020, the District reported a payable of \$717,682 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2020.

Payable to the OPEB Plan

At June 30, 2020, the District reported a payable of \$35,661 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2020.

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 33% of the District's general fund revenue during the 2020 fiscal year.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

12. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2020, was as follows:

	Governmental Activities
Capital assets:	
Capital assets not being depreciated	\$ 4,540,438
Capital assets being depreciated, net	<u>55,852,617</u>
Total capital assets	<u>60,393,055</u>
Related debt:	
General obligation bonds	6,130,000
Unamortized bond premiums	<u>880,027</u>
Total related debt	<u>7,010,027</u>
Net investment in capital assets	<u>\$ 53,383,028</u>

13. COMMITMENTS AND CONTINGENCIES

The District entered into multiple construction projects during the year. The total costs of the projects is \$1,622,428. The amount remaining to be paid, at June 30, 2020, is \$825,209.

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, 2020.

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.

PUBLIC SCHOOLS OF PETOSKEY

Notes To Financial Statements

14. RESTATEMENT

The District implemented the provisions of GASB Statement No. 84, *Fiduciary Activities*, in the current year. Accordingly, beginning net position of governmental activities and beginning fund balance of the student activities special revenue fund were restated by \$864,994.

15. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the District's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it will continue to place additional demands on the District as it determines the appropriate methods to deliver education to students in a safe environment. While management reasonably expects the COVID-19 outbreak to negatively impact the District's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

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REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC SCHOOLS OF PETOSKEY

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,		
	2020	2019	2018
District's proportionate share of the net pension liability	\$ 50,803,396	\$ 45,029,446	\$ 39,412,671
District's proportion of the net pension liability	0.15341%	0.14979%	0.15209%
District's covered payroll	\$ 13,634,104	\$ 12,548,276	\$ 12,681,026
District's proportionate share of the net pension liability as a percentage of its covered payroll	372.62%	358.85%	310.80%
Plan fiduciary net position as a percentage of the total pension liability	60.31%	62.36%	64.21%

See notes to required supplementary information.



Year Ended June 30,		
2017	2016	2015
\$ 37,890,839	\$ 36,634,250	\$ 32,093,122
0.15187%	0.14999%	0.14570%
\$ 12,848,982	\$ 12,460,245	\$ 12,742,819
294.89%	294.01%	251.85%
63.27%	63.17%	66.20%

PUBLIC SCHOOLS OF PETOSKEY

Required Supplementary Information

MPERS Cost-Sharing Multiple-Employer Plan Schedule of the District's Pension Contributions

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contribution	\$ 4,341,777	\$ 4,078,544	\$ 3,852,705
Contributions in relation to the statutorily required contributions	<u>(4,341,777)</u>	<u>(4,078,544)</u>	<u>(3,852,705)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 13,745,968	13,725,034	14,205,094
Contributions as a percentage of covered payroll	31.59%	29.72%	27.12%

See notes to required supplementary information.

Year Ended June 30,		
2017	2016	2015
\$ 3,555,982	\$ 3,375,387	\$ 3,024,425
<u>(3,555,982)</u>	<u>(3,375,387)</u>	<u>(3,024,425)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
12,296,962	12,337,346	12,850,648
28.92%	27.36%	23.54%

PUBLIC SCHOOLS OF PETOSKEY

Required Supplementary Information

MPSERS Cost-Sharing Multiple Employer Plan

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

	Year Ended June 30,		
	2020	2019	2018
District's proportionate share of the net OPEB liability	\$ 11,245,595	\$ 11,742,996	\$ 13,453,044
District's proportion of the net OPEB liability	0.15667%	0.14773%	0.15192%
District's covered payroll	\$ 13,634,104	\$ 12,548,276	\$ 12,681,026
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.48%	93.58%	106.09%
Plan fiduciary net position as a percentage of the total OPEB liability	48.46%	42.95%	36.39%

See notes to required supplementary information.

