



Public Schools of Petoskey

A Special Place for Everyone

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

PUBLIC SCHOOLS OF PETOSKEY

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For the Year Ended June 30, 2004

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INDEPENDENT AUDITORS' REPORT

August 12, 2004

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Public Schools of Petoskey**, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of **Public Schools of Petoskey's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic 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 **Public Schools of Petoskey** as of June 30, 2004, and the respective changes in financial position thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2004 on our consideration of ***Public Schools of Petoskey's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

The other supplementary information included on pages 52-54 is presented for additional analysis and is not a required part of the basic financial statements and accordingly, we express no opinion on it.

A handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is positioned in the lower right quadrant of the page.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Public Schools of Petoskey (District), a K-12 school District located in Emmet and Charlevoix Counties, Michigan, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2004. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

- Debt Service Fund – consisting of the 1993 and 1998 Debt funds, Durant debt fund, and Foster Land Contract fund.
- Special Revenue Funds – consisting of the Food Service Fund and the Athletic Fund
- Capital Projects Funds – consisting of the Building & Site Fund, Roof Repair Fund, 1998 Capital Projects Fund, and Sinking Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future debt obligations are not recorded.

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

Financial Analysis of the District as a Whole

As stated earlier, the summary of net assets provides the perspective of the District as a whole. The District's net assets increased 1.5 percent to approximately \$25.0 million. Table 1 provides a summary of the District's net assets as of June 30, 2003 and June 30, 2004:

Public Schools of Petoskey			
Net Assets			
Table 1			
	<u>Governmental Activities</u>		<u>Percentage</u>
	<u>2004</u>	<u>2003</u>	<u>Change</u>
Current assets	\$ 8,707,498	\$ 8,368,041	4.06%
Capital assets, net of accumulated depreciation	<u>47,149,071</u>	<u>48,426,502</u>	<u>-2.64%</u>
Total assets	55,856,569	56,794,543	-1.65%
Current liabilities	2,802,957	4,805,480	-41.67%
Long-term liabilities	<u>28,045,634</u>	<u>27,359,767</u>	<u>2.51%</u>
Total liabilities	30,848,591	32,165,247	-4.09%
Invested in capital assets, net of related debt	19,543,958	19,912,826	1.57%
Restricted	2,306,695	1,350,736	70.77%
Unrestricted	<u>3,157,325</u>	<u>3,365,734</u>	<u>-26.44%</u>
Total net assets	<u>\$ 25,007,978</u>	<u>\$ 24,629,296</u>	<u>1.54%</u>

Capital assets net of related debt, \$19.5 million, is the original cost of the District's capital assets, less depreciation, less the long-term debt outstanding used to finance the acquisition of those assets. This debt will be repaid from voter-approved property taxes collected as the debt and interest payments come due. Restricted net assets of \$2.3 million are shown separately to recognize legal constraints from debt covenants and enabling legislation. These constraints limit the District's ability to use those net assets for day-to-day operations.

The remaining amount of net assets of \$3.2 million was unrestricted and represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the District as a whole are reported in the statement of activities, summarized in Table 2, which shows the changes in net assets for fiscal year 2004 and 2003.

Public Schools of Petoskey
Change in Net Assets
Table 2

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2004</u>	<u>2003</u>	
Revenue			
Program Revenues			
Charges for services	1,123,299	\$ 856,153	31.20%
Grants and contributions	2,688,473	2,333,974	15.19%
General Revenues			
Property taxes	16,113,446	16,809,294	-4.14%
State foundation allowance	8,302,771	8,760,850	-4.25%
Other	<u>192,478</u>	<u>278,526</u>	<u>-30.89%</u>
Total revenues	<u>28,420,467</u>	<u>28,948,797</u>	<u>-1.83%</u>
Expenses			
Instruction	15,376,357	14,496,442	6.07%
Support services	7,498,815	7,191,118	4.28%
Community services	36,135	23,667	52.68%
Food services	982,870	925,357	6.22%
Athletics	554,989	540,415	2.70%
Interest/fees on long-term debt	1,351,738	1,538,124	-12.12%
Depreciation (unallocated)	<u>2,240,881</u>	<u>2,204,142</u>	<u>1.67%</u>
Total Expenses	<u>28,041,785</u>	<u>26,919,265</u>	<u>4.17%</u>
Increase in Net Assets	<u>\$ 378,682</u>	<u>\$ 2,029,532</u>	<u>-81.34%</u>

Of the District's total revenues available to operate the District, approximately 4 percent or \$1.1 million came from fees charged to those who benefited from the programs. A little over 9 percent or \$2.7 million of revenues came from other governments or organizations that subsidize certain programs with grants and other directed types of funding.

Local property taxes, in the amount of \$16.1 million, supported the remaining portion of the governmental activities. This is \$.7 million less than the prior year due to a tax rate reduction achieved by refinancing a portion of outstanding debt last year. The property tax revenue comes mainly from the 18 mills on all non-homestead property, which we are required to levy by the State in order to receive our full State foundation allowance. The District enjoys the support of the community in maintaining our facilities, as \$1.5 million of the \$16.1 million in tax revenue is generated by a special millage specifically for capital expenditures. The proceeds and expenditures of this special millage are exclusively tracked in the District's Sinking Fund. This special millage is due to expire December 31, 2004.

The State foundation allowance accounted for 29 percent or \$8.3 million of the revenue available. This revenue is determined by a formula that incorporates pupil headcount, the annual per pupil allowance, and the non-homestead property taxable values of the District.

The expense portion of Table 2 shows the financial support each functional area required during the year. Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for \$15.4 million or 55 percent of total expenses. Support services cost \$7.5 million or 27 percent of all expenses, which includes such items as transportation, maintenance, security, supervision, counseling, health care, and a variety of similar services that support the District's mission of educating children.

The District experienced an increase in net assets of \$378,682 or approximately 1.5 percent. Included in the current fiscal year was a decrease in the foundation allowance funding by the State of Michigan of \$74 per student, or approximately 1.1%. Offsetting this reduction was an increase in student enrollment to approximately 3,095 students. Another key reason for the increase in net assets is that, under the accrual basis of accounting, property taxes collected for debt service are recognized as revenue, while only interest on the debt is recognized as an expense. The increase in net assets differs from the change in fund balance and a reconciliation appears later in the financial statements.

Financial Analysis of The District's Funds

As noted earlier, the District uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide, and may provide more insight in the District's overall financial health. As the District completed this year, the governmental funds reported a combined fund balance of \$6.1 million, which is an increase of \$741,886 from the prior year.

Approximately 62% of this total amount, or \$3.8 million, constitutes *unreserved fund balance*, which is available for spending at the District's discretion. The remainder of the fund balance, or \$2.3 million, is *reserved* to indicate that it is not available for spending at the District's discretion. Of the reserved fund balance, \$1.5 million is earmarked for capital improvements and \$.8 million for payments on long-term debt.

The general fund is the principal operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,657,576, while total fund balance was \$3,678,452. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent approximately 16 percent of total general fund expenditures.

The fund balance of the District's general fund decreased by \$36,554 during the current fiscal year. This decrease is primarily attributable to a decrease of \$74 per student in the foundation allowance, as discussed above relative to District-wide governmental activities.

General Fund Budgetary Highlights

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

- Final budgeted local sources of revenue decreased from the original budget by \$.9 million. The original budget was created using estimated taxable values from the townships. The revised budget used actual taxable values, which were significantly less than the original estimate.
- Final budgeted state sources of revenue increased from the original budget by \$.5 million, which is due to the taxable value issue noted above. Under the state aid foundation formula, the amount of State Aid received from the State is directly, and inversely, related to the amount of tax revenue received by the local school district. Therefore, as tax revenue decreases due to changes in taxable value, State Aid increases by a similar amount.
- The District's final, actual General Fund revenues differed by \$306,654 from the final budget, a variance of 1.4 percent, primarily from unanticipated revenue received at year end from the intermediate school district for special education reimbursements.
- The District's final, actual General Fund expenditures differed by \$841,908 from the final budget, a variance of 3.6 percent. The reduction of actual expenditures over budget is due to significant cost saving programs implemented in the final quarter of the year.

Capital Asset and Debt Administration

Capital Assets. By the end of June 30, 2004, the District had invested \$63.5 million in a broad range of capital assets, including school buildings, land, athletic facilities, furniture, and equipment. This represents a net increase (including all additions and disposals) of \$963,450 or 1.5 percent from last year. More detailed information about capital assets is available in Note III. C. to the financial statements.

This year's capital assets additions include completion of a classroom addition project at Sheridan Elementary, and the purchase of approximately 30 acres of land adjacent to the Petoskey Middle School and Petoskey High School complex. Construction in progress consists of a window and casework replacement project on-going at every school in the District, with the exception of the Middle School.

