PUBLIC SCHOOLS OF PETOSKEY

Charlevoix and Emmet Counties, Michigan

Annual Financial Report

For the year ended June 30, 2023

Hungerford Nichols CPAs + Advisors
Where good ideas add up

PUBLIC SCHOOLS OF PETOSKEY
Table of Contents

For the year ended June 30, 2023

Financial Section

FINANCIAL SECTION

Hungerford Nichols CPAs + Advisors
Where good ideas add up

INDEPENDENT AUDITOR'S REPORT

October 20, 2023

The Board of Education
Public Schools of Petoskey

Report on the Audit of the Financial Statements

Opinions

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 as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Public Schools of Petoskey's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Public Schools of Petoskey, as of June 30, 2023, the respective changes in financial position, and the respective budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Public Schools of Petoskey and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Public Schools of Petoskey's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Public Schools of Petoskey's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Public Schools of Petoskey's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and analysis and other required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public Schools of Petoskey's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are 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 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 nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Emphasis of Matter

Changes in Accounting Principle

As discussed in Note K to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* and No. 101 *Compensated Absences* for the fiscal year June 30, 2023. Our opinion is not modified in respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2023, on our consideration of the Public Schools of Petoskey'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 solely 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 the effectiveness of the Public Schools of Petoskey's 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 Public Schools of Petoskey's internal control over financial reporting and compliance.

Hungerford Nichols

Certified Public Accountants
Grand Rapids, Michigan

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Public Schools of Petoskey ("the District"), 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, 2023. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Position and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

  - *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Required Supplementary Information includes pension and OPEB information schedules; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

District-wide Statements

The District-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position, and how it has changed. Net position - the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are presented as follows:

Governmental activities: The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

New Accounting Pronouncement Implemented

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. This Statement enhances the relevance and consistency of information about governments' subscription-based information technology arrangements. In addition, the District implemented GASB Statement No. 101 *Compensated Absences* during the fiscal year ended June 30, 2023. This Statement will provide more consistent application for recognizing liability related to compensated absences, which is expected to potentially eliminate comparability issues between governments that offer different types of leave and enhance the relevance and reliability of information for compensated absences. See Note K for additional information.

Condensed District-wide Financial Information

The Statement of Net Position provides financial information on the District as a whole.

	2023	2022
Assets		
Current assets	$ 21,653,845	$ 20,122,361
Net capital assets	59,939,926	58,955,120
Total Assets	**81,593,771**	**79,077,481**
Deferred Outflows of Resources	**20,404,602**	**12,015,185**
Liabilities		
Current liabilities	8,042,678	7,292,039
Long-term liabilities	467,580	2,071,373
Net pension liability	56,952,760	36,514,906
Net OPEB liability	3,151,209	2,340,791
Total Liabilities	**68,614,227**	**48,219,109**
Deferred Inflows of Resources	**8,095,764**	**21,777,982**
Net Position		
Net investment in capital assets	58,094,920	56,137,414
Restricted	6,167,896	6,154,566
Unrestricted (deficit)	(38,974,434)	(41,196,405)
Total Net Position	**$ 25,288,382**	**$ 21,095,575**

The Statement of Activities presents changes in net position for operating results:

	2023	2022
Program Revenues		
Charges for services	$ 724,290	$ 493,518
Operating grants	14,287,364	12,958,256
General Revenues		
Property taxes	22,833,829	21,812,815
State school aid, unrestricted	4,634,272	4,963,431
Interest and investment earnings	437,143	19,233
Other	1,690,708	1,065,771
Total Revenues	44,607,606	41,313,024
Expenses		
Instruction	23,988,132	20,093,598
Supporting services	12,659,108	10,524,548
Community services	13,856	9,826
Food service	1,239,715	1,173,862
Other	-	59,659
Interest on long-term debt	-	(52,191)
Unallocated depreciation	2,513,988	2,482,681
Total Expenses	40,414,799	34,291,983
Increase in net position	4,192,807	7,021,041
Net Position, Beginning of Year	21,095,575	14,074,534
Net Position, End of Year	**$ 25,288,382**	**$ 21,095,575**

Financial Analysis of the District as a Whole

Total revenues exceeded expenses by $4,192,807, increasing total net position from $21,095,575 to $25,288,382. Unrestricted net position increased by $2,221,971 to a deficit of $38,974,434 at June 30, 2023. The District's net pension liability, including deferred outflows and inflows of resources, increased by $1,602,142. The net OPEB liability, including deferred outflows and inflows of resources, decreased by $2,425,505.

The District's total revenues increased 7.97% to $44.6 million. Property taxes and state aid accounted for most of the District's revenue, contributing 61.6% of the total. Another 32% came from state and federal aid for specific programs, and the remainder from fees charged for services, interest earnings and miscellaneous sources.

Per the Statement of Activities, the total cost of all programs and services increased 17.85% to $40.4 million. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students amounting to 68.15% of total costs. The District's administrative and business activities accounted for 8.45% of total costs. Operation and maintenance costs accounted for another 7.44% of total costs.

The District continues to monitor the State economy and District budget and demographics in an attempt to protect academic programs and opportunities during challenging economic times. Regular updates on the budget and District finances were provided to the Board of Education, community groups, staff, and parents.

- At each monthly Board meeting and at the monthly Board workshop meetings, budget information was shared. The Board was kept updated on the changing economy and the impact on the current year budget as well as the impact on the following year budget.

- The District fully complies with the State Transparency Reporting requirements and posts on the District web site all budgetary and other financial information.

- The Superintendent and/or designees continue to communicate throughout the year with parents and community members to share information vital to their understanding of the operations of the District.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes one kind of fund:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Public Schools of Petoskey funds are described as follows:

Major Funds

General Fund
The General Fund is the District's primary operating fund. The General Fund had total revenues of $37,397,850, and total expenditures of $36,048,029. The fund balance at year end was $9,338,277, up form $7,988,456 at June 30, 2022.

Capital Projects Fund
The Building and Site Sinking Fund is used to account for property tax revenues and interest earnings used to finance District building improvements projects. During the fiscal year the fund had revenues totaling $2,727,298 and expenditures totaling $3,533,939. The fund balance at year end was $2,954,953 down from 3,761,594 at June 30, 2022.