PUBLIC SCHOOLS OF PETOSKEY

Required Supplementary Information

MPSERS Cost-Sharing Multiple Employer Plan

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

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contribution	\$ 927,995	\$ 1,070,163	\$ 954,956
Contributions in relation to the statutorily required contribution	(927,995)	(1,070,163)	(954,956)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 13,745,968	\$ 13,725,034	\$ 14,205,094
Contributions as a percentage of covered payroll	6.75%	7.80%	6.72%

See notes to required supplementary information.

PUBLIC SCHOOLS OF PETOSKEY

Notes to Required Supplementary Information

Pension Information

GASB 68 was implemented in fiscal year 2015. The pension plan schedules are being built prospectively. Ultimately, 10 years of data will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net Pension Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.80% for the MIP and Basic plans, 6.80% for the Pension Plus Plan, and 6.00% for the Pension Plus 2 Plan.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.05% for the MIP and Basic plans, 7.00% for the Pension Plus plan, and 6.00% for the Pension Plus 2 plan.
- 2018 - The discount rate used in the September 30, 2016 actuarial valuation decreased to 7.50% for the MIP and Basic plans and 7.00% for the Pension Plus plan.

OPEB Information

GASB 75 was implemented in fiscal year 2018. The OPEB plan schedules are being built prospectively. Ultimately, 10 years of data will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net OPEB Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.95%.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.15%.

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

PUBLIC SCHOOLS OF PETOSKEY

Balance Sheet

General Fund

June 30, 2020

(With Comparative Totals as of June 30, 2019)

	2020	2019
Assets		
Cash and cash equivalents	\$ 161,028	\$ 148,422
Investments	6,031,979	4,582,961
Accounts receivable	72,206	130,796
Due from other funds	-	1,375
Due from other governments	1,644,622	1,935,460
Prepaid items	4,590	-
Inventory	21,909	41,961
Total assets	\$ 7,936,334	\$ 6,840,975
Liabilities		
Accounts payable	\$ 355,726	\$ 430,668
Salaries payable	1,594,666	1,594,665
Accrued liabilities	915,411	910,446
Unearned revenue	820,719	838,630
Total liabilities	3,686,522	3,774,409
Fund balances		
Nonspendable:		
Inventory	21,909	28,763
Prepaid items	4,590	13,198
Assigned:		
Athletics	-	97,544
Future enhancement millage funded projects	1,908,341	524,266
Subsequent years' expenditures	1,800,000	1,800,000
Unassigned	514,972	602,795
Total fund balances	4,249,812	3,066,566
Total liabilities and fund balances	\$ 7,936,334	\$ 6,840,975

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Revenues

General Fund

For the Year Ended June 30, 2020

(With Comparative Totals For the Year Ended June 30, 2019)

	2020	2019
Revenues		
Local Sources		
Property taxes	\$ 16,053,544	\$ 15,310,130
Payment in lieu of taxes	481,714	483,846
Charges for services	86,916	186,019
Interest	60,752	48,001
Athletics	116,161	234,384
Contributions - Athletics	28,000	72,000
Other income	109,486	133,664
Total local sources	16,936,573	16,468,044
State sources		
State aid - foundation allowance:		
Discretionary payment	6,003,119	6,161,446
Prior year adjustments	86,353	1,293,483
Special education Headlee obligation	1,003,623	879,356
State aid - other unrestricted grants:		
Early literacy	11,294	37,170
Computer adaptive tests 104d	-	11,761
State aid - restricted grants:		
At-risk	1,034,261	830,706
Pupil support	-	23,222
MPSERS cost offset	2,208,141	2,131,331
CTE additional payments	18,221	-
MI STEM	-	60,185
Data collection	73,055	72,370
Artists in residence	-	9,120
First robotics	8,600	4,950
Total state sources	10,446,667	11,515,100
Federal sources		
Title I	255,116	349,364
Title II	203,028	71,545
Title IVA	930	5,503
Title VII	17,574	-
Title IX	-	40,892
Other	7,957	3,030
Total federal sources	484,605	470,334
Interdistrict sources		
Enhancement - millage	1,993,025	-
Vocational education - millage	419,629	470,334
Vocational education - added cost	122,700	140,125
Expense reimbursements	790,926	794,820
Total interdistrict sources	3,326,280	1,405,279
Total revenues	\$ 31,194,125	\$ 29,858,757