**Public Schools of Petoskey
Capital Assets**

	2004	2003
Land	\$ 2,448,187	\$ 1,594,691
Construction-in-progress	56,655	290,366
Buildings	53,903,958	53,600,871
Furniture and equipment	7,064,755	7,024,177
 Total capital assets	 63,473,555	 62,510,105
 Less accumulated depreciation	 16,324,484	 14,083,603
 Net capital assets	 \$ 47,149,071	 \$ 48,426,502

Debt. At year-end, the District had \$28.0 million in general obligation bonds and other long-term debt outstanding – a reduction of 3.1 percent from last year – as shown in Table 4. More detailed information about the District’s long-term debt is presented in Note III.F to the financial statements, and in the Other Supplemental Information section.

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

	2004	2003
General obligation bonds	\$ 26,820,000	\$ 28,410,000
Other general obligation debt	1,225,634	539,767
 Total long-term debt	 \$ 28,045,634	 \$ 28,949,767

During the year, the District entered into a land contract for the purchase of land, as noted above in the capital assets section. The original amount of the land contract was \$700,000, and the remaining balance at year end is \$681,437.

Factors Bearing on the District’s Future

We consider many factors when setting the District’s 2004-05 fiscal year budget. One of the most important factors affecting our budget is our student count. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2004-05 budget is 20 percent and 80 percent of the February 2004 and September 2004 student counts, respectively. The 2004-05 fiscal year budget was adopted in June 2004, based on an estimate of students that will be enrolled in September 2004. Approximately 70% percent of total General Fund revenues are from the foundation allowance. Under State law, the District cannot access additional property tax revenue for general operations. As a result, the District funding is heavily dependent on the State’s ability to fund local school operations.

Based on early enrollment data at the start of the 2004-05 school year, we anticipate that the September 2004 student count will be below the estimates used in creating the 2004-05 fiscal year budget.

Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect the revenues to fund its appropriation to school districts. In fiscal year 2002-03, the State set the foundation allowance at \$6,700 per pupil. Later that same year, the State issued Executive Order cuts that resulted in a reduction of approximately \$180,000 in revenue for the District. In fiscal year 2003-04, the State again set the foundation allowance at \$6,700 per pupil. State ordered cuts later that same year resulted in a reduction of approximately \$229,000 in revenue for the District. Early indications from the State for funding levels for fiscal year 2004-05 indicate the foundation allowance will be set at \$6,700 for a third year in a row. Recent State revenue-estimating conferences are unclear whether actual collections are meeting the estimates used in setting the 2004-05 foundation allowance funding level. This makes it difficult to estimate whether the District will incur revenue reductions during the up-coming school year.

During the 2003-04 fiscal year, the District settled labor contracts with the Petoskey Education Association and the Petoskey Educational Support Personnel Association, which represents both the District's teachers and the District's support personnel. These contracts are set to expire in August 2005.

Contacting the School District's Financial Management

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

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

STATEMENT OF NET ASSETS GOVERNMENTAL ACTIVITIES

JUNE 30, 2004

ASSETS

Cash and cash equivalents	\$ 3,027,190
Investments	3,871,655
Receivables	59,283
Due from other governmental units	1,719,864
Inventory and prepaid expenditures	29,506
Capital assets, net	47,149,071

Total assets

55,856,569

LIABILITIES

Accounts payable	65,179
Contracts payable	106,704
Salaries payable	1,263,559
Accrued expenses	704,500
Accrued interest	213,381
Deferred revenue	449,634
Long-term liabilities	
Due within one year	1,698,107
Due in more than one year	26,347,527

Total liabilities

30,848,591

NET ASSETS

Invested in capital assets, net of related debt	19,543,958
Restricted for capital projects	1,448,022
Restricted for debt service	858,673
Unrestricted	3,157,325

Total net assets

\$ 25,007,978

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

PUBLIC SCHOOLS OF PETOSKEY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2004

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 15,376,357	\$ 330,620	\$ 2,285,156	\$ (12,760,581)
Supporting services	7,498,815	60,010	-	(7,438,805)
Community services	36,135	-	-	(36,135)
Food services	982,870	590,898	403,317	11,345
Athletics	554,989	141,771	-	(413,218)
Interest on long-term debt	1,351,738	-	-	(1,351,738)
Unallocated depreciation	2,240,881	-	-	(2,240,881)
Total governmental activities	\$ 28,041,785	\$ 1,123,299	\$ 2,688,473	\$ (24,230,013)
General revenues				
Property taxes - operations				13,413,042
Property taxes - debt service				2,700,404
Unrestricted state aid				8,302,771
Unrestricted investment earnings				81,950
Other				110,528
Total general revenues				24,608,695
Change in net assets				378,682
Net assets, beginning of year				24,629,296
Net assets, end of year				\$ 25,007,978

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

FUND FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2004

	General	Sinking	Debt Service	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,367,232	\$ 1,129,411	\$ 194,238	\$ 336,309	\$ 3,027,190
Investments	2,987,352	177,765	662,760	43,778	3,871,655
Accounts receivable	58,943	-	-	340	59,283
Due from other funds	-	-	1,675	-	1,675
Due from other governmental units	1,707,744	-	-	12,120	1,719,864
Inventory and prepaid expenditures	20,876	-	-	8,630	29,506
Total assets	\$ 6,142,147	\$ 1,307,176	\$ 858,673	\$ 401,177	\$ 8,709,173
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 51,811	\$ -	\$ -	\$ 13,368	\$ 65,179
Contracts payable	-	63,510	-	43,194	106,704
Salaries payable	1,263,559	-	-	-	1,263,559
Accrued expenses	704,500	-	-	-	704,500
Due to other funds	-	1,675	-	-	1,675
Deferred revenue	443,825	-	-	5,809	449,634
Total liabilities	2,463,695	65,185	-	62,371	2,591,251
Fund balances					
Reserved for inventory and prepaid items	20,876	-	-	8,630	29,506
Reserved for debt service	-	-	858,673	-	858,673
Reserved for capital improvements	-	1,241,991	-	206,031	1,448,022
Unreserved					
Undesignated, reported in nonmajor					
Special Revenue Funds	-	-	-	124,145	124,145
Undesignated	3,657,576	-	-	-	3,657,576
Total fund balances	3,678,452	1,241,991	858,673	338,806	6,117,922
Total liabilities and fund balances	\$ 6,142,147	\$ 1,307,176	\$ 858,673	\$ 401,177	\$ 8,709,173

Continued...

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

PUBLIC SCHOOLS OF PETOSKEY

BALANCE SHEET

JUNE 30, 2004

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to net assets of governmental activities on the Statement of Net Assets

Fund balances - total governmental funds	\$ 6,117,922
Amounts reported for governmental activities in the statement of net assets are different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Add - capital assets	63,473,555
Deduct - accumulated depreciation	(16,324,484)
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - bonds and land contract payable	(27,605,113)
- accrued interest on bonds payable	(213,381)
- compensated absences	(440,521)
Net assets of governmental activities:	<u>\$ 25,007,978</u>
	Concluded

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

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Sinking</u>	<u>Debt Service</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
Revenue					
Local sources					
Property taxes	\$ 11,937,258	\$ 1,475,784	\$ 2,700,404	\$ -	\$ 16,113,446
Charges for services	178,347	-	-	732,669	911,016
Tuition	126,669	-	-	-	126,669
Rent income	-	-	-	60,010	60,010
Interest income	49,086	9,843	19,277	3,744	81,950
Other income	216,570	-	-	-	216,570
State sources	9,078,531	-	-	74,460	9,152,991
Federal sources	487,329	-	-	328,857	816,186
Interdistrict sources	941,629	-	-	-	941,629
Total revenue	23,015,419	1,485,627	2,719,681	1,199,740	28,420,467
Expenditures					
Instruction	15,100,960	-	-	-	15,100,960
Supporting services	7,467,166	-	-	-	7,467,166
Community services	36,135	-	-	-	36,135
Food services	-	-	-	982,870	982,870
Athletics	-	-	-	554,989	554,989
Capital outlay	-	1,137,900	-	128,166	1,266,066
Debt service					
Principal	-	-	1,608,563	-	1,608,563
Interest	-	-	1,361,832	-	1,361,832
Total expenditures	22,604,261	1,137,900	2,970,395	1,666,025	28,378,581
Revenue over (under) expenditures	411,158	347,727	(250,714)	(466,285)	41,886
Other financing sources (uses)					
Land contract proceeds	-	700,000	-	-	700,000
Transfers in	-	-	38,749	447,712	486,461
Transfers out	(447,712)	(38,749)	-	-	(486,461)
Total other financing sources (uses)	(447,712)	661,251	38,749	447,712	700,000
Net change in fund balances	(36,554)	1,008,978	(211,965)	(18,573)	741,886
Fund balances, beginning of year	3,715,006	233,013	1,070,638	357,379	5,376,036
Fund balances, end of year	\$ 3,678,452	\$ 1,241,991	\$ 858,673	\$ 338,806	\$ 6,117,922

Continued...