Nonmajor Funds

Special Revenue Funds
The District operates two Special Revenue Funds. One is for the food service program and the other is for the school/student activities. Total revenues for the Special Revenue Funds were $2,707,316, with total expenditures of $2,669,807. The ending fund balances in the Special Revenue Funds totaled $2,099,401, up from $2,061,892 at June 30, 2022.

Debt Service Fund
The District operates one Debt Service Fund, the 2015 Refunding Debt Service Fund. Total revenues were $1,595,087 and total expenditures were $1,686,045. The ending fund balance totaled $249,643, down from $340,601 at June 30, 2022.

Capital Projects Fund
There is one nonmajor Capital Projects Fund incorporated into the financial statements of the District, the Capital Improvement Fund. During the fiscal year the fund had revenues totaling $68,256, and expenditures totaling $18,685. The ending fund balance totaled $866,878 at June 30, 2023 up from $817,307 at June 30, 2022.

General Fund Budgetary Highlights

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

A summary of the significant budget amendments for fiscal year 2022-2023 are as follows:

- Variances in grant expenditures and related matching revenues
- Variances in pupil enrollment and foundation allowance,
- Adjustments in staffing levels due to inability to fill all staff positions

Capital Asset and Debt Administration

Capital Assets

By the end of 2023, the District had invested $110.7 million in a broad range of capital assets, including land, school buildings, athletic facilities, school buses, and furniture and equipment (More detailed information about capital assets can be found in Note E in the notes to basic financial statements.) Total depreciation expense for the year was $2,513,998.

At June 30, 2023, the District's investment in capital assets (net of accumulated depreciation), including land, buildings, and furniture and equipment was $59.9 million. This represents a net increase of $984,806 from the previous year-end.

Land	$ 3,200,740
Buildings and improvements	51,440,417
Furniture and equipment	1,990,655
Construction in progress	3,308,114
Total Capital Assets	$ 59,939,926

Long-term Obligations

At year end, the District had $2.4 million in general obligation bonds and other long-term debt outstanding – a net decrease of $1.84 million from last year.

- The District continued to pay down its debt, retiring $1.79 million of outstanding bonds and bond premium.

As of June 30, 2023, the District's outstanding Unlimited Tax General Obligation Bonds have the bond ratings of "Aa3" with no outlook by Moody's Investors Service. The District's other obligations include early retirement incentive and accumulated sick and vacation pay. We present more detailed information about the long-term obligations within Note F of the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- The voters within the District approved a Building and Sinking Fund Millage in November of 2018. This is an eight (8) year millage collection of one-and-a-half (1.5) mill annually, adjusted per the Headlee Act, to primarily support the renovations needed with our facilities. These funds have shown the ability to help reduce the growing presssure on the General Fund to make needed improvements to the district's sites and facilities.. If this millage is not renewed in 2026, other sources will need to be utilized to maintain the district's sites and facilities.

- Unrestricted State funding for the 2022-23 school year has been increased by $450 per pupil to a total of $9,150 per pupil, a 5.2% increase. Though this increase is favorable, the District has experienced declining enrollment over the last two years, substantial increases in expenditures due to inflation, insurance, and competitive staff compensation packages. These factors negate increases in State funding.

- 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 $2.1 million this fiscal year from the Enhancement Millage, which will continue through 2027-2028.

- The District's initial budget for the 2023-24 school year projects a small deficit of $200,000. This is the result of conservative pupil enrollment projections, increased staff compensation and additional teaching staff positions. The District will amend the budget during the fiscal year to reflect other grant opportunities that were appropriated in the State's School Aid Fund after the District's budget passage.

- Demographic projections indicate that enrollment is likely to 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 25% 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.

- The District's labor contract with the Petoskey Education Association and the Petoskey Educational Suppot Personnel Associations expire in August 2023. The district is currently in contract negotiations with both employee groups.

- Employee retirement costs paid into the Michigan Public Schools Employees' Retirement System (MPSERS), controlled by the State, continues to be a cause for concern into the future. Prior year legislative groups have begun to address this unfunded liability, the fact remains there are less people paying into this system and more people receiving benefits each year, as state-wide decline in students have dictated retirees are not replaced locally on a one-to-one basis. For every dollar paid to employees throughout the year, the District pays a percentage into MPSERS. Addressing the unfunded MPSERS liability is necessary; however, it does reduce the overall available funds to all districts, as this funding dedicates a portion of school aid directly to this item.

Contacting the District's Financial Management

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

BASIC FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY
Statement of Net Position
June 30, 2023

	Governmental Activities
Assets	
Cash	$ 300
Cash equivalents, deposits and investments (Note B)	18,942,576
Accounts receivable	39,347
Due from other governmental units (Note C)	2,562,716
Inventory	19,397
Prepaid expenses	89,509
Capital assets not being depreciated (Note E)	6,508,854
Capital assets being depreciated, net (Note E)	53,431,072
Total Assets	81,593,771
Deferred Outflows of Resources	
Deferred pension amounts	16,049,075
Deferred OPEB amounts	4,355,527
Total Deferred Outflows of Resources	20,404,602
Liabilities	
Accounts payable	489,742
Due to other governmental units	1,474,999
Accrued interest payable	2,979
Payroll deductions and withholdings	472,758
Salaries payable	1,731,835
Unearned revenue	1,975,359
Long-term liabilities (Note F):	
Due within one year	1,895,006
Due in more than one year	467,580
Net pension liability	56,952,760
Net OPEB liability	3,151,209
Total Liabilities	68,614,227
Deferred Inflows of Resources	
Deferred pension amounts	1,254,331
Deferred OPEB amounts	6,841,433
Total Deferred Inflows of Resources	8,095,764
Net Position	
Net investment in capital assets	58,094,920
Restricted for:	
Capital outlay	3,821,831
Debt service	246,664
Food service	1,067,748
Student/school activities	1,031,653
Unrestricted (deficit)	(38,974,434)
Total Net Position	$ 25,288,382

See accompanying notes to basic financial statements.