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2020

(With Comparative Totals For the Year Ended June 30, 2019)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
Instruction					
Basic programs					
Elementary	\$ 3,925,748	\$ 2,724,676	\$ 85,684	\$ 104,270	\$ -
Middle school	2,240,546	1,828,303	42,908	33,427	-
High school	2,586,635	1,805,967	429,004	113,309	-
Total basic programs	8,752,929	6,358,946	557,596	251,006	-
Added needs					
Special education	1,343,438	927,421	473,372	7,013	-
Compensatory education	150,629	116,847	496,802	14,973	-
Vocational education	594,503	432,414	150,796	210,576	13,292
Total added needs	2,088,570	1,476,682	1,120,970	232,562	13,292
Total instruction	10,841,499	7,835,628	1,678,566	483,568	13,292
Supporting services					
Pupil services					
Guidance services	385,466	291,898	-	964	-
Health services	-	-	154,776	-	-
Other	15,180	7,072	23,511	-	-
Total pupil services	400,646	298,970	178,287	964	-
Instructional staff services					
Improvement of instruction	144,149	88,147	44,992	2,576	-
Library	30,347	34,971	96,846	18,516	-
Technology assisted instruction	122,035	94,779	1,443	-	-
Supervision	195,942	127,852	233	3,939	-
Academic student assessment	-	-	-	23,784	-
Total instructional staff services	492,473	345,749	143,514	48,815	-



Total	
2020	2019
\$ 6,840,378	\$ 6,798,224
4,145,184	3,967,179
<u>4,934,915</u>	<u>4,769,969</u>
<u>15,920,477</u>	<u>15,535,372</u>
2,751,244	2,792,277
779,251	801,660
<u>1,401,581</u>	<u>1,449,466</u>
<u>4,932,076</u>	<u>5,043,403</u>
<u>20,852,553</u>	<u>20,578,775</u>
678,328	665,957
154,776	179,031
<u>45,763</u>	<u>48,589</u>
<u>878,867</u>	<u>893,577</u>
279,864	351,672
180,680	210,316
218,257	208,215
327,966	239,271
<u>23,784</u>	<u>21,015</u>
<u>1,030,551</u>	<u>1,030,489</u>

Continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Operating Expenditures

General Fund

For the Year Ended June 30, 2020

(With Comparative Totals For the Year Ended June 30, 2019)

	Salaries	Employee Benefits	Purchased Services	Supplies, Materials and Other Expenses	Capital Outlay
General administration					
Board of education	\$ -	\$ -	\$ 63,233	\$ 1,014	\$ -
Executive administration	212,689	193,002	116,883	6,630	-
Total general administration	212,689	193,002	180,116	7,644	-
School administration					
Office of the principal	1,039,113	742,047	26,310	12,297	-
Other school administration	-	-	-	7,437	-
Total school administration	1,039,113	742,047	26,310	19,734	-
Business services					
Fiscal services	248,325	247,677	26,851	2,100	-
Other business services	-	-	-	142,831	-
Total business services	248,325	247,677	26,851	144,931	-
Operations and maintenance	322,405	249,393	963,517	634,576	63,692
Transportation	-	-	1,305,277	-	-
Staff/personnel services	41,109	41,642	2,100	-	-
Athletic activities	203,695	105,539	132,754	85,973	-
Total supporting services	2,960,455	2,224,019	2,958,726	942,637	63,692
Community services					
Community services direction	-	-	-	-	-
Non-public school pupils	6,408	1,104	1,285	-	-
Total community services	6,408	1,104	1,285	-	-
Total expenditures	\$ 13,808,362	\$ 10,060,751	\$ 4,638,577	\$ 1,426,205	\$ 76,984