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

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2004

**Reconciliation of the Statement of Revenues, Expenditures and Change in
Fund Balance of Governmental Funds to the Statement of Activities**

Net change in fund balances - total governmental funds **\$ 741,886**

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

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

Add	- capital outlay	963,450
Deduct	- depreciation expense	(2,240,881)

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

Add	- principal payments on long-term liabilities	1,608,563
Deduct	- land contract proceeds	(700,000)

Some expenses reported in the Statement of Activities do not require the
use of current financial resources and therefore are not reported as
expenditures in the governmental funds.

Add	- decrease in accrued interest payable on bonds	10,094
Deduct	- increase in the accrual for compensated absences	(4,430)

Change in net assets - governmental activitie **\$ 378,682**

Concluded

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

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2004

	Budget		Actual	Actual Favorable (Unfavorable) To Final Amended Budget
	Original	Final Amended		
Revenues				
Local sources	\$ 13,385,027	\$ 12,481,583	\$ 12,507,930	\$ 26,347
State sources	8,050,519	9,155,107	9,078,531	(76,576)
Federal sources	425,832	565,211	487,329	(77,882)
Interdistrict sources	770,608	1,120,172	941,629	(178,543)
Total revenues	22,631,986	23,322,073	23,015,419	(306,654)
Expenditures				
Education				
Instruction	15,396,952	15,806,026	15,100,960	705,066
Support services	7,559,352	7,599,806	7,467,166	132,640
Community services	49,991	40,337	36,135	4,202
Total expenditures	23,006,295	23,446,169	22,604,261	841,908
Revenues (under) over expenditures	(374,309)	(124,096)	411,158	535,254
Other financing sources (uses)				
Transfers out	(435,000)	(447,712)	(447,712)	-
Net change in fund balance	(809,309)	(571,808)	(36,554)	535,254
Fund balances, beginning of year	3,715,006	3,715,006	3,715,006	-
Fund balances, end of year	\$ 2,905,697	\$ 3,143,198	\$ 3,678,452	\$ 535,254

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

PUBLIC SCHOOLS OF PETOSKEY

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND**

JUNE 30, 2004

ASSETS

Cash and cash equivalents	\$ 397,474
Accounts receivable	325

Total Assets

\$ 397,799

LIABILITIES

Due to student groups	\$ 134,952
Scholarships payable	230,170
Due to others	32,677

Total Liabilities

\$ 397,799

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

NOTES TO THE FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY
NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

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

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2004.

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

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

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property

taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The District reports the following major governmental funds:

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

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

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

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

Additionally, the District reports the following fund types:

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

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

The *Debt Service Funds* account for the principal and interest payments on the Durant Settlement bonds.

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

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

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

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

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

D. Assets, liabilities and equity

1. Deposits and investments

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

Investments are reported at fair value.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). There were no interfund advance loans outstanding at June 30, 2004.

3. *Inventory and prepaid items*

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

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

4. *Capital assets*

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	5-50
Equipment	5-15
Vehicles	8

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

5. *Compensated absences*

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

6. *Long-term obligations*

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

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

7. *Fund equity*

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary information**

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

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

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

B. Excess of expenditures over appropriations

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

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

Statement of Net Assets	
Cash and cash equivalents	\$ 3,027,190
Investments	3,871,655
Statement of Fiduciary Net Assets- Agency Funds	
Cash and cash equivalents	<u>397,474</u>
Total	<u>\$ 7,296,319</u>
Bank deposits (checking accounts, savings accounts and CDs)	\$ 3,424,064
Investments	3,871,655
Cash on hand	<u>600</u>
	<u>\$ 7,296,319</u>

At year end, the carrying amount of the District's deposits was \$3,424,064. The bank balance of these deposits was \$4,008,739 of which \$200,000 was insured by the Federal Depository Insurance Corporation (FDIC), and the balance of \$3,808,739 was uninsured and uncollateralized.

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

For the purpose of providing an indication of the assumed levels of risk, investments are categorized as follows:

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

Category 1 Investments that are insured or registered or for which the securities are held by the District or its agent in the District's name.

Category 2 Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name.

Category 3 Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the District's name.

The District's investments consist of \$3,871,655 in governmental liquid asset investment funds, which are uncategorized as to risk.

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

B. Receivables

Receivables in the governmental activities are 97 percent due from other governments, and 3 percent other receivables.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

C. Capital assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	<u>Balance July 1, 2003</u>	<u>Additions and Transfers</u>	<u>(Transfers)</u>	<u>Balance June 30, 2004</u>
Capital assets not being depreciated				
Land	\$ 1,594,691	\$ 853,496	\$ -	\$ 2,448,187
Construction in process	<u>290,366</u>	<u>56,655</u>	<u>(290,366)</u>	<u>56,655</u>
Subtotal	<u>1,885,057</u>	<u>910,151</u>	<u>(290,366)</u>	<u>2,504,842</u>
Capital assets being depreciated				
Buildings and improvements	53,600,871	303,087	-	53,903,958
Furniture and equipment	<u>7,024,177</u>	<u>40,578</u>	<u>-</u>	<u>7,064,755</u>
Subtotal	<u>60,625,048</u>	<u>343,665</u>	<u>-</u>	<u>60,968,713</u>
Total Capital Assets	<u>62,510,105</u>	<u>1,253,816</u>	<u>(290,366)</u>	<u>63,473,555</u>
Accumulated depreciation				
Buildings and improvements	11,377,266	1,077,787	-	12,455,053
Furniture and equipment	<u>2,706,337</u>	<u>1,163,094</u>	<u>-</u>	<u>3,869,431</u>
Total accumulated depreciation	<u>14,083,603</u>	<u>2,240,881</u>	<u>-</u>	<u>16,324,484</u>
Total capital assets being depreciated, net	<u>46,541,445</u>	<u>(1,897,216)</u>	<u>-</u>	<u>44,644,229</u>
Governmental activities capital assets, net	<u>\$ 48,426,502</u>	<u>\$ (230,410)</u>	<u>\$ (290,366)</u>	<u>\$ 47,149,071</u>

Unallocated depreciation expense of \$2,240,881 was charged to the governmental activities.

D. Payables

Payables (all governmental activities) are 3 percent vendors, 5 percent construction contracts, 68 percent payroll and payroll withholdings, 16 percent health insurance and 8 percent retirement.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

E. Interfund receivables, payables and transfers

The following balances at June 30, 2004, represent individual fund interfund receivables and payables:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Sinking – Capital Project Fund – Major Fund	\$ -	\$ 1,675
Debt Service Fund – Major Fund	<u>1,675</u>	<u>-</u>
Total	<u>\$ 1,675</u>	<u>\$ 1,675</u>

The District reports interfund balances between certain funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

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

For the year ended June 30, 2004, the District's General Fund transferred \$447,712 to the Athletic Special Revenue Fund to subsidize the athletic programs and the Sinking Fund Capital Project transferred \$38,749 to the Debt Service Fund for debt principal and interest payments on the land contract.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

F. Long-Term Debt

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

	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance June 30, 2004</u>	<u>Due Within One Year</u>
Bonds and land contracts payable:					
General obligation	\$28,410,000	\$ -	\$ (1,590,000)	\$26,820,000	\$ 1,665,000
Durant resolution	103,676	-	-	103,676	-
Land contract	-	700,000	(18,563)	681,437	33,107
Other liabilities					
Compensated absences	<u>436,091</u>	<u>4,430</u>	<u>-</u>	<u>440,521</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$28,949,767</u>	<u>\$ 704,430</u>	<u>\$ (1,608,563)</u>	<u>\$28,045,634</u>	<u>\$ 1,698,107</u>

Long-term debt at June 30, 2004 includes the following:

General Obligation Bonds

1998 school building and site bonds due in annual installments ranging from \$840,000 to \$2,090,000 with interest ranging from 4.50% to 5.10%; final payment due May 1, 2019.

\$ 26,080,000

1993 serial bonds due in annual installments of \$740,000 with interest charged at 4.95%; final payment due May 1, 2005.

740,000

Total general obligation bonds

\$ 26,820,000

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

Durant Resolution Bond

1998 series, school improvement bond due in annual installments ranging from \$7,855 to \$37,536 with interest charged at 4.76%. This bond is a self-liquidating bond. The principal and interest is payable solely through annual appropriations by the State of Michigan. If the legislature fails to appropriate the funds, the District is under no obligation for payment. Final payment is due May 15, 2013.

\$ 103,676

Total bonds

26,923,676

Land Contract Payable

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due November 18, 2019.

681,437

Accrued compensated absences

440,521

Total long-term debt

\$ 28,045,634

The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service. During the year ended June 30, 2003, the State postponed all Durant debt service requirements. No debt service is required for May 15, 2003, 2004, or 2005. The debt service payments will resume in 2006.