PUBLIC SCHOOLS OF PETOSKEY
Statement of Activities
For the year ended June 30, 2023

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes in Net Position
Governmental Activities				
Instruction	$ 23,988,132	$ -	$ 12,470,868	$ (11,517,264)
Supporting services	12,659,108	317,995	440,267	(11,900,846)
Community services	13,856	29,441	-	15,585
Food service	1,239,715	376,854	923,236	60,375
Interest on long-term debt	-	-	452,993	452,993
Depreciation - unallocated*	2,513,988	-	-	(2,513,988)
Total Governmental Activities	$ 40,414,799	$ 724,290	$ 14,287,364	(25,403,145)
	General Revenues			
	Taxes:			
	Property taxes, levied for general operations			18,613,438
	Property taxes, levied for debt service			1,570,128
	Property taxes, levied for capital improvements			2,650,263
	State school aid, unrestricted			4,634,272
	Interest and investment earnings			437,143
	Other			1,690,708
	Total General Revenues			29,595,952
	Change in Net Position			4,192,807
	Net Position - Beginning of Year			21,095,575
	Net Position - End of Year			$ 25,288,382

*This amount excludes direct depreciation expense of the various programs

See accompanying notes to basic financial statements.

PUBLIC SCHOOLS OF PETOSKEY
Balance Sheet
Governmental Funds
June 30, 2023

	General Fund	Building and Site Sinking	Nonmajor	Total
Assets				
Cash	$ 300	$ -	$ -	$ 300
Cash equivalents, deposits and investments (Note B)	13,304,770	3,209,793	2,428,013	18,942,576
Accounts receivable	13,480	-	25,867	39,347
Due from other funds	71,979	13,114	798,268	883,361
Due from other governmental units	2,562,716	-	-	2,562,716
Inventory	9,911	-	9,486	19,397
Prepaid expenditures	4,509	-	85,000	89,509
Total Assets	$ 15,967,665	$ 3,222,907	$ 3,346,634	$ 22,537,206
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 185,226	$ 256,019	$ 48,497	$ 489,742
Due to other funds	811,382	11,935	60,044	883,361
Due to other governmental units	1,474,999	-	-	1,474,999
Payroll deductions and withholdings	472,758	-	-	472,758
Salaries payable	1,731,835	-	-	1,731,835
Unearned revenue	1,953,188	-	22,171	1,975,359
Total Liabilities	6,629,388	267,954	130,712	7,028,054
Fund Balances				
Nonspendable	14,420	-	94,486	108,906
Assigned	3,947,773	-	-	3,947,773
Restricted	-	2,954,953	3,121,436	6,076,389
Unassigned	5,376,084	-	-	5,376,084
Total Fund Balances	9,338,277	2,954,953	3,215,922	15,509,152
Total Liabilities and Fund Balances	$ 15,967,665	$ 3,222,907	$ 3,346,634	$ 22,537,206

See accompanying notes to basic financial statements.

PUBLIC SCHOOLS OF PETOSKEY
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities
June 30, 2023

Total governmental fund balances		$ 15,509,152
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 as assets in governmental funds. The cost of assets is $110,674,474 and accumulated depreciation is $50,734,548.		59,939,926
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	$ (1,625,000)	
Bond premium, unamortized	(220,006)	
Compensated absences	(450,487)	
Early retirement incentive	(67,093)	(2,362,586)
Accrued interest is not included as a liability in governmental funds.		(2,979)
Net pension liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net pension liability	(56,952,760)	
Deferred outflows of resources	16,049,075	
Deferred inflows of resources	(1,254,331)	(42,158,016)
Net OPEB liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net OPEB liability	(3,151,209)	
Deferred outflows of resources	4,355,527	
Deferred inflows of resources	(6,841,433)	(5,637,115)
Total Net Position - Governmental Activities		$ 25,288,382

See accompanying notes to basic financial statements.

PUBLIC SCHOOLS OF PETOSKEY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2023

	General Fund	Building and Site Sinking	Nonmajor	Total
Revenues				
Local sources	$ 19,446,225	$ 2,700,342	$ 3,427,604	$ 25,574,171
Non-educational entity sources	406,218	-	-	406,218
State sources	11,874,954	26,956	133,565	12,035,475
Federal sources	1,513,572	-	809,490	2,323,062
Interdistrict sources	4,156,881	-	-	4,156,881
Total Revenues	37,397,850	2,727,298	4,370,659	44,495,807
Expenditures				
Current:				
Instruction	24,473,186	-	-	24,473,186
Supporting services	11,560,733	1,935	1,400,995	12,963,663
Community services	14,110	-	-	14,110
Food service	-	-	1,270,107	1,270,107
Capital outlay	-	3,532,004	18,685	3,550,689
Debt service:				
Principal repayment	-	-	1,570,000	1,570,000
Interest and fiscal charges	-	-	114,750	114,750
Total Expenditures	36,048,029	3,533,939	4,374,537	43,956,505
Net Change in Fund Balances	1,349,821	(806,641)	(3,878)	539,302
Fund Balances, Beginning of Year	7,988,456	3,761,594	3,219,800	14,969,850
Fund Balances, End of Year	$ 9,338,277	$ 2,954,953	$ 3,215,922	$ 15,509,152

See accompanying notes to basic financial statements.

PUBLIC SCHOOLS OF PETOSKEY
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2023

Net change in fund balances - total governmental funds			$ 539,302
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 these assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:			
	Capital outlays	$ 3,498,794	
	Depreciation expense	(2,513,988)	984,806
Bond premium is amortized over the life of the new bond issue in the Statement of Activities.			220,007
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not effect the Statement of Activities:			
Repayment of general obligation bonds			1,570,000
Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid.			6,542
In the Statement of Net Position, accumulated sick/vacation pay and early retirement incentive are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of the benefits used/paid exceeded the amounts earned.			48,787
The changes in net pension liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.			(1,602,142)
The changes in net OPEB liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.			2,425,505
Total change in net position - governmental activities			$ 4,192,807

See accompanying notes to basic financial statements.