Total	
2020	2019

\$	64,247	\$	64,145
	529,204		485,948

	593,451		550,093
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	1,819,767		1,782,252
	7,437		6,004

	1,827,204		1,788,256
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	524,953		497,497
	142,831		66,622

	667,784		564,119
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	2,233,583		2,235,521
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	1,305,277		1,338,153
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	84,851		82,580
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	527,961		603,175
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	9,149,529		9,085,963
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	-		3,816
	8,797		7,799

	8,797		9,391
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\$	30,010,879	\$	29,674,129
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Concluded

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2020

	Special Revenue Funds	Capital Project Funds	Debt Service Funds	Total
Assets				
Cash and cash equivalents	\$ 1,183,489	\$ 618,121	\$ 238,682	\$ 2,040,292
Investments	-	3,944	57,300	61,244
Accounts receivable	64,501	-	-	64,501
Due from other funds	-	-	56,887	56,887
Due from other governmental units	25,712	-	-	25,712
Prepaid items	85,000	-	-	85,000
Inventory	15,042	-	-	15,042
Total assets	\$ 1,373,744	\$ 622,065	\$ 352,869	\$ 2,348,678
Liabilities				
Accounts payable	\$ 20,976	\$ -	\$ -	\$ 20,976
Contracts payable	-	7,500	-	7,500
Due to other funds	-	-	56,887	56,887
Unearned revenue	34,904	-	-	34,904
Total liabilities	55,880	7,500	56,887	120,267
Fund balances				
Nonspendable:				
Inventory	15,042	-	-	15,042
Prepaid items	85,000	-	-	85,000
Restricted:				
Food service	190,696	-	-	190,696
Capital outlay	-	614,565	-	614,565
Debt service	-	-	295,982	295,982
Committed:				
Student activities	1,027,126	-	-	1,027,126
Total fund balances	1,317,864	614,565	295,982	2,228,411
Total liabilities and fund balances	\$ 1,373,744	\$ 622,065	\$ 352,869	\$ 2,348,678

PUBLIC SCHOOLS OF PETOSKEY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2020

	Special Revenue Funds	Capital Project Funds	Debt Service Funds	Total
Revenues				
Local sources	\$ 1,478,331	76,369	2,597,689	4,152,389
State sources	39,562	-	-	39,562
Federal sources	575,638	-	-	575,638
Total revenues	2,093,531	76,369	2,597,689	4,767,589
Expenditures				
Current:				
Food services	835,498	-	-	835,498
Student activities	1,033,050	-	-	1,033,050
Other	-	3,954	6,123	10,077
Debt service:				
Principal	-	-	2,530,000	2,530,000
Interest	-	-	350,750	350,750
Capital outlay	-	78,941	-	78,941
Total expenditures	1,868,548	82,895	2,886,873	4,838,316
Net change in fund balances	224,983	(6,526)	(289,184)	(70,727)
Fund balances, beginning of year, as restated	1,092,881	621,091	585,166	2,299,138
Fund balances, end of year	\$ 1,317,864	\$ 614,565	\$ 295,982	\$ 2,228,411

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2020

(With Comparative Totals as of June 30, 2019)