Compensated absences are generally liquidated by the General Fund.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,698,107	\$ 1,299,230	\$ 2,997,337
2006	1,067,655	1,220,427	2,288,083
2007	1,184,117	1,184,196	2,368,313
2008	1,252,073	1,117,799	2,369,873
2009	1,754,451	1,059,992	2,814,443
2010-2014	9,935,949	4,012,412	13,948,361
2015-2019	<u>10,712,761</u>	<u>1,556,324</u>	<u>12,269,083</u>
Total	<u>\$27,605,113</u>	<u>\$11,450,380</u>	<u>\$39,055,493</u>

Interest expense and paying agent fees were \$1,351,738 for the year ended June 30, 2004.

IV. OTHER INFORMATION

A. Risk management

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

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

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

B. Property taxes

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

C. Defined benefit pension plan

Plan Description

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

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

Funding Policy

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

The current rate is 12.99% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2003, 2002 and 2001 were \$1,756,250, \$1,662,755, and \$1,524,470, respectively, equal to the required contributions for each year.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

Other Post-employment Benefits

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

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

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

D. Sinking Funds

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

E. School Improvement Fund

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

F. Commitments and Contingencies

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

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2004.

The District is obligated for construction contracts relating to building projects in the amount of \$736,600 at June 30, 2004. Of this amount, \$106,704 was accrued at year-end.

* * * * *

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2004

	Special Revenue Funds	
	Food Service	Athletics
ASSETS		
Cash and cash equivalents	\$ 80,740	\$ 50,122
Investments	-	-
Inventory	8,630	-
Accounts receivable	-	340
Due from other governmental units	12,120	-
Total assets	\$ 101,490	\$ 50,462
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 12,998	\$ 370
Contracts payable	-	-
Deferred revenue	5,809	-
Total liabilities	18,807	370
Fund balances		
Reserved for inventory	8,630	-
Reserved for capital improvements	-	-
Unreserved, undesignated	74,053	50,092
Total fund balances	82,683	50,092
Total liabilities and fund balances	\$ 101,490	\$ 50,462

Debt Service Fund	Capital Project Funds			Total Nonmajor Governmental Funds
Durant Settlement	Roof Repair	Building and Site Capital Project	1998 Capital Projects	
\$ -	\$ 20,113	\$ 185,334	\$ -	\$ 336,309
-	-	-	43,778	43,778
-	-	-	-	8,630
-	-	-	-	340
-	-	-	-	12,120
\$ -	\$ 20,113	\$ 185,334	\$ 43,778	\$ 401,177
\$ -	\$ -	\$ -	\$ -	\$ 13,368
-	-	-	43,194	43,194
-	-	-	-	5,809
-	-	-	43,194	62,371
-	-	-	-	8,630
-	20,113	185,334	584	206,031
-	-	-	-	124,145
-	20,113	185,334	584	338,806
\$ -	\$ 20,113	\$ 185,334	\$ 43,778	\$ 401,177

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Special Revenue Funds</u>	
	<u>Food Service</u>	<u>Athletics</u>
Revenue		
Local sources		
Property taxes	\$ -	\$ -
Charges for services	590,898	141,771
Rent income	-	-
Interest income	117	-
State sources	74,460	-
Federal sources	328,857	-
	<u>994,332</u>	<u>141,771</u>
Total revenue	994,332	141,771
Expenditures		
Food services	982,870	-
Athletics	-	554,989
Capital outlay	-	-
	<u>982,870</u>	<u>554,989</u>
Total expenditures	982,870	554,989
Revenue over (under) expenditures	11,462	(413,218)
Other financing sources (uses)		
Transfers in	-	447,712
	<u>-</u>	<u>447,712</u>
Net change in fund balances	11,462	34,494
Fund balances, beginning of year	71,221	15,598
	<u>71,221</u>	<u>15,598</u>
Fund balances, end of year	\$ 82,683	\$ 50,092
	<u>\$ 82,683</u>	<u>\$ 50,092</u>

Debt Service Fund	Capital Project Funds			Total Nonmajor Governmental Funds
Durant Settlement	Roof Repair	Building and Site	1998 Capital Projects	
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	732,669
-	-	60,010	-	60,010
-	390	2,653	584	3,744
-	-	-	-	74,460
-	-	-	-	328,857
-	390	62,663	584	1,199,740
-	-	-	-	982,870
-	-	-	-	554,989
-	46,873	81,293	-	128,166
-	46,873	81,293	-	1,666,025
-	(46,483)	(18,630)	584	(466,285)
-	-	-	-	447,712
-	(46,483)	(18,630)	584	(18,573)
-	66,596	203,964	-	357,379
\$ -	\$ 20,113	\$ 185,334	\$ 584	\$ 338,806

PUBLIC SCHOOLS OF PETOSKEY

GENERAL FUND BALANCE SHEET

JUNE 30, 2004

ASSETS	
Cash and cash equivalents	\$ 1,367,232
Investments	2,987,352
Inventory and prepaid expenditures	20,876
Accounts receivable	58,943
Due from other governmental units	<u>1,707,744</u>
Total assets	<u><u>\$ 6,142,147</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 51,811
Salaries payable	1,263,559
Accrued expenses	704,500
Deferred revenue	<u>443,825</u>
Total liabilities	<u>2,463,695</u>
Fund balance	
Reserved for inventory and prepaid expenditures	20,876
Unreserved, undesignated	<u>3,657,576</u>
Total fund balance	<u>3,678,452</u>
Total liabilities and fund balance	<u><u>\$ 6,142,147</u></u>

PUBLIC SCHOOLS OF PETOSKEY

**GENERAL FUND
SCHEDULE OF REVENUES**

FOR THE YEAR ENDED JUNE 30, 2004

Revenues

Local sources

Property taxes	\$ 11,937,258
Sales	178,347
Tuition	126,669
Interest	49,086
Other local revenue	216,570

Total local sources

12,507,930

State sources

State school aid - Proposal A	3,627,049
State school aid - Discretionary	4,675,722
State school aid - Headlee	488,060
At-risk	252,654
Other state revenue	35,046

Total state sources

9,078,531

Federal sources

Title I	309,690
Title II	116,559
Title V	2,463
Title IX	44,625
Other	13,992

Total federal sources

487,329

Interdistrict sources

Vocational education - Millage	323,872
Vocational education - Added Cost	615,757
Summer School	2,000

Total interdistrict sources

941,629

Total revenues

\$ 23,015,419

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies, Materials and Other Expenses</u>
Instruction				
Basic programs				
Elementary	\$ 3,409,514	\$ 1,472,419	\$ 55,999	\$ 123,893
Middle school	2,039,334	873,086	8,681	59,964
High school	2,340,570	960,785	90,171	94,940
Total basic programs	7,789,418	3,306,290	154,851	278,797
Added needs				
Special education	1,076,922	523,115	5,374	5,469
Compensatory education	296,119	203,504	39,462	34,636
Vocational education	738,654	305,045	85,784	229,514
Total added needs	2,111,695	1,031,664	130,620	269,619
Total Instruction	\$ 9,901,113	\$ 4,337,954	\$ 285,471	\$ 548,416
Supporting services				
Pupil services				
Guidance services	\$ 301,615	\$ 118,051	\$ -	\$ 16,423
Health services	10,511	2,188	206,696	1,040
Social work services	60,056	24,601	-	300
Other	56,394	11,930	-	-
Total pupil support services	428,576	156,770	206,696	17,763
Instructional staff services				
Improvement of instruction	-	-	32,332	-
Library	263,916	133,856	7,990	43,450
Technology assisted instruction	136,371	63,659	16,023	20,777
Supervision	190,882	74,179	16,614	5,627
Total instructional staff services	591,169	271,694	72,959	69,854

Capital Outlay	Total
\$ -	\$ 5,061,825
-	2,981,065
-	3,486,466
-	11,529,356
-	1,610,880
-	573,721
28,006	1,387,003
28,006	3,571,604
\$ 28,006	\$ 15,100,960
\$ -	\$ 436,089
-	220,435
-	84,957
-	68,324
-	809,805
-	32,332
-	449,212
-	236,830
-	287,302
-	1,005,676

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies, Materials and Other Expenses</u>
General administration				
Board of education	\$ 3,072	\$ 131	\$ 52,667	\$ 12,290
Executive administration	<u>184,053</u>	<u>91,978</u>	<u>108,436</u>	<u>17,013</u>
Total general administration	<u>187,125</u>	<u>92,109</u>	<u>161,103</u>	<u>29,303</u>
School administration				
Office of the principal	<u>1,042,966</u>	<u>478,673</u>	<u>35,239</u>	<u>36,552</u>
Business services				
Fiscal services	<u>171,287</u>	<u>76,505</u>	<u>16,681</u>	<u>-</u>
Transportation	<u>-</u>	<u>-</u>	<u>926,864</u>	<u>-</u>
Operations and maintenance	<u>709,869</u>	<u>433,237</u>	<u>568,480</u>	<u>655,692</u>
Total supporting services	<u>3,130,992</u>	<u>1,508,988</u>	<u>1,988,022</u>	<u>809,164</u>
Community services				
Community services direction	<u>14,676</u>	<u>9,276</u>	<u>11,683</u>	<u>500</u>
Total operating expenditures	<u><u>\$ 13,046,781</u></u>	<u><u>\$ 5,856,218</u></u>	<u><u>\$ 2,285,176</u></u>	<u><u>\$ 1,358,080</u></u>
Other financing uses				
Transfers out				
Total expenditures and other financing uses				

