



Public Schools of Petoskey

A Special Place for Everyone

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

PUBLIC SCHOOLS OF PETOSKEY

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INDEPENDENT AUDITORS' REPORT

October 16, 2008

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* (the "District") as of and for the year ended June 30, 2008, 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2008, 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 October 16, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 accounting principles generally accepted in the United States of America. 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 basic financial statements of the District. 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 54-56 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".

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Public Schools of Petoskey (the "District"), a K-12 school district located in Emmet and Charlevoix Counties, Michigan, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. 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, the Sinking Fund, and the Debt Service 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 others.

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 nonfinancial factors such as the quality of education provided, breadth of curriculum offered, condition of school facilities, and the safety of the schools.

The statement of net 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 1998 bonds, 2005 refunding bonds, Durant bonds, and two land contracts.
- Special Revenue Funds – consisting of the Food Service Fund and the Athletics Fund.
- Capital Projects Funds – consisting of the Sinking Fund, Building & Site Fund and Roof Repair Fund.

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

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in a separate statement of 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 7.52% to \$29,285,085 as a result of operations in the current year. Table 1 provides a summary of the District's net assets as of June 30, 2008 and June 30, 2007:

Public Schools of Petoskey
Condensed Statement of Net Assets
Table 1

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2008</u>	<u>2007 As Restated</u>	
Assets			
Current assets	\$ 7,940,191	\$ 8,397,175	(5.44)%
Deferred bond refunding costs	629,085	686,275	(8.33)%
Capital assets, net of accumulated depreciation	<u>47,471,447</u>	<u>46,717,592</u>	<u>1.61%</u>
Total assets	56,040,723	55,801,042	0.43%
Liabilities			
Current liabilities	3,634,525	3,864,110	(5.94)%
Premium on bond refunding	513,584	560,725	(8.41)%
Long-term liabilities	<u>22,607,529</u>	<u>24,140,743</u>	<u>(6.35)%</u>
Total liabilities	26,755,638	28,565,128	(6.33)%
Invested in capital assets, net of related debt	25,438,166	23,183,026	9.73%
Restricted	2,324,212	2,331,343	(0.31)%
Unrestricted	<u>1,522,707</u>	<u>1,721,545</u>	<u>(11.55)%</u>
Total net assets	<u>\$ 29,285,085</u>	<u>\$ 27,235,914</u>	<u>7.52%</u>

Capital assets net of related debt, \$25,438,166, is the original cost of the District's capital assets, less depreciation, less the long-term debt outstanding used to finance the acquisition of those assets. This debt will be repaid mainly from voter-approved property taxes collected as the debt and interest payments come due. Restricted net assets of \$2,324,212 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 \$1,522,707 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 of 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 2008 and 2007.

Public Schools of Petoskey
Condensed Statement of Change in Net Assets
Table 2

	<u>Governmental Activities</u>		<u>Percentage</u>
	<u>2008</u>	<u>2007</u>	<u>Change</u>
Revenue			
Program Revenues			
Charges for services	\$ 854,459	\$ 935,402	(8.65)%
Grants and contributions	3,368,184	3,225,921	4.41 %
General Revenues			
Property taxes	19,617,147	18,392,068	6.66 %
State foundation allowance	5,991,732	7,045,871	(14.96)%
Other	<u>617,396</u>	<u>485,962</u>	<u>25.91 %</u>
Total revenues	<u>30,448,918</u>	<u>30,085,222</u>	<u>1.19%</u>
Expenses			
Instruction	16,595,166	16,393,643	1.23 %
Support services	7,671,069	7,461,159	2.74 %
Community services	43,150	40,493	6.56 %
Food services	1,021,821	1,072,670	(4.74) %
Athletics	567,515	680,142	(16.56) %
Interest/fees on long-term debt	1,020,188	1,044,019	(2.28) %
Depreciation (unallocated)	<u>1,480,838</u>	<u>2,230,196</u>	<u>(33.60) %</u>
Total expenses	<u>28,399,747</u>	<u>28,922,322</u>	<u>(1.83)%</u>
Increase (decrease) in net assets	<u>\$ 2,049,171</u>	<u>\$ 1,162,900</u>	<u>76.21%</u>

Of the District's total revenues available to operate the District, 2.81% or \$854,459 came from fees charged to those who benefited from the programs. Revenues from other governments or organizations that subsidize certain programs with grants and other directed types of funding approximated 11.06% or \$3,368,184.

Local property taxes, in the amount of 64.44% or \$19,617,147, supported the remaining portion of the governmental activities. Property tax revenue remained steady due to the higher revenue created by increased property values being offset by reductions in tax rates implemented during the 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 \$1,803,744 of the \$19,617,147 in tax revenue is generated by a special millage specifically for capital expenditures. The proceeds and expenditures of this special millage are accounted for exclusively in the District's Sinking Fund. This special millage was renewed by voters in May 2005, and will expire on December 31, 2012.

The State foundation allowance accounted for 19.68% or \$5,991,732 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 \$16,595,166 or 58.46% of total expenses. Support services cost \$7,671,069 or 27.00% of total expenses, which include such items as transportation, maintenance, security, supervision, counseling, health care, and a variety of similar services that support the District's mission of educating children.