	Food Service Fund	Student Activities Fund	Total	
			2020	2019
Assets				
Cash and cash equivalents	\$ 193,363	\$ 990,126	\$ 1,183,489	\$ 71,294
Accounts receivable	27,501	37,000	64,501	26,244
Due from other governmental units	25,712	-	25,712	15,251
Prepaid items	85,000	-	85,000	-
Inventory	15,042	-	15,042	97,575
Total assets	\$ 346,618	\$ 1,027,126	\$ 1,373,744	\$ 210,364
Liabilities				
Accounts payable	\$ 20,976	\$ -	\$ 20,976	\$ 25,507
Unearned revenue	34,904	-	34,904	24,073
Total liabilities	55,880	-	55,880	49,580
Fund balances				
Nonspendable - inventory	15,042	-	15,042	12,575
Nonspendable - prepaid items	85,000	-	85,000	85,000
Committed - student activities	-	1,027,126	1,027,126	-
Restricted - food service	190,696	-	190,696	63,209
Total fund balances	290,738	1,027,126	1,317,864	160,784
Total liabilities and fund balances	\$ 346,618	\$ 1,027,126	\$ 1,373,744	\$ 210,364

67,103

PUBLIC SCHOOLS OF PETOSKEY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Special Revenue Funds

For the Year Ended June 30, 2020

(With Comparative Totals For the Year Ended June 30, 2019)

	Food Service Fund	Student Activities Fund	Total	
			2020	2019
Revenues				
Local sources:				
Charges for services:				
Lunch sales	\$ 153,994	\$ -	\$ 153,994	\$ 171,733
Breakfast sales	4,938	-	4,938	7,723
Ala carte and other sales	123,392	-	123,392	298,751
Student activities	-	1,195,182	1,195,182	-
Interest	825	-	825	1,462
State sources	39,562	-	39,562	56,125
Federal sources	575,638	-	575,638	475,597
Total revenues	898,349	1,195,182	2,093,531	1,011,391
Expenditures				
Current:				
Food services:				
Salaries	16,831	-	16,831	40,208
Employee benefits	11,983	-	11,983	34,473
Purchased services	374,316	-	374,316	380,397
Supplies, materials and other expenditures	72,712	-	72,712	68,807
Food costs	359,656	-	359,656	420,403
Student activities	-	1,033,050	1,033,050	-
Total expenditures	835,498	1,033,050	1,868,548	944,288
Net change in fund balances	62,851	162,132	224,983	67,103
Fund balances, beginning of year, as restated	227,887	864,994	1,092,881	160,784
Fund balances, end of year	\$ 290,738	\$ 1,027,126	\$ 1,317,864	\$ 227,887

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet

Nonmajor Capital Projects Funds

June 30, 2020

(With Comparative Totals as of June 30, 2019)

	Building and Site Fund	Athletic Complex Fund	Total	
			2020	2019
Assets				
Cash and cash equivalents	\$ 614,482	\$ 3,639	\$ 618,121	\$ 2,360,414
Investments	-	3,944	3,944	9,303
Due from other funds	-	-	-	14,280
Total assets	\$ 614,482	\$ 7,583	\$ 622,065	\$ 2,383,997
Liabilities				
Due to other funds	\$ -	\$ -	\$ -	\$ 15,655
Contracts payable	-	7,500	7,500	29,838
Total liabilities	-	7,500	7,500	45,493
Fund balances				
Restricted - capital outlay	614,482	83	614,565	1,717,413
Assigned - capital outlay	-	-	-	621,091
Total fund balances	614,482	83	614,565	2,338,504
Total liabilities and fund balances	\$ 614,482	\$ 7,583	\$ 622,065	\$ 2,383,997
				(1,717,413)

PUBLIC SCHOOLS OF PETOSKEY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Capital Projects Funds

For the Year Ended June 30, 2020

(With Comparative Totals For the Year Ended June 30, 2019)