Capital Outlay	Total
\$ -	\$ 68,160
-	401,480
-	469,640
-	1,593,430
30,000	294,473
-	926,864
-	2,367,278
-	7,467,166
-	36,135
\$ 28,006	22,604,261

447,712

\$ 23,051,973

Concluded

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS**

JUNE 30, 2004

	<u>Food Service</u>	<u>Athletics</u>	<u>Total</u>
ASSETS			
Assets			
Cash and cash equivalents	\$ 80,740	\$ 50,122	\$ 130,862
Accounts receivable	-	340	340
Due from other governmental units	12,120	-	12,120
Inventory	8,630	-	8,630
Total assets	<u>\$ 101,490</u>	<u>\$ 50,462</u>	<u>\$ 151,952</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 12,998	\$ 370	\$ 13,368
Deferred revenue	5,809	-	5,809
Total liabilities	18,807	370	19,177
Fund balances			
Unreserved, undesignated	82,683	50,092	132,775
Total liabilities and fund balances	<u>\$ 101,490</u>	<u>\$ 50,462</u>	<u>\$ 151,952</u>

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Food Service</u>	<u>Athletics</u>	<u>Total</u>
Revenue			
Local sources			
Lunch sales	\$ 275,736	\$ -	\$ 275,736
Breakfast sales	16,607	-	16,607
Ala Carte sales	298,555	-	298,555
Athletic ticket sales	-	136,082	136,082
Contributions	-	1,588	1,588
Other	-	4,101	4,101
Interest income	117	-	117
State sources	74,460	-	74,460
Federal sources	328,857	-	328,857
Total revenue	994,332	141,771	1,136,103
Expenditures			
Salaries	233,696	295,700	529,396
Employee benefits	181,360	74,392	255,752
Purchased services	99,612	53,468	153,080
Transportation	-	67,190	67,190
Food costs	411,456	-	411,456
Supplies, materials and other expenditures	56,746	64,239	120,985
Total expenditures	982,870	554,989	1,537,859
Revenue over (under) expenditures	11,462	(413,218)	(401,756)
Other financing sources (uses)			
Transfers in	-	447,712	447,712
Net change in fund balance	11,462	34,494	45,956
Fund balance, beginning of year	71,221	15,598	86,819
Fund balance, end of year	\$ 82,683	\$ 50,092	\$ 132,775

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING BALANCE SHEET
CAPITAL PROJECT FUNDS**

JUNE 30, 2004

	<u>Sinking Fund</u>	<u>Roof Repair Fund</u>	<u>Building and Site Fund</u>
ASSETS			
Assets			
Cash and cash equivalents	\$ 1,129,411	\$ 20,113	\$ 185,334
Investments	177,765	-	-
Total assets	<u><u>\$ 1,307,176</u></u>	<u><u>\$ 20,113</u></u>	<u><u>\$ 185,334</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Construction contracts payable	\$ 63,510	\$ -	-
Due to other funds	1,675	-	-
Total liabilities	65,185	-	-
Fund balances			
Reserved for capital improvements	<u>1,241,991</u>	<u>20,113</u>	<u>185,334</u>
Total liabilities and fund balances	<u><u>\$ 1,307,176</u></u>	<u><u>\$ 20,113</u></u>	<u><u>\$ 185,334</u></u>

1998 Capital Projects	
Fund	Total
\$ -	\$ 1,334,858
43,778	221,543
\$ 43,778	\$ 1,556,401
\$ 43,194	\$ 106,704
-	1,675
43,194	108,379
584	1,448,022
\$ 43,778	\$ 1,556,401

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2004

	Sinking Fund	Roof Repair Fund	Building and Site Fund
Revenue			
Property taxes	\$ 1,475,784	\$ -	\$ -
Rent income	-	-	60,010
Interest income	9,843	390	2,653
Total revenue	1,485,627	390	62,663
Expenditures			
Capital outlay	1,137,900	46,873	81,293
Revenue over (under) expenditures	347,727	(46,483)	(18,630)
Other financing sources (uses)			
Land contract proceeds	700,000	-	-
Transfers out	(38,749)	-	-
Total other financing sources (uses)	661,251	-	-
Net change in fund balance	1,008,978	(46,483)	(18,630)
Fund balance, beginning of year	233,013	66,596	203,964
Fund balance, end of year	\$ 1,241,991	\$ 20,113	\$ 185,334

1998 Capital Projects Fund	Total
\$ -	\$ 1,475,784
-	60,010
584	13,470
584	1,549,264
-	1,266,066
584	283,198
-	700,000
-	(38,749)
-	661,251
584	944,449
-	503,573
\$ 584	\$ 1,448,022

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2004

	Balances July 1, 2003	Receipts	Disbursements	Balances June 30, 2004
ASSETS				
Cash	\$ 371,742	\$ 439,239	\$ 413,507	\$ 397,474
Accounts receivable	-	325	-	325
Total assets	\$ 371,742	\$ 439,564	\$ 413,507	\$ 397,799
LIABILITIES				
Due to student groups	121,504	382,778	369,330	134,952
Scholarships payable	227,415	12,366	9,611	230,170
Due to others	22,823	44,420	34,566	32,677
Total liabilities	\$ 371,742	\$ 439,564	\$ 413,507	\$ 397,799

The balances consist of the following:

Deposits held for student groups

Student groups				
6th Grade Club	\$ 1,795	\$ 22,335	\$ 21,879	\$ 2,251
7th Grade Club	1,811	12,234	10,230	3,815
8th Grade Fund	1,660	22,180	22,736	1,104
Middle School Art Club	769	3,062	2,474	1,357
Middle School Athletics	45	4,800	4,281	564
Middle School Drama	2	-	-	2
Middle School Ecology Club	393	1,500	1,477	416
Middle School Enrichment	810	1,895	2,348	357
Middle School Football	913	796	677	1,032
Middle School Japan Trip	526	-	-	526
Middle School Journalism/Onlooker	597	-	-	597
Middle School Learning Center	443	480	649	274
Middle School Photo Club	584	272	509	347
Middle School Student Council	1,746	2,982	2,765	1,963
Middle School Track	988	4,120	3,430	1,678
Middle School Vocal	2,422	2,067	3,740	749
Middle School Volleyball	803	1,163	779	1,187
Middle School Yearbook	6,863	10,348	12,025	5,186
Odyssey Of The Mind	999	-	329	670
Ottawa 4th Grade Field Trip	247	30	248	29
Ottawa 5th Grade Field Trip	1,544	4,297	4,306	1,535
Sheridan 3rd Grade		947	583	364
Sheridan 4th Grade	933	2,323	3,061	195
Sheridan 5th Grade	263	-	73	190
Sheridan Drama Club	-	311	198	113
Special Needs-Kilborn	108			108

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2004

	Balances July 1, 2003	Receipts	Disbursements	Balances June 30, 2004
Builder's Club	\$ 410	\$ 500	\$ 384	\$ 526
Building Trades Fund	1,516	1,092	2,056	552
Business Club	76	-	-	76
Central 5th Grade	2,546	3,529	3,462	2,613
Central Learning Center	80	-	-	80
Central Library & Computer	729	4,000	528	4,201
Central School Fund	(48)	3,095	1,775	1,272
Central School Store	442	1,028	817	653
Class of 1991	96	-	-	96
Class of 1992	1,131	-	-	1,131
Class of 1993	985	-	977	8
Class of 1994	602	-	-	602
Class of 1995	81	-	-	81
Class of 1997	443	-	-	443
Class of 1998	526	-	-	526
Class of 1999	289	-	-	289
Class of 2004	4,361	12,989	15,556	1,794
Class Of 2005	3,230	12,046	4,463	10,813
Class Of 2006	1,524	-	-	1,524
DECA	611	231	586	256
Debate Club	3,364	4,664	4,507	3,521
Elementary Enrichment	1,295	2,963	892	3,366
Elementary Enrichment Play	269	5,801	6,105	(35)
Elementary Music Fund	527	1,049	1,209	367
English Trip Fund	2,159	4,401	6,901	(341)
FCCLA	606	2,776	3,200	182
French Club	141	-	-	141
Future Farmers of America	3,518	637	209	3,946
HOSA	1,488	1,979	2,629	838
High School Art Club	2,015	1,167	851	2,331
High School Cheerleaders	885	5,176	5,661	400
High School Chess Club	503	535	446	592
High School Drama Club	2,090	8,350	7,324	3,116
High School Fall Play	648	1,464	1,053	1,059
High School Journalism	266	1,236	1,525	(23)
High School Learning Center	3,032	-	198	2,834
High School Fund	1,832	3,214	2,198	2,848
High School Quiz Bowl Team	218	415	468	165
High School Student Council	3,785	19,905	20,868	2,822
High School Vocal	481	6,624	6,714	391
High School Yearbook	2,068	27,258	29,293	33
Hospitality Foods Tip Fund	99	3,152	2,852	399
Inward Bound Fund	1,009	-	-	1,009
Key Club	144	68	-	212