PUBLIC SCHOOLS OF PETOSKEY
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2023

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Local sources	$ 18,309,536	$ 19,295,092	$ 19,446,225	$ 151,133
Non-educational entity sources	634,000	401,950	406,218	4,268
State sources	9,867,524	11,971,618	11,874,954	(96,664)
Federal sources	1,783,901	1,654,936	1,513,572	(141,364)
Interdistrict sources	4,019,182	4,039,731	4,156,881	117,150
Total Revenues	34,614,143	37,363,327	37,397,850	34,523
Expenditures				
Current:				
Instruction:				
Basic programs	18,557,335	18,630,014	18,628,963	1,051
Added needs	5,677,477	5,745,046	5,844,223	(99,177)
Supporting services:				
Pupil services	1,407,459	1,271,002	1,425,142	(154,140)
Instructional staff services	1,551,642	1,329,612	1,348,771	(19,159)
General administrative services	774,355	670,228	702,163	(31,935)
School administrative services	2,141,517	2,132,341	2,168,799	(36,458)
Business services	658,862	540,334	542,272	(1,938)
Operation and maintenance services	2,760,044	2,588,008	3,007,137	(419,129)
Pupil transportation services	1,597,750	1,530,190	1,644,408	(114,218)
Central services	76,478	4,177	-	4,177
Other supporting services	749,898	717,335	722,041	(4,706)
Community services	27,258	22,264	14,110	8,154
Capital outlay	300,000	276,500	-	276,500
Total Expenditures	36,280,075	35,457,051	36,048,029	(590,978)
Net Change in Fund Balances	(1,665,932)	1,906,276	1,349,821	625,501
Fund Balances, Beginning of Year	7,988,456	7,988,456	7,988,456	-
Fund Balances, End of Year	$ 6,322,524	$ 9,894,732	$ 9,338,277	$ 625,501

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

Note A – Summary of Significant Accounting Policies

Public Schools of Petoskey ("the District") was organized under the School Code of the State of Michigan, and services a population of approximately 2,528 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District's significant accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District's financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-wide and Fund Financial Statements

District-wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District does not have any *business-type activities.*

The Statement of Net Position is reported on the full accrual, economic resources basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District's net position is reported in three parts: net investment in capital assets, net of related debt; restricted net position, and unrestricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund and the Building and Site Sinking Capital Projects Fund are the District's major funds. Nonmajor funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided separately.

Revenues are recognized when susceptible to accrual; i.e., 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 District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. 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 grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Student/School Activity Special Revenue Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with sinking fund millage. The District has complied with the applicable provisions of Section 1212 (I) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

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

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Public Schools of Petoskey has also adopted budgets for its Special Revenue Funds. A school district’s General Appropriations Resolution (the “budget”) must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget.

A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

Public Schools of Petoskey utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Director of Finance to establish proposed operating budgets for the fiscal year commencing the following July 1.

- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.

- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.

- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.

- The original General and Special Revenue Fund budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).

- Budgets for the General and Special Revenue Fund were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventories and Prepaid Items

Inventories are valued at cost (first-in, first-out). Inventories of the General Fund consist of teaching and custodial supplies. Inventories of the Food Service Fund consist of food and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed (consumption method) rather than when purchased.

8. Capital Assets

Capital assets, which include land, buildings and improvements, and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed $5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Buildings and improvements, and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 - 50 years
Furniture and equipment	3 - 10 years

9. Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

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

10. Early Retirement Incentive and Accumulated Sick Leave

Early retirement incentive, accumulated vacation pay and sick leave at June 30, 2023 have been computed and recorded in the basic financial statements of the District. Employees who leave the District are entitled to reimbursement for a portion of their unused vacation and sick days. At June 30, 2023, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive and accumulated vacation pay and sick leave amounted to $67,093 and $450,487, respectively.

11. Retirement Plan

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented by the District during the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Cost sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans – pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

12. Postemployment Benefits Other Than Pensions

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented by the District during the fiscal year ended June 30, 2018. This Statement establish standards for recognizing and measuring (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB plans, the Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about OPEB are also addressed. Distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet specific criteria. Cost-sharing employers are those whose employees are provided with defined benefit OPEB through cost-sharing multiple-employer OPEB plans—OPEB plans in which the OPEB obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the OPEB plan.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

13. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two such items that qualify for reporting in this category: the deferred outflows of resources relating to the recognition of net pension liability on the financial statements and the deferred outflows of resources relating to the recognition of the net OPEB liability on the financial statements.

In addition to liabilities, the Statement of Net 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 future period(s) and so will *not* be recognized as in inflow of resources (revenue) until that time. The District has two types of items that qualifies for reporting in this category: the deferred inflows of resources relating to the recognition of net pension liability on the financial statements and the deferred inflows of resources relating to the recognition of net OPEB liability on the financial statements.

14. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

15. Fund Balance

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, detailed as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).

- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

- Committed – resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Board of Education). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified uses by taking the same type of action it employed to previously commit those amounts.

- Assigned – resources that are constrained by the government's *intent* to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes.

- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

As of June 30, 2023, Public Schools of Petoskey had not established a policy for its use of unrestricted fund balance amounts; it considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

16. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

17. Estimates

The preparation of the 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.

Note B – Cash Equivalents, Deposits, and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- 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.

- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally charted bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

- Commercial paper rated at the time of purchase within the two highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.

- Securities issued or guaranteed by agencies or instrumentalities of the United States government.

- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

Balances at June 30, 2023 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Position:	
Governmental activities	$ 18,942,576

Cash Equivalents and Deposits

Depositories actively used by the District during the year are detailed as follows:

1. Citizens National Bank

Cash equivalents consist of both interest and non-interest bearing bank accounts.
Deposits consist of certificates of deposit.

June 30, 2023 balances are detailed as follows:

Cash equivalents	$ 3,545,690
Deposits	501,881
	$ 4,047,571

Custodial Credit Risk Related to Bank Deposits
Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was $4,047,571 and the bank balance was $4,537,566. Of the bank balance, $943,375 was covered by federal depository insurance and $3,594,191 was uninsured and uncollateralized.

Investments

As of June 30, 2023, the District had the following investments:

Governmental activities:	
Michigan Liquid Asset Fund Plus (MILAF+) – Cash Management Class	$ 5,402
Michigan Liquid Asset Fund Plus (MILAF+) – MAX Class	14,889,603
	$ 14,895,005

The Michigan Liquid Assed Fund Plus (MILAF+) is an external pooled investment fund that includes qualified investments in accordance with the applicable sections of the School Code. MILAF+ is not regulated or registered with the Securities Exchange Commission. The MILAF+ Fund is rated AAAm by Standard and Poor’s and is carried at amortized cost. The MILAF+ MAX Class requires a 14-day redemption notice.

Custodial Credit Risk Related to Investments
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District’s investment policy (and State law) requires that commercial paper be rated within the two highest classifications established by not less than two standard rating services at the time of purchase.