	Building and Site Fund	Athletic Complex Fund	Total	
			2020	2019
Revenues				
Local sources:				
Rent income	\$ 72,485	\$ -	\$ 72,485	\$ 29,831
Interest	3,801	83	3,884	6,595
Total revenues	76,286	83	76,369	36,426
Expenditures				
Other	3,954	-	3,954	3,235
Capital outlay	78,941	-	78,941	35,790
Total expenditures	82,895	-	82,895	39,025
Revenues over (under) expenditures	(6,609)	83	(6,526)	(2,599)
Other financing sources (uses)				
Transfers in	-	-	-	14,280
Transfers out	-	-	-	(14,280)
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(6,609)	83	(6,526)	(2,599)
Fund balances, beginning of year	621,091	-	621,091	623,690
Fund balances, end of year	\$ 614,482	\$ 83	\$ 614,565	\$ 621,091

PUBLIC SCHOOLS OF PETOSKEY

Combining Balance Sheet

Nonmajor Debt Service Funds

June 30, 2020

(With Comparative Totals as of June 30, 2019)

	2012 Technology Bonds	2015 Refunding Bonds	Total	
			2020	2019
Assets				
Cash and cash equivalents	\$ -	\$ 238,682	\$ 238,682	\$ 528,756
Investments	-	57,300	57,300	56,410
Due from other funds	56,887	-	56,887	-
Total assets	<u>\$ 56,887</u>	<u>\$ 295,982</u>	<u>\$ 352,869</u>	<u>\$ 585,166</u>
Liabilities				
Due to other funds	\$ -	\$ 56,887	\$ 56,887	\$ -
Fund balances				
Restricted	56,887	239,095	295,982	585,166
Total liabilities and fund balances	<u>\$ 56,887</u>	<u>\$ 295,982</u>	<u>\$ 352,869</u>	<u>\$ 585,166</u>

PUBLIC SCHOOLS OF PETOSKEY

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Debt Service Funds

For the Year Ended June 30, 2020

(With Comparative Totals For the Year Ended June 30, 2019)

	2012 Technology Bonds	2015 Refunding Bonds	Total	
			2020	2019
Revenues				
Local sources:				
Property taxes	\$ 1,083,286	\$ 1,503,667	\$ 2,586,953	\$ 3,706,522
Interest income	4,495	6,241	10,736	21,184
Total revenues	<u>1,087,781</u>	<u>1,509,908</u>	<u>2,597,689</u>	<u>3,727,706</u>
Expenditures				
Other	3	6,120	6,123	2,749
Debt service:				
Principal	1,225,000	1,305,000	2,530,000	4,077,335
Interest	24,500	326,250	350,750	493,027
Total expenditures	<u>1,249,503</u>	<u>1,637,370</u>	<u>2,886,873</u>	<u>4,573,111</u>
Revenues over (under) expenditures	(161,722)	(127,462)	(289,184)	(845,405)
Other financing sources				
Transfers in	-	-	-	1,086,763
Net change in fund balances	(161,722)	(127,462)	(289,184)	241,358
Fund balances, beginning of year	<u>218,609</u>	<u>366,557</u>	<u>585,166</u>	<u>343,808</u>
Fund balances, end of year	<u>\$ 56,887</u>	<u>\$ 239,095</u>	<u>\$ 295,982</u>	<u>\$ 585,166</u>

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OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Bond Indebtedness (Unaudited)

June 30, 2020

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 10,130,000

Balance outstanding - June 30, 2020 \$ 6,130,000

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
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	<u>17,875</u>	<u>17,875</u>	<u>1,625,000</u>	<u>1,660,750</u>
	<u><u>\$ 300,125</u></u>	<u><u>\$ 300,125</u></u>	<u><u>\$ 6,130,000</u></u>	<u><u>\$ 6,730,250</u></u>

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

PUBLIC SCHOOLS OF PETOSKEY

Property Tax Information (Unaudited)