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2004

	Balances July 1, 2003	Receipts	Disbursements	Balances June 30, 2004
Landscape Project Fund	\$ 1,182	\$ 2,137	\$ 1,484	\$ 1,835
Lincoln Learning Center	3	-	-	3
Lincoln School Fund	1,128	1,569	303	2,394
Middle School Enrichment Play	835	2,527	1,193	2,169
Middle School Book Fair	1	2,227	1,946	282
Middle School Fund	834	3,100	2,555	1,379
Middle School Store	63	1,724	1,743	44
Middle School Adventure Education	28	250	-	278
Middle School Washington DC Club		1,970	1,150	820
National Honor Society	287	139	-	426
Northmen Club	5,000	13,000	12,965	5,035
Ottawa After-School	678	445	-	1,123
Ottawa Learning Center	126	-	120	6
Ottawa Popcorn Sales	706	1,000	293	1,413
Ottawa Playground Fund	56	-	-	56
Ottawa School Fund	2,470	8,917	9,047	2,340
Petoskey High School Papermakers	3,498	1,603	3,139	1,962
Robert Motely Memorial Fund	4,106	-	500	3,606
Sheridan School	3,776	4,045	4,437	3,384
Spanish Club	709	1,851	2,451	109
VICA Club	126	100	-	226
World History Trip Fund	(401)	10,382	2,663	7,318
Athletic Hall Of Fame	-	2,050	1,280	770
Boys Basketball	219	1,165	46	1,338
Boys Golf	2,123	3,606	2,533	3,196
Communications Camp	584	2,350	2,299	635
Equestrian Club	12	-	-	12
Girls Basketball	3,285	7,343	5,635	4,993
Girls Golf	2,577	2,046	4,031	592
Girls Softball	359	-	-	359
Girls Tennis	2,066	4,607	5,080	1,593
Girls Track	550	2,010	1,081	1,479
High School Baseball	-	1,442	1,375	67
High School Boys Soccer	1,864	9,832	8,895	2,801
High School Cross Country	227	-	-	227
High School Football	562	1,140	1,657	45
High School Girls Soccer	1,290	9,648	10,213	725
High School Hockey	-	27,563	33,332	(5,769)
Indian Education - Unity Trip	-	8,000	7,771	229
Varsity Club	156	-	-	156
Volleyball	1,083	3,504	3,609	978
Total due to student groups	121,504	382,778	369,330	134,952

Continued...

PUBLIC SCHOOLS OF PETOSKEY
AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FOR THE YEAR ENDED JUNE 30, 2004

	Balances July 1, 2003	Receipts	Disbursements	Balances June 30, 2004
Scholarship payable				
Doris Reber - Class of 1932 Scholarship	\$ 190,655	\$ 2,351	\$ -	\$ 193,006
Henshaw Memorial Scholarship	4,009	49	-	4,058
Middle School Foundation Grant	2,748	2,180	2,130	2,798
McClutchey Memorial Scholarship	5,508	849	600	5,757
Midshipmen Scholarship	7,501	93	140	7,454
PEF Grants - High School	250	4,333	3,937	646
PEF Grants - Lincoln	326	603	766	163
PEF Grants - Sheridan	-	1,711	1,568	143
Vaughn Memorial Scholarship	16,069	197	250	16,016
Wil Moyer Music Scholarship	349	-	220	129
Total scholarship payable	227,415	12,366	9,611	230,170
Others				
Sheridan PTO	283	600	600	283
Central Gym Project	575	500	1,025	50
Central PTO	748	6,674	7,330	92
COATS	800	22,095	9,221	13,674
Fine Arts Fund	107	-	91	16
Guidance Dept Testing	765	1,773	1,789	749
Katie Graham Playground Fund	536	-	-	536
Lincoln PTO	-	4,400	4,106	294
Middle School Celebration Garden	784	-	-	784
Ottawa PTO	32	5,432	4,752	712
Robert Woodruff Memorial Fund	17	-	-	17
Spitler Building Pop Fund	12	102	25	89
Student Reserve	15,415	2,844	3,452	14,807
Weight Room Donations	2,749	-	2,175	574
Total others	22,823	44,420	34,566	32,677
Totals	\$ 371,742	\$ 439,564	\$ 413,507	\$ 397,799

Concluded

PUBLIC SCHOOLS OF PETOSKEY
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2004

PURPOSE	Finance partial refunding of 1970 and 1988 bond issues to take advantage of favorable interest rates and reduce total debt service cost.
DATE OF ISSUE	May 1, 1993
RATE OF INTEREST	4.95%
ORIGINAL OBLIGATION	\$ 8,000,000
AMOUNT PREVIOUSLY PAID	<u>7,260,000</u>
BALANCE OUTSTANDING - June 30, 2004	<u><u>\$ 740,000</u></u>

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
2004-2005	<u>\$ 19,055</u>	<u>\$ 19,055</u>	<u>\$ 740,000</u>	<u>\$ 778,110</u>

CALL PROVISION

Bonds of this issue maturing on or after May 1, 2004, are subject to redemption at the option of the issuer in multiples of \$5,000 in such order as the issuer may determine, by lot within any maturity, on any interest payment date occurring on or after May 1, 2003, at par and interest plus a premium as follows:

May 1, 2004 - April 30, 2005	101
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Continued...

PUBLIC SCHOOLS OF PETOSKEY
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2004

PURPOSE	1998 School Building and Site Bonds
DATE OF ISSUE	November 1, 1998
RATE OF INTEREST	4.50% to 5.10%
ORIGINAL OBLIGATION	\$ 29,700,000
AMOUNT PREVIOUSLY PAID	<u>3,620,000</u>
BALANCE OUTSTANDING - June 30, 2004	<u>\$ 26,080,000</u>

Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
2004-2005	\$ 613,905	\$ 613,905	\$ 925,000	\$ 2,152,810
2005-2006	592,630	592,630	1,025,000	2,210,260
2006-2007	569,055	569,055	1,110,000	2,248,110
2007-2008	543,525	543,525	1,205,000	2,292,050
2008-2009	515,810	515,810	1,705,000	2,736,620
2009-2010	476,595	476,595	1,780,000	2,733,190
2010-2011	435,655	435,655	1,855,000	2,726,310
2011-2012	392,990	392,990	1,930,000	2,715,980
2012-2013	348,600	348,600	2,005,000	2,702,200
2013-2014	301,482	301,482	2,090,000	2,692,964
2014-2015	251,845	251,845	2,090,000	2,593,690
2015-2016	202,208	202,208	2,090,000	2,494,416
2016-2017	152,570	152,570	2,090,000	2,395,140
2017-2018	102,933	102,933	2,090,000	2,295,866
2018-2019	53,295	53,295	2,090,000	2,196,590
	<u>\$ 5,553,098</u>	<u>\$ 5,553,098</u>	<u>\$ 26,080,000</u>	<u>\$ 37,186,196</u>

CALL PROVISION

Bonds of this issue maturing on or after May 1, 2009, are subject to redemption at the option of the issuer in multiples of \$5,000 in such order as the issuer may determine, but lot within any maturity, on any interest payment date occurring on or after May 1, 2008, at par and interest to the date fixed for redemption.

Continued...

PUBLIC SCHOOLS OF PETOSKEY
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2004

PURPOSE	Durant Resolution Package Bonds
DATE OF ISSUE	November 24, 1998
RATE OF INTEREST	4.76%
ORIGINAL OBLIGATION	\$ 162,282
AMOUNT PREVIOUSLY PAID	<u>58,606</u>
BALANCE OUTSTANDING - June 30, 2004	<u><u>\$ 103,676</u></u>

<u>Fiscal Year</u>	<u>May 1, Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2005-2006	\$ 3,541	\$ 7,855	\$ 11,396
2006-2007	16,240	37,536	53,776
2007-2008	2,775	8,621	11,396
2008-2009	2,365	9,031	11,396
2009-2010	1,935	9,461	11,396
2010-2011	1,484	9,912	11,396
2011-2012	1,012	10,383	11,395
2012-2013	<u>518</u>	<u>10,877</u>	<u>11,395</u>
	<u><u>\$ 29,870</u></u>	<u><u>\$ 103,676</u></u>	<u><u>\$ 133,546</u></u>

CALL PROVISION This bond is not subject to redemption prior to maturity.

Continued...