Interest Rate Risk
The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements and by investing operating funds primarily in shorter term investments under 365 days. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than 18 months from the date of purchase. Reserve funds may be invested in securities exceeding 18 months if the maturity of such investments is made to coincide as nearly as practicable with the expected use of funds.

Concentration of Credit Risk
The District minimizes concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The District’s investment policy places no restrictions on the amount or percentage that may be invested in any one type of security. Excluding U.S. Government guaranteed investments, and mutual fund and pooled investments, no single investment exceeded 5% of total investments at June 30, 2023.

Foreign Currency Risk
The District is not authorized to invest in investments which have this type of risk.

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a “blended count” of District pupil membership in February 2022 and October 2022. The 2022-23 "Foundation Allowance" for Public Schools of Petoskey was $9,150 for 2,535 "Full Time Equivalent" students, generating $12,290,164 in State aid payments to the District of which $2,205,661 was paid to the District in July and August 2023 and included in “Due From Other Governmental Units” of the General Fund of the District.

Property taxes for the District are levied July 1 and December 1 (the tax lien dates) under a split-levy by the City of Petoskey and the Townships of Chandler, Hayes, Melrose, Bear Creek, Littlefield, Little Traverse, Resort, and Springvale, and are due 75 days after the levy date. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Charlevoix and Emmet, through their Delinquent Tax Revolving Fund, advance all delinquent real property taxes at March 1 to the District each year prior to June 30.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill “Local Enhancement Millage” which must be shared between all local districts in each respective county intermediate district.

Public Schools of Petoskey electors had previously (November 2018) approved an 18 mill operating millage extension. In 2022-23, the District levied 0.85 mills for debt service purposes, and 1.4371 mills for building and site, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A and Public Act 36, taxable property is now divided into two categories: PRE and NPRE.

A principal residence exemption property (PRE) is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted “Local Enhancement Millage” nor any additional voted millage for the retirement of debt.

Non-principal residence exemption property (NPRE) is subject to all District levies. However, since Public Act 36, establishing the Michigan Business Tax, was signed into law, Public Acts 37-40 of 2007 now exempt Industrial Personal Property from the 6 mill State Education Tax and up to 18 mills of local school district operating millage (includes property under Industrial Facilities Tax exemptions); and exempt Commercial Personal Property from up to 12 mills of local school district operating millage (exceptions may apply).

The District is subject to tax abatements granted by the Counties of Charlevoix and Emmet with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended, provides a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assists in the building of new facilities, and promotes the establishment of high tech facilities. An Industrial Facilities Exemption (IFE) certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term up to 12 years as determined by the local unit of government. The agreements entered into by each local unit include claw back provision should the recipient of the tax abatement fail to fully meet its commitments, such as employment levels and timeliness for relocation. The tax abated property taxes are calculated by applying half the property tax millage rate on the total IFT taxable value. This amounts to a reduction in property tax revenue of approximately 50%.

There were no property tax abatements for the year ended June 30, 2023.

Note D – Interfund Receivables/Payables

Amounts due from (to) other funds, representing interfund receivables and payables for year-end expenditure allocations not reimbursed at June 30, 2023 are detailed as follows:

	Due From	Due To
Major Funds		
General Fund:		
Food Service Special Revenue Fund	$ -	$ 798,268
Building & Site Capital Projects Fund	11,935	13,114
Student/School Activity Special Revenue Fund	58,479	-
2015 Refunding Debt Service Fund	1,565	-
Building & Site Capital Projects Fund:		
General Fund	13,114	11,935
Total Major Funds	85,093	823,317
Nonmajor Funds		
Special Revenue Funds:		
Food Service Special Revenue Fund:		
General Fund	798,268	-
Student/School Activity Special Revenue Fund:		
General Fund	-	58,479
Debt Service Fund:		
2015 Refunding Debt Service Fund:		
General Fund	-	1,565
Total Nonmajor Funds	798,268	60,044
Total All Funds	$ 883,361	$ 883,361

Note E – Capital Assets

	Balances July 1, 2022	Additions	Deductions	Adjustments	Balances June 30, 2023
Capital assets not being depreciated:					
Land	$ 3,200,740	$ -	$ -	$ -	$ 3,200,740
Construction in progress	1,316,649	3,163,480	1,172,015	-	3,308,114
Total capital assets not being depreciated	4,517,389	$ 3,163,480	$ 1,172,015	$ -	6,508,854
Capital assets being depreciated:					
Buildings and improvements	92,252,128	$ 1,362,227	$ -	$ 135,602	93,749,957
Furniture and equipment	10,406,163	9,500	-	-	10,415,663
Total capital assets being depreciated	102,658,291	$ 1,371,727	$ -	$ 135,602	104,165,620
Less accumulated depreciation for:					
Buildings and improvements	40,195,677	$ 2,113,863	$ -	$ -	42,309,540
Furniture and equipment	8,024,883	400,125	-	-	8,425,008
Total accumulated depreciation	48,220,560	$ 2,513,988	$ -	$ -	50,734,548
Total capital assets being depreciated, net	54,437,731				53,431,072
Net Capital Assets	$ 58,955,120				$ 59,939,926

Depreciation expense for the District was $2,513,988. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Note F – Long-term Obligations

Changes in long-term obligations for the year ended June 30, 2023 are summarized as follows:

	Debt Outstanding July 1, 2022	Debt Added	Debt Retired	Debt Outstanding June 30, 2023
General obligation bonds:				
February 25, 2015	$ 3,195,000	$ -	$ 1,570,000	$ 1,625,000
Bond premium	440,013	-	220,007	220,006
Accumulated sick and vacation pay *	422,508	27,979	-	450,487
Early retirement incentive	143,859	108,152	184,918	67,093
	$ 4,201,380	$ 136,131	$ 1,974,925	$ 2,362,586

**Net change only reported, consistent with GASB Statement No. 101 implementation. See Note K.*

Long-term obligations at June 30, 2023 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
$16,620 Building and Site and Refunding, dated February 25, 2015				
Annual maturities of $1,625K	May 1, 2024	2.20	$ 1,625,000	$ 1,625,000
Bond premium			220,006	220,006
Other Obligations				
Accumulated sick and vacation pay			450,487	25,000
Early retirement incentive			67,093	25,000
			$ 2,362,586	$ 1,895,006

The annual requirements to pay principal and interest on long-term bonds outstanding are as follows:

Year Ending June 30	Principal	Interest	Total
2024	$ 1,625,000	$ 35,750	$ 1,660,750

Note G – Retirement Plan

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (the "System"), is a cost-sharing, multiple-employer, state-wide, defined benefit public employee retirement system governed by the State of Michigan (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 the ex-officio member.