June 30, 2020

Taxing District	Tax Levy	Collections and Other Reductions	Delinquent Property Taxes	Percentage of Current Year Levy Collected
Bear Creek Township	\$ 6,108,095	\$ 5,794,136	\$ 313,959	94.86%
Littlefield Township	82,508	81,379	1,129	98.63%
Little Traverse Township	538,338	494,135	44,203	91.79%
Resort Township	4,521,622	4,265,142	256,480	94.33%
Springvale Township	905,587	849,828	55,759	93.84%
City of Petoskey	7,269,858	7,067,985	201,873	97.22%
Chandler Township	105,412	97,312	8,100	92.32%
Hayes Township	50,557	48,674	1,883	96.28%
Melrose Township	1,331,433	1,253,982	77,451	94.18%
Total	\$ 20,913,410	\$ 19,952,573	\$ 960,837	95.41%
Allocated as follows				
General Fund	\$ 15,994,074	\$ 15,245,069	\$ 749,005	95.32%
Sinking Fund	2,550,008	2,440,209	109,799	95.69%
Debt Service Fund	2,369,328	2,267,295	102,033	95.69%
Total allocated to all funds	\$ 20,913,410	\$ 19,952,573	\$ 960,837	95.41%

PUBLIC SCHOOLS OF PETOSKEY

Ten-Year Summary of Enrollment (Unaudited)

June 30, 2020

Year	Special Education	Elementary School	Middle School	High School	Total	Non-Resident	Resident
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
2020	67	1,129	669	974	2,839	531	2,308

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) June 30, 2020

Year	Expenditures and Transfers*	Student Enrollment	Expenditures Per Pupil
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	27,194,238	2,879	9,446
2017	27,510,429	2,878	9,559
2018	29,823,330	2,850	10,463
2019	29,676,354	2,809	10,565
2020	30,010,879	2,839	10,571

* General Fund expenditures and transfers only.

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

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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 12, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 12, 2020, 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.

Rehmann Lobson LLC

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PUBLIC SCHOOLS OF PETOSKEY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

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	191970	\$ 71,051
National school lunch - breakfast	10.553	MDE	201970	43,178
				<u>114,229</u>
National school lunch section 11 all lunches	10.555	MDE	191960	350,035
National school lunch section 11 all lunches	10.555	MDE	201960	233,450
COVID-19 SFSP (Unanticipated Grant Payments)	10.555	MDE	200902	179,687
Entitlement commodities (noncash)	10.555	MDE	n/a	52,823
				<u>815,995</u>
Summer Food Service Program - Operating	10.559	MDE	190900	19,037
Summer Food Service Program - Admin	10.559	MDE	191900	1,973
				<u>21,010</u>
Total U.S. Department of Agriculture - Child Nutrition Cluster				<u>951,234</u>
U.S. Department of Education				
Title I, Part A - Improving Basic Programs	84.010	MDE	191530-1819	306,227
Title I, Part A - Improving Basic Programs	84.010	MDE	201530-1920	277,823
				<u>584,050</u>
Indian Education	84.060A	Direct	S060A180636	39,639
Indian Education	84.060A	Direct	S060A190636	46,256
				<u>85,895</u>
Title II, Part A - Improving Teacher Quality	84.367	MDE	190520-1819	151,861
Title II, Part A - Improving Teacher Quality	84.367	MDE	180532-1819	28,980
Title II, Part A - Improving Teacher Quality	84.367	MDE	200520-1920	136,796
				<u>317,637</u>
Title IV - Student Support and Academic Enrichment	84.424	MDE	190750	24,854
Title IV - Student Support and Academic Enrichment	84.424	MDE	200750	37,446
				<u>62,300</u>
COVID 19 - Elementary and Secondary School Emergency Relief	84.425D	MDE	203710-1920	206,644
Total U.S. Department of Education				<u>1,256,526</u>