PUBLIC SCHOOLS OF PETOSKEY
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2004

PURPOSE	Purchase of Foster property on land contract.
DATE OF ISSUE	November 14, 2003
RATE OF INTEREST	5.00%
ORIGINAL OBLIGATION	\$ 700,000
AMOUNT PREVIOUSLY PAID	<u>18,563</u>
BALANCE OUTSTANDING - June 30, 2004	<u>\$ 681,437</u>

<u>Fiscal Year</u>	<u>Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2004-2005	\$ 33,320	\$ 33,107	\$ 66,427
2005-2006	31,626	34,800	66,426
2006-2007	29,846	36,581	66,427
2007-2008	27,974	38,452	66,426
2008-2009	26,007	40,420	66,427
2009-2010	23,939	42,488	66,427
2010-2011	21,765	44,661	66,426
2011-2012	19,480	46,946	66,426
2012-2013	17,078	49,348	66,426
2013-2014	14,554	51,873	66,427
2014-2015	11,900	54,527	66,427
2015-2016	9,110	57,317	66,427
2016-2017	6,178	60,249	66,427
2017-2018	3,095	63,332	66,427
2018-2019	343	27,336	27,679
	<u>\$ 276,215</u>	<u>\$ 681,437</u>	<u>\$ 957,652</u>

Concluded

OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF PROPERTY TAX INFORMATION (UNAUDITED)

FOR YEAR ENDED JUNE 30, 2004

Taxing District	Tax Levy	Collections and Other Reductions	Delinquent Personal Property Taxes	Percentage of Current Year Levy Collected
Bear Creek Township	\$ 4,149,208	\$ 4,127,593	\$ 21,615	99.48%
Littlefield Township	47,905	47,844	61	99.87%
Little Traverse Township	268,408	267,399	1,008	99.62%
Resort Township	2,512,456	2,505,032	7,424	99.70%
Springvale Township	669,227	663,351	5,876	99.12%
City of Petoskey	7,452,785	7,394,951	57,833	99.22%
Chandler Township	245,984	245,138	846	99.66%
Hayes Township	37,843	37,309	535	98.59%
Melrose Township	673,872	666,852	7,020	98.96%
Total	\$ 16,057,688	\$ 15,955,470	\$ 102,218	99.36%
Allocated as Follows				
General Fund	\$ 11,867,809	\$ 11,787,074	\$ 80,736	99.32%
Debt Service Funds	2,701,679	2,687,235	14,444	99.47%
Capital Projects Fund	1,488,199	1,481,161	7,038	99.53%
Total All Funds	\$ 16,057,688	\$ 15,955,470	\$ 102,218	99.36%

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

FOR YEAR ENDED JUNE 30, 2004

Year	Special Education	Elementary School	Middle School	High School	Total	Non-Resident	Resident
1996	33.93	1,263.63	680.53	837.21	2,815.30	43.15	2,772.15
1997	32.89	1,244.00	708.11	882.25	2,867.25	81.52	2,785.73
1998	27.50	1,214.47	765.75	924.87	2,932.59	136.00	2,796.59
1999	32.13	1,209.31	734.97	941.78	2,918.19	164.33	2,753.86
2000	37.45	1,208.86	743.03	963.84	2,953.18	202.00	2,751.18
2001	47.45	1,212.21	734.35	1,027.19	3,021.20	209.00	2,812.20
2002	49.59	1,240.31	719.32	1,065.06	3,074.28	260.00	2,814.28
2003	67.10	1,265.09	693.36	1,057.77	3,083.32	270.00	2,813.32
2004	79.38	1,240.37	712.35	1,062.48	3,094.58	287.00	2,807.58

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

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

Year	Expenditures and Transfers*	Enrollment	Expenditures Per Pupil
1996	\$ 15,916,393	2,815.30	\$ 5,654
1997	16,848,070	2,867.25	5,876
1998	17,411,853	2,932.59	5,937
1999	17,473,707	2,918.19	5,988
2000	18,718,957	2,953.18	6,339
2001	20,110,469	3,021.20	6,656
2002	21,642,904	3,074.28	7,040
2003	22,412,914	3,083.32	7,269
2004	23,051,973	3,094.58	7,449

* General Fund expenditures and transfers only.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

August 12, 2004

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

We have audited the financial statements of *Public Schools of Petoskey* as of and for the year ended June 30, 2004, and have issued our report thereon dated August 12, 2004. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as follows:

Due to staff size, there is limited segregation of duties over cash receipts and the recording of these transactions. The District recognizes this risk, but no change will be implemented because the costs would exceed the benefits.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition disclosed above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated August 12, 2004.

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

Lehmann Johnson

SINGLE AUDIT

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2003
U.S. Department of Education			
Indian Education			
02-03	84.060A	\$ 44,625	\$ -
03-04	84.060A	43,986	43,986
Total Indian Education		88,611	43,986
Passed Through the Michigan Department of Education			
ECIA Title I			
21530-0203 Carryover	84.010	224,026	33,421
041530-0304 Regular	84.010	326,750	-
Total Title I		550,776	33,421
Title IIA - Improving Teacher Quality			
030520-0203 Carryover	84.367	99,494	22,272
040520-0304 Regular	84.367	108,614	-
Total Title IIA		208,108	22,272
Title V - Innovative Education			
040250-0304 Regular	84.298	2,463	-
Class Size Reduction Program			
21450-0203	84.340	31,648	16,886
Technology Literacy Challenge Grant			
34290-0203	84.318	6,464	6,464
044290-0304 Regular	84.318	7,945	-
Total Technology Literacy Challenge Grant		14,409	6,464
Total Passed Through Michigan Department of Education		807,404	79,043

<u>(Memo Only)</u> <u>Prior Year</u> <u>Expenditures</u>	<u>Current Year</u> <u>Expenditures</u>	<u>Current Year</u> <u>Receipts</u> <u>Cash Basis</u>	<u>Accrued</u> <u>(Deferred)</u> <u>Revenue</u> <u>June 30,</u> <u>2004</u>
\$ -	\$ 44,625	\$ -	\$ 44,625
43,986	-	43,986	-
43,986	44,625	43,986	44,625
199,608	24,418	57,839	-
-	285,272	246,253	39,019
199,608	309,690	304,092	39,019
99,494	-	22,272	-
-	108,614	94,465	14,149
99,494	108,614	116,737	14,149
-	2,463	2,463	-
31,648	-	16,886	-
6,464	-	6,464	-
-	7,945	7,945	-
6,464	7,945	14,409	-
337,214	428,712	454,587	53,168

Continued...

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2003
Passed Through ISD			
Drug Free Schools			
02-03 Carryover	84.186A	\$ 3,200	\$ 1,635
042860-0304 Regular	84.186A	1,800	-
Total Drug Free Schools		5,000	1,635
IDEA			
040490-TS, Transition	84.027	528	-
040450-0304, Flowthrough	84.027	57	-
Total IDEA		585	-
Vocational Education - Perkins			
013520 8321-0304	84.048A	1,104	-
Medicaid Administrative Outreach Claims			
	93.778	8,613	-
Total Passed Through ISD		15,302	1,635
Total U.S. Department of Education		911,317	124,664
U.S. Department of Agriculture			
Passed through Michigan Department of Education			
Entitlement Commodities	10.550	59,212	-
Bonus Commodities	10.550	6,208	-
Total		65,420	-
National School Lunch - Breakfast			
31970	10.553	50,135	9,296
41970	10.553	41,194	-
Total		91,329	9,296
National School Lunch			
Section 4 All Lunches - 31950	10.555	46,078	7,169
Section 11 Free & Reduced - 31960	10.555	160,858	25,967
Section 4 All Lunches - 41950	10.555	45,285	-
Section 11 Free & Reduced - 41960	10.555	147,390	-
Total		399,611	33,136

<u>(Memo Only)</u> <u>Prior Year</u> <u>Expenditures</u>	<u>Current Year</u> <u>Expenditures</u>	<u>Current Year</u> <u>Receipts</u> <u>(Cash Basis)</u>	<u>Accrued</u> <u>(Deferred)</u> <u>Revenue</u> <u>June 30,</u> <u>2004</u>
\$ 1,635	\$ 1,565	\$ 3,200	\$ -
-	1,800	1,800	-
1,635	3,365	5,000	-
-	528	528	-
-	57	57	-
-	585	585	-
-	1,104	1,104	-
-	8,613	8,613	-
1,635	13,667	15,302	-
382,835	487,004	513,875	97,793
-	59,212	59,212	-
-	6,208	6,208	-
-	65,420	65,420	-
46,091	4,044	13,340	-
-	41,194	38,645	2,549
46,091	45,238	51,985	2,549
40,330	5,748	12,917	-
142,381	18,477	44,444	-
-	45,285	43,088	2,197
-	147,390	140,078	7,312
182,711	216,900	240,527	9,509

Continued...