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

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

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

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 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements based on when the employee became a member. The age and service requirements range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years. Early retirement is computed in the same manner as a regular pension but is permanently reduced by .50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age. Certain employees have the option to participate in the defined contribution (DC) plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

The System also provides disability and survivor benefits to DB plan members.

Benefit terms provide for annual cost of living adjustments to each employee’s retirement allowance subsequent to the employee’s retirement date. The annual adjustment, if applicable, is 3 percent. Some members who do not receive an annual increase are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

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

Contributions and Funded Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2021 valuation will be amortized over a 17-year period beginning October 1, 2021 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for the plan fiscal year ended September 30, 2022.

Plan Name	Plan Status	Pension Contribution Rates: Member	District
Basic	Closed	0.0 – 4.0 %	20.14%
Member Investment Plan (MIP)	Closed	3.0 – 7.0%	20.14%
Pension Plus	Closed	3.0 – 6.4 %	17.22%
Pension Plus 2	Open	6.2%	19.93%
Defined Contribution	Open	0.0%	13.73%

The District's contributions to MPSERS under all pension plans for the year ended June 30, 2023, inclusive of the MSPERS UAAL Stabilization, totaled $5,422,750.

Proportionate Share of Reporting Unit's Net Pension Liability

At June 30, 2023, the District reported a liability of $56,952,760 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2021. 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 the pension contributions required from all applicable employers during the measurement period. At September 30, 2022, the District's proportion was 0.15143499%, which was a decrease from 0.15423134% at September 30, 2021.

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

For the year ended June 30, 2023, the District recognized pension expense of $6,928,356. At June 30, 2023, 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
Difference between expected and actual experience	$ 569,726	$ 127,340
Changes of assumptions	9,786,525	—
Net difference between projected and actual earnings on pension plan investments	133,554	—
Changes in proportion and differences between District contributions and proportionate share of contributions	437,208	1,126,991
District contributions subsequent to the measurement date*	5,122,062	—
Total	$ 16,049,075	$ 1,254,331

* This amount, reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30	Amount
2025	$ 2,925,062
2026	1,934,692
2027	1,616,100
2028	3,196,828

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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

Valuation Date:	September 30, 2021
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	
MIP and Basic Plans (Non-Hybrid):	6.00% net of investment expenses
Pension Plus Plan (Hybrid):	6.00% net of investment expenses
Pension Plus 2:	6.00% net of investment expenses
Projected Salary Increases:	2.75% - 11.55%, including wage inflation of 2.75%
Cost-of-Living Adjustments:	3% annual non-compounded for MIP members
Mortality:	
Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Disabled Retirees:	RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2018 valuation. The total pension liability as of September 30, 2022 is based on the results of an actuarial valuation date of September 30, 2021 and rolled forward using generally accepted actuarial procedures, including the experience study.

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.3922 for non-university employers].
- Recognition period for assets in years: 5.0000.

Full actuarial assumptions are available in the 2022 MPSERS Annual Comprehensive Financial Report found on the ORS website at (www.michigan.gov/orsschools).

Long-Term Expected Rate of Return on Investments

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, 2022 are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	25.0%	5.1%
Private Equity Pools	16.0%	8.7%
International Equity Pools	15.0%	6.7%
Fixed Income Pools	13.0%	(0.2)%
Real Estate and Infrastructure Pools	10.0%	5.3%
Absolute Return Pools	9.0%	2.7%
Real Return/Opportunistic Pools	10.0%	5.8%
Short-term Investment Pools	2.0%	(0.5)%
Total	**100.0%**	

*Long-term rates of return are net of administrative expenses and 2.2% inflation.

Rate of Return

For the fiscal year ended September 30, 2022, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (4.18)%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.0% was used to measure the total pension liability (6.0% for the Pension Plus Plan , 6.0% for the Pension Plus 2 Plan, hybrid plans provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.0% (6.0% for the Pension Plus Plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 6.0%, 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 5.0%	Current Single Discount Rate Assumption 6.0%	1% Increase 7.0%
District's proportionate share of the net pension liability	$ 75,156,485	$ 56,952,760	$ 41,952,071

Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees' Retirement System September 30, 2022 Annual Comprehensive Financial Report, available here: (www.michigan.gov/orsschools).

Payables to the Michigan Public School Employees' Retirement System (MPSERS)

Payables to the pension plan totaling $797,901 at June 30, 2023 arise from the normal legally required contributions based on the accrued salaries payable at year end, expected to be liquidated with expendable available financial resources.

Note H – Other Postemployment Benefits

Plan Description

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

The System's health plan provides all eligible 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 on the ORS website at www.michigan.gov/orsschools.

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.

Retiree Healthcare Reform of 2012

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

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

Contributions and Funded Status

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

Employer OPEB 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, 2021 valuation will be amortized over a 17-year period beginning October 1, 2021 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year ended September 30, 2022:

OPEB Contribution Rates:

Benefit Structure	Member	District
Premium Subsidy	3.0%	8.09%
Personal Healthcare Fund (PHF)	0.0 %	7.23%

Required contributions to the OPEB plan from the District were $1,161,230 for the year ended June 30, 2023.

Proportionate Share of Reporting Unit's Net OPEB Liability

At June 30, 2023, the District reported a liability of $3,151,209 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2021. 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, 2022, the District's proportion was 0.14877788% which was a decrease from 0.15335593% at September 30, 2021.