Accrued (Deferred) Revenue July 1, 2019	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2020	Accrued (Deferred) Revenue June 30, 2020
\$ 1,795	\$ 10,021	\$ 62,825	\$ 8,226	\$ -
-	43,178	-	43,178	-
1,795	53,199	62,825	51,404	-
6,455	49,426	307,064	42,971	-
-	233,450	-	233,450	-
-	152,485	-	179,687	27,202
-	52,823	-	52,823	-
6,455	488,184	307,064	508,931	27,202
5,171	19,037	5,171	13,866	-
536	1,973	536	1,437	-
5,707	21,010	5,707	15,303	-
13,957	562,393	375,596	575,638	27,202
21,471	47,136	255,235	25,665	-
-	177,660	-	229,451	51,791
21,471	224,796	255,235	255,116	51,791
-	-	25,760	-	-
-	17,574	-	17,574	-
-	17,574	25,760	17,574	-
37,620	44,081	73,621	6,461	-
3,847	3,847	9,472	-	-
-	16,426	-	17,908	1,482
41,467	64,354	83,093	24,369	1,482
2,551	2,551	6,753	-	-
-	-	-	930	930
2,551	2,551	6,753	930	930
-	-	-	178,659	178,659
65,489	309,275	370,841	476,648	232,862

continued...

PUBLIC SCHOOLS OF PETOSKEY

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

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	19/20	<u>\$ 7,957</u>
Total Federal Financial Assistance				<u><u>\$ 2,215,717</u></u>

See notes to schedule of expenditures of federal awards.



Accrued (Deferred) Revenue July 1, 2019	Current Year Cash Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2020	Accrued (Deferred) Revenue June 30, 2020
\$ -	\$ 4,851	\$ -	\$ 7,957	\$ 3,106
<u>\$ 79,446</u>	<u>\$ 876,519</u>	<u>\$ 746,437</u>	<u>\$ 1,060,243</u>	<u>\$ 263,170</u>

concluded

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, 2020. 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 12, 2020

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, 2020, 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 12, 2020.

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) as a basis for designing 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.

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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 financial statements. 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 Lohman LLC". The script is cursive and fluid, with the letters "L" and "L" at the beginning and end being particularly prominent.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

October 12, 2020

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, 2020. 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, 2020.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-001. Our opinion on the major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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.

Rehmann Rohan LLC

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PUBLIC SCHOOLS OF PETOSKEY

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2020

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, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2020-001 - Program Income - Food Service Fund Balance

Finding Type. Immaterial Noncompliance

Federal program(s)

U.S. Department of Agriculture:

- Child Nutrition Cluster (CFDA# 10.553, 10.555 and 10.559); Passed through MDE; All project numbers

Criteria. The USDA requires that the ending balance of the non-profit school food service fund does not exceed three months' average of operating expenses [7 CFR Part 210.14(b)].

Condition. In our review of the District's food service fund balance, we noted that the District's fund balance exceeded three months' average of operating expenses.

Cause. This condition appears to be the result of the District's increased food service revenue and conservative budgeting of expenditures by management.

Effect. As a result of this condition, the District did not fully comply with USDA fund balance requirements.

Questioned Costs. No costs have been questioned as a result of this finding inasmuch as no disallowed costs were identified.

Recommendation. We recommend the District review its budgeting of expenditures for the food service fund to ensure that fund balance is reduced to an appropriate level.

View of Responsible Officials. On March 13th, the State of Michigan closed all public school buildings due to COVID-19. Because of the early shutdown, the Public Schools of Petoskey experienced less operational costs, but consistent revenues due to the COVID-19 SFSP (Unanticipated Grant Payments). These factors greatly impacted the Food Service fund balance to the level of noncompliance with USDA fund balance requirements. The District will assess the operational needs of the Food Service program and purchase equipment or supplies that are needed in the program. The District will analyze the quantity and quality of food distributed to students to ensure nutritional guidelines set forth by the Michigan Department of Education are met. Finally, the District will assess student meal charges to ensure that the District is not overcharging based on the Michigan Department of Education's meal pricing guidelines. These combined efforts will put the District into compliance with the fund balance requirements of the USDA.

Responsible Official. Director of Finance

Estimated Completion Date. June 30, 2022

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PUBLIC SCHOOLS OF PETOSKEY

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2020

No findings in the prior year.

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