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2003
Special Milk Program for Children			
31940	10.556	\$ 1,370	\$ 198
41940	10.556	1,073	-
Total		2,443	198
Total U.S. Department of Agriculture		558,803	42,630
U.S. Department of Homeland Security			
Passed through Michigan State Police State Homeland Security Grant Part II	16.007	12,100	-
Total Federal Financial Awards		\$ 1,482,220	\$ 167,294

Notes to Schedule of Expenditures of Federal Awards

1) Basis of Presentation-

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Public Schools of Petoskey and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State and Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

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

<u>(Memo Only)</u> <u>Prior Year</u> <u>Expenditures</u>	<u>Current Year</u> <u>Expenditures</u>	<u>Current Year</u> <u>Receipts</u> <u>(Cash Basis)</u>	<u>Accrued</u> <u>(Deferred)</u> <u>Revenue</u> <u>June 30,</u> <u>2004</u>
\$ 1,206	\$ 164	\$ 362	\$ -
-	1,135	1,073	62
<u>1,206</u>	<u>1,299</u>	<u>1,435</u>	<u>62</u>
<u>230,008</u>	<u>328,857</u>	<u>359,367</u>	<u>12,120</u>
-	325	-	325
<u>\$ 612,843</u>	<u>\$ 816,186</u>	<u>\$ 873,242</u>	<u>\$ 110,238</u>

Concluded

PUBLIC SCHOOLS OF PETOSKEY

RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2004

RECONCILIATION TO GRANT SECTION AUDITORS' REPORT

Current payments per the grant sections auditors' report	\$ 654,887
Less	
State funded grants	
Driver education	26,416
School breakfast program	26,028
Plus	
Amounts passed through	
Charlevoix-Emmet Intermediate School District	13,666
Entitlement and bonus commodities	65,420
Direct award from Department of Education	44,625
Direct award from Department of Homeland Security	12,100
Timing difference in recording federal revenue received from Michigan Department of Education	<u>30,100</u>
 Total current year receipts per schedule of expenditures of federal awards	 <u><u>\$ 873,242</u></u>



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

August 12, 2004

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

Compliance

We have audited the compliance of *Public Schools of Petoskey* with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Public Schools of Petoskey's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Public Schools of Petoskey's management. Our responsibility is to express an opinion on Public Schools of Petoskey's compliance based on our audit.

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

In our opinion, Public Schools of Petoskey complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Public Schools of Petoskey is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Public Schools of Petoskey's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2004

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses? X yes _____ none reported

Noncompliance material to financial statements
noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses? _____ yes X none reported

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

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

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2004

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010 10.555 and 10.556	Title I Child Nutrition Cluster

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

* * * * *



August 12, 2004

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

We have audited the basic financial statements of *Public Schools of Petoskey* (the “District”) for the year ended June 30, 2004, and have issued our report thereon dated August 12, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated July 19, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District’s internal control over financial reporting in order to determine our audit procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2004. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future general purpose financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s general purpose financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of Board of Education and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

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

PUBLIC SCHOOLS OF PETOSKEY
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2004

INVENTORY MANAGEMENT

The District's inventory consists mainly of food, inventory for sale in the school store, building trades materials and other consumable items. A physical count of inventory items is taken at June 30 each year, and the financial records are adjusted accordingly.

During our audit procedures, we noted that the quantity of certain items included on the inventory listings did not reconcile to the items observed in the inventory storage areas. We further noted that prices used to value certain items were not consistent with invoices paid during 2004 for those items. Incorrectly counting or valuing items held for sale will result in over- or understating the asset value at year end. Further, incorrectly counting or valuing items held for sale will have an inverse impact on the profit or loss recognized from the retail sale of the inventory. Although the District holds low levels of inventory at year end, good controls should be in place to count the year end inventory and to value that inventory.

Employees responsible for managing the inventories should be aware of the risks associated with ineffective control over inventory including the possibility of undiscovered inventory theft and inaccurate reporting of inventory counts and values.

We recommend that procedures be established, in writing, for the year end physical counting of inventory. These procedures should be provided to those responsible for performing the inventory count and the individuals should be required to follow the procedures. The costs assigned to the year end inventory counts should be supported with invoices representing the cost of the item. Employees responsible for the physical count should sign the completing inventory schedules providing assurance with respect to the accuracy of the count. The accounting staff should then spot check inventory counts and values as a further internal control. Once the staff is satisfied that the inventory is appropriately counted and valued, and appropriate adjustment can be made.

HOT LUNCH RECEIPTING TRANSACTIONS

Each day, hot lunch revenues are collected at the various cafeteria locations. The money is placed in a bank deposit bag and couriered to the local bank for deposit. The hot lunch staff is responsible for listing the checks on the deposit slip. The bank completes the deposit ticket and a duplicate is forwarded to the accounting staff. Monthly, the accounting staff records the deposits based on a reconciliation of the duplicate deposit slips to the bank statements and to daily hot lunch reports. While performing audit procedures on the hot lunch receipts, we noted certain discrepancies between the hot lunch reports and the bank deposits. These discrepancies result mainly from

immaterial errors in recording lunch sales or deposits to cash. Certain discrepancies clear the subsequent day. Other discrepancies are not corrected until the accounting staff reconciles the reports at month end. To ensure accurate recording of hot lunch sales and to ensure discrepancies are resolved on a timely basis, we recommend that a reconciliation of the hot lunch reports to the bank deposits be performed daily. This will provide the District with assurance that all receipts are recorded accurately and on a timely basis and that any discrepancies are researched and resolved on a timely basis. Subsequent to our visit, the accounting staff developed procedures for performing this reconciliation. It has been implemented since the beginning of the 2004-2005 school year.

AGENCY FUND INTERNAL CONTROLS

The District is responsible, in a fiduciary capacity, for the student activity and private-purpose trust funds of the District. Parent or staff volunteers administer many of the student activity funds. They collect fund-raising receipts outside the scope of the accounting controls implemented by the District. This decentralized process increases the risk of misappropriation of assets. To mitigate this risk, we recommend the District develop written procedures and forms to be used consistently by all parent and staff volunteers administering student activity accounts. The District may also develop a “club advisor contract” that outlines the policies and procedures to be followed. This contract would be signed by the parent or volunteer advisor acknowledging that they are aware of and agree to adhere to the policies and procedures of the District. These policies should outline the procedure for gaining District approval for fund-raisers, processing check requests for funds needed, and keeping a reconciling set of accounting records for the activity. A well-developed set of policies and procedures related to the student activity and private-purpose trust funds will provide an audit trail that can be reconciled to the District’s records to ensure accuracy of the accounting functions of the student activity and will reduce the potential for misappropriation of fiduciary fund assets.

DECENTRALIZED CASH RECEIPTS

The District collects cash at several remote sites during athletic events and activities. Generally, parents and volunteers are responsible for ticket sales. At the conclusion of the event, a deposit bag is prepared and turned over to school officials for deposit. To prevent a misappropriation of assets and to ensure the timely recording of revenue collected, we recommend that the District develop a process for reconciling ticket sales to cash collected prior to deposit. The District may consider the use of pre-numbered, color coded tickets. Different colors could be used for the different priced tickets. The beginning and ending numbers used could be accounted for on each ticket roll providing the seller with the number of tickets sold at the end of the event. The number of tickets sold at each priced could be calculated and compared to the cash collected as part of the reconciliation process. At the end of the evening, two individuals should count the money and prepare the reconciliation, initialing the form when complete. The deposit bag may then be prepared for deposit and turned over to the school official. The accounting office could then compare cash deposited per the reconciliation to the duplicate deposit slip for accuracy. If significant differences resulted between the reconciliation and cash actually on hand, the discrepancy could be resolved on a timely basis.

CONSTRUCTION BID ADVERTISING

Recently enacted legislation was signed into law on July 21, 2004 reducing school district requirements related to advertising for construction bids. This legislation requires only one advertisement be placed in the local newspaper rather than two advertisements as required in previous law. The school must, however, post an advertisement for at least two weeks on the DMB website or a designated school organization website. The advertisement must state that the bid will have to be accompanied by a sworn and notarized statement disclosing any familial relationships between the bidder and any member of the school board or the Superintendent. The complete law can be viewed at www.msbo.org.tp.the. Click on the "What's New Section" and then click on Newsletter links.

MICHIGAN FINANCE QUALIFYING STATEMENT

Beginning January 1, 2004, all governmental units subject to the Revised Municipal Finance Act (PA 34 of 2001) must submit their qualifying statement electronically using the Department of Treasury's website. The District must establish a password to submit the qualifying statement online. To establish a password, the Business Manager must call the Local Audit and Finance Division of the Department of Treasury (517) 373-0660 and request one.

ELECTRONICALLY FILING THE FINANCIAL STATEMENTS

Beginning with the fiscal year ended June 30, 2004, the District may submit their financial statements to the State of Michigan electronically. To do so, the financial statements must be created electronically in an Adobe Acrobat file. This file may also be forwarded to bond counsel for preparation of the SEC continuing disclosures. We would be happy to provide an electronic version of the financial statements for your use.

CONCLUSION

It has been a pleasure to provide audit services to the *Public Schools of Petoskey*. Management was prepared for the audit, providing us with a reasonably adjusted trial balance and all supporting documents requested on a timely basis. The District's accounting personnel are friendly, conscientious and very helpful.

We appreciate your business! Thank you.