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

For the year ended June 30, 2023, the District recognized OPEB credit of $1,237,401. At June 30, 2023, 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
Difference between expected and actual experience	$ —	$ 6,172,011
Changes of assumptions	2,808,773	228,706
Net difference between projected and actual earnings on OPEB plan investments	246,292	—
Changes in proportion and differences between District contributions and proportionate share of contributions	254,976	440,716
District contributions subsequent to the measurement date*	1,045,486	—
Total	$ 4,355,527	$ 6,841,433

* This amount, reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending June 30	**Amount**
2023	$ (1,171,427)
2024	(1,040,364)
2025	(1.039,457)
2026	(163,528)
2027	(107,261)
Thereafter	(9,355)

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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

Valuation Date:	September 30, 2021
Actuarial Cost Method:	Entry Age, Normal
Asset Valuation Method:	Fair Value
Wage Inflation Rate:	2.75%
Investment Rate of Return:	6.00% net of investment expense
Projected Salary Increases:	2.75% - 11.55%, including wage inflation of 2.75%
Healthcare Cost Trend Rate:	Pre-65 - 7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120 Post-65 – 5.25% Year 1 graded to 3.5% Year 15; 3.0% Year 120
Mortality:	
Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Disabled Retirees:	RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Other 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 one or more dependents.

Notes:

- 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 OPEB valuations beginning with the September 30, 2018 valuation. The total OPEB liability as of September 30, 2022 is based on the results of an actuarial valuation date of September 30, 2021 and rolled forward using generally accepted actuarial procedures, including the experience study.

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [6.2250 for non-university employers].

- Recognition period for assets in years: 5.0000.

- Full actuarial assumptions are available in the 2022 MPSERS Annual Comprehensive Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return on Investments

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 were provided for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2022, are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	25.0%	5.1%
Private Equity Pools	16.0%	8.7%
International Equity Pools	15.0%	6.7%
Fixed Income Pools	13.0%	(0.2)%
Real Estate and Infrastructure Pools	10.0%	5.3%
Absolute Return Pools	9.0%	2.7%
Real Return/Opportunistic Pools	10.0%	5.8%
Short-term Investment Pools	2.0%	(0.5)%
Total	**100.0%**	

* Long-term rates of return are net of administrative expenses and 2.2% inflation.

Rate of Return

For the fiscal year ended September 30, 2022, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was (4.99)%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.0% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.0%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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 6.00 percent, 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 5.0%	**Current Discount Rate 6.0%**	**1% Increase 7.0%**
District's proportionate share of the net OPEB liability	$ 5,285,850	$ 3,151,209	$ 1,353,576

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

The following presents the District's proportionate share of the net OPEB liability calculated using 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 point higher:

	1% Decrease	**Current Healthcare Cost Trend Rate**	**1% Increase**
District's proportionate share of the net OPEB liability	$ 1,319,576	$ 3,151,209	$ 5,207,253

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2022 MPSERS Annual Comprehensive Financial Report, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

Payables to the OPEB plan totaling $136,114 at June 30, 2023 arise from the normal legally required contributions based on the accrued salaries payable at year end, expected to be liquidated with expendable available financial resources.

Note I – Risk Management and Employee Benefits

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for property loss, errors and omissions, workers' compensation, health benefits, and dental and vision benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

There were no significant reductions in insurance coverage in fiscal 2022-23, and as of year ended June 30, 2023, there were no material pending claims against the District.

Note J – Stewardship, Compliance and Accountability

The following District funds had actual expenditures exceed final budgeted amounts for the year ended June 30, 2023, as follows:

	Budget	Actual	Variance
General Fund			
Instruction:			
Added needs	$ 5,745,046	$ 5,844,223	$ (99,177)
Supporting services:			
Pupil services	1,271,002	1,425,142	(154,140)
Instructional staff services	1,329,612	1,348,771	(19,159)
General administrative services	670,228	702,163	(31,935)
School administrative services	2,132,341	2,168,799	(36,458)
Business services	540,334	542,272	(1,938)
Operation and maintenance services	2,588,008	3,007,137	(419,129)
Pupil transportation services	1,530,190	1,644,408	(114,218)
Other supporting services	717,335	722,041	(4,706)

Note K – New Accounting Pronouncements Adopted

Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)* was adopted by the District during the fiscal year ending June 30, 2023. This statement enhances the relevance and consistency of information about governments' SBITAs by requiring recognition of right-to-use subscription assets and a corresponding subscription liability. Upon implementation, The District was not required to recognize a right-to-use subscription asset or subscription liability as of July 1, 2022. Net position as of July 1, 2022 was not required to be restated as a result of implementing the Statement.

Governmental Accounting Standards Board (GASB) Statement No. 101, Compensated Absences was adopted by the District during the fiscal year ended June 30, 2023. This statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability. In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

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REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC SCHOOLS OF PETOSKEY
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2023

	Year Ended June 30, 2023	Year Ended June 30, 2022	Year Ended June 30, 2021
District's proportion of the net pension liability	0.15143499%	0.15423134%	0.15704000%
District's proportionate share of the net pension liability	$ 56,952,760	$ 36,514,906	$ 53,945,357
District's covered-employee payroll	$ 14,337,798	$ 13,737,032	$ 13,775,185
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	397.22%	265.81%	391.61%
Plan fiduciary net position as a percentage of the total pension liability	60.77%	72.60%	59.72%

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

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See notes to required supplementary information.

Year Ended June 30, 2020	Year Ended June 30, 2019	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
0.15341000%	0.14979000%	0.15209000%	0.15187000%	0.14999000%	0.14570000%
$ 50,803,396	$ 45,029,446	$ 39,412,671	$ 37,890,839	$ 36,634,250	$ 32,093,122
$ 13,634,104	$ 12,548,276	$ 12,681,026	$ 12,848,982	$ 12,460,245	$ 12,742,819
372.62%	358.85%	310.80%	294.89%	294.01%	251.85%
60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

PUBLIC SCHOOLS OF PETOSKEY
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net OPEB Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2023

	Year Ended June 30, 2023	Year Ended June 30, 2022	Year Ended June 30, 2021
District's proportion of the net OPEB liability	0.14877788%	0.15335593%	0.15649000%
District's proportionate share of the net OPEB liability	$ 3,151,209	$ 2,340,791	$ 8,383,388
District's covered-employee payroll	$ 14,337,798	$ 13,737,032	$ 13,775,185
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	21.98%	17.04%	60.86%
Plan fiduciary net position as a percentage of the total OPEB liability	83.09%	87.33%	59.44%

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

Note: GASB Statement No 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See notes to required supplementary information.

Year Ended June 30, 2020	Year Ended June 30, 2019	Year Ended June 30, 2018
0.15667000%	0.14773000%	0.15192000%
$ 11,245,595	$ 11,742,996	$ 13,453,044
$ 13,634,104	$ 12,548,276	$ 12,681,026
82.48%	93.58%	106.09%
48.46%	42.95%	36.39%

PUBLIC SCHOOLS OF PETOSKEY
Required Supplementary Information
Schedule of District Pension Contributions
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2023

	Year Ended June 30, 2023	Year Ended June 30, 2022	Year Ended June 30, 2021
Contractually required contribution	$ 5,422,750	$ 5,226,174	$ 4,502,700
Contributions in relation to the contractually required contribution	5,422,750	5,226,174	4,502,700
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll	$ 15,003,666	$ 14,380,549	$ 13,698,313
Contributions as a percentage of covered employee payroll	36%	36.34%	32.87%

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See notes to required supplementary information.

Year Ended June 30, 2020	Year Ended June 30, 2019	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
$ 4,341,777	$ 4,078,544	$ 3,852,705	$ 3,555,985	$ 3,375,387	$ 3,024,425
4,341,777	4,078,544	3,852,705	3,555,985	3,375,387	3,024,425
$ -	$ -	$ -	$ -	$ -	$ -
$ 13,745,968	$ 13,725,034	$ 14,205,094	$ 12,296,962	$ 12,337,346	$ 12,850,648
31.59%	29.72%	27.12%	28.92%	27.36%	23.54%

PUBLIC SCHOOLS OF PETOSKEY
Required Supplementary Information
Schedule of District OPEB Contributions
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2023

	Year Ended June 30, 2023	Year Ended June 30, 2022	Year Ended June 30, 2021
Contractually required contribution	$ 1,161,230	$ 1,105,217	$ 1,045,323
Contributions in relation to the contractually required contribution	1,161,230	1,105,217	1,045,323
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll	$ 15,003,666	$ 14,380,549	$ 13,698,313
Contributions as a percentage of covered employee payroll	7.74%	7.69%	7.63%

Note: GASB Statement No 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See notes to required supplementary information.

Year Ended June 30, 2020	Year Ended June 30, 2019	Year Ended June 30, 2018
$ 927,995	$ 1,070,163	$ 954,956
927,995	1,070,163	954,956
$ -	$ -	$ -
$ 13,745,968	$ 13,725,034	$ 14,205,094
6.75%	7.80%	6.72%

Note A – Net Pension Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2022-23.

Changes of assumptions: There were no changes of benefit assumptions in 2022-23.

Note B – Net OPEB Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2022-23.

Changes of assumptions: There were no changes of benefit assumptions in 2022-23.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

PUBLIC SCHOOLS OF PETOSKEY
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2023

	Special Revenue		Debt Service	Capital Projects	
	Food Service	Student/School Activity	2015 Refunding	Capital Improvement	Total
Assets					
Cash equivalents and investments	$ 238,764	$1,071,163	$251,208	$ 866,878	$2,428,013
Accounts receivable	4,807	21,060	-	-	25,867
Due from other funds	798,268	-	-	-	798,268
Inventory	9,486	-	-	-	9,486
Prepaid expenditures	85,000	-	-	-	85,000
Total Assets	$1,136,325	$1,092,223	$251,208	$ 866,878	$3,346,634
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 46,406	$ 2,091	$ -	$ -	$ 48,497
Due to other funds	-	58,479	1,565	-	60,044
Unearned revenue	22,171	-	-	-	22,171
Total Liabilities	68,577	60,570	1,565	-	130,712
Fund balances					
Nonspendable	94,486	-	-	-	94,486
Restricted	973,262	1,031,653	249,643	866,878	3,121,436
Total Fund Balances	1,067,748	1,031,653	249,643	866,878	3,215,922
Total Liabilities and Fund Balances	$1,136,325	$1,092,223	$251,208	$ 866,878	$3,346,634

PUBLIC SCHOOLS OF PETOSKEY
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2023

	Special Revenue		Debt Service	Capital Projects	
	Food Service	Student/School Activity	2015 Refunding	Capital Improvement	Total
Revenues					
Local sources:					
Property taxes	$ -	$ -	$1,570,128	$ -	$1,570,128
Interest earnings	497	-	5,140	24,076	29,713
Food sales	376,854	-	-	-	376,854
Other local sources	-	1,406,729	-	44,180	1,450,909
Total local sources	377,351	1,406,729	1,575,268	68,256	3,427,604
State sources	113,746	-	19,819	-	133,565
Federal sources	809,490	-	-	-	809,490
Total Revenues	1,300,587	1,406,729	1,595,087	68,256	4,370,659
Expenditures					
Current:					
Supporting services	-	1,399,700	1,295	-	1,400,995
Food service	1,270,107	-	-	-	1,270,107
Capital outlay	-	-	-	18,685	18,685
Debt service:					
Principal repayment	-	-	1,570,000	-	1,570,000
Interest and fiscal charges	-	-	114,750	-	114,750
Total Expenditures	1,270,107	1,399,700	1,686,045	18,685	4,374,537
Net Change in Fund Balances	30,480	7,029	(90,958)	49,571	(3,878)
Fund Balances, Beginning of Year	1,037,268	1,024,624	340,601	817,307	3,219,800
Fund Balances, End of Year	$1,067,748	$1,031,653	$ 249,643	$ 866,878	$3,215,922

PUBLIC SCHOOLS OF PETOSKEY
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2023

	Budget	Actual	Variance
Revenues			
Local sources	$ 418,080	$ 377,351	$ (40,729)
State sources	62,000	113,746	51,746
Federal sources	550,000	809,490	259,490
Total Revenues	1,030,080	1,300,587	270,507
Expenditures			
Current:			
Food service	1,439,419	1,270,107	169,312
Net Change in Fund Balances	(409,339)	30,480	(439,819)
Fund Balances, Beginning of Year	1,037,268	1,037,268	-
Fund Balances, End of Year	$ 627,929	$ 1,067,748	$ (439,819)

PUBLIC SCHOOLS OF PETOSKEY
Student/School Activity Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2023

	Budget	Actual	Variance
Revenues			
Local sources	$ 800,000	$ 1,406,729	$ 606,729
Expenditures			
Supporting services:			
Other student/school activity	800,000	1,399,700	(599,700)
Net Change in Fund Balance	-	7,029	7,029
Fund Balance, Beginning of Year	1,024,624	1,024,624	-
Fund Balance, End of Year	$ 1,024,624	$ 1,031,653	$ 7,029