The District experienced an increase in net assets of \$2,049,171 or a 76.21% increase over the fiscal 2007 increase in net assets of \$1,162,900. Overall, revenue increased 1.19%, while expenses decreased by 1.83%. Finally, it should be noted that under the accrual basis of accounting, property taxes collected for debt service are recognized as revenue, while only interest on the debt is recognized as expense. The increase in net assets differs from the change in fund balance and a reconciliation appears later in the financial statements. Further, the beginning balance of the District's net assets was increased by \$922,900 with a corresponding increase in capital assets being depreciated, net, to reflect the correction of an error in the calculation of accumulated depreciation on certain assets in prior years.

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 \$4,471,854, which is a decrease of \$219,264 from the prior year.

Of the combined governmental fund balances, 47.18% or \$2,110,019 constitutes *unreserved fund balance*, which is available for spending at the District's discretion. The remainder of the combined fund balances, or \$2,361,835, is *reserved* to indicate that it is not available for spending at the District's discretion. Of the reserved fund balance, \$2,022,218 is earmarked for capital improvements and \$301,994 is earmarked for payments on long-term debt. The remaining reserved fund balance is earmarked for inventory and prepaid items.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,087,942, while total fund balance was \$2,117,559. 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 8.36% and 8.48%, respectively, of total General Fund expenditures and transfers.

The fund balance of the District's General Fund decreased, as planned, by \$203,884 during the current fiscal year, mainly due to cost increases exceeding our revenue increases. See the above discussion 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:

- The District's General Fund revenues were \$483,077 less than the final amended budget, a variance of 1.91%. The actual revenue was under budget mainly due to overestimates in the budget on the amount of ISD millage money.
- The District's General Fund expenditures were \$790,235 less than the final amended budget, a variance of 3.10%. The reduction of actual expenditures under budget is due to cost saving programs implemented throughout the year, including the privatization of the food service program.

Capital Asset and Debt Administration

Capital Assets. By June 30, 2008, the District had invested \$70,969,427 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 \$2,138,443 or 3.11% from last year. More detailed information about capital assets is available in Note III C to the financial statements.

This year's capital asset additions include auditorium renovations, a boiler replacement, computer hardware and vehicles. Construction-in-progress is attributable, mainly, to the boiler replacement project.

**Public Schools of Petoskey
Capital Assets
Table 3**

	<u>2008</u>	<u>2007</u>
Land	\$ 3,394,351	\$ 3,394,351
Construction-in-progress	209,300	780,590
Buildings	59,771,531	57,237,666
Furniture and equipment	<u>7,594,245</u>	<u>7,418,377</u>
Total capital assets	70,969,427	68,830,984
Less accumulated depreciation, as restated	<u>23,497,980</u>	<u>22,113,392</u>
Net capital assets	<u>\$ 47,471,447</u>	<u>\$ 46,717,592</u>

Debt. At year-end, the District had \$22,607,529 in general obligation bonds and other long-term debt outstanding – a reduction of 6.35% 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
Table 4**

	2008	2007
General obligation bonds	\$ 20,745,000	\$ 22,175,000
Other general obligation debt	1,862,529	1,965,743
Total long-term debt	\$ 22,607,529	\$ 24,140,743

In 2006, the District entered into a land contract for the purchase of land in the amount of \$700,000. The balance on the contract was \$653,963 at June 30, 2008. In 2004, the District also entered into a land contract for the purchase of land. The original amount of the 2004 land contract was \$700,000, and the remaining balance at year end is \$538,497.

Factors Bearing on the District’s Future

We consider many factors when setting the District’s 2008-09 fiscal year budget.

Approximately 67% of total General Fund revenues are from the foundation allowance. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. That makes our student count estimate one of the most important factors impacting our budget. Last year our student count was approximately 18 students above our expectations. While we still encountered a loss of 19 students from September 2007 to September 2008, it was still a smaller loss than anticipated. In setting the budget for 2008-09, we assumed a further reduction of 25 students.

Since the District’s revenue is heavily dependent on State funding and the health of the State’s School Aid Fund, the actual revenue received depends on the State’s ability to collect the revenues to fund its appropriation to school districts. For fiscal year 2007-08, the District enjoyed a foundation allowance of \$7,204, a \$119 per student increase. This increase, combined with trimming of District expenditures, was critical in the financial success of the year. Going into the budget planning cycle for 2008-09, we believe the foundation allowance will increase by \$112 per pupil, to \$7,316. The combination of expected results in count, reductions in foundation allowance, and increases in expenditures results in our 2008-09 budget showing an approximately \$500,000 loss. While the loss can be absorbed by the existing fund balance, some cost-savings measures are anticipated as the year begins.

In response to pressures on the budget, the District fully privatized the food service program in July 2007 by contracting with Chartwell’s School Dining. This move resulted in cost savings of approximately \$230,000, most of which was used to offset existing deficits.

The District's labor contract with the Petoskey Education Association, which represents the District's teachers, is set to expire in August 2009. The District's labor contract with the Petoskey Educational Support Personnel Association, which represents the District's support personnel, is set to expire in August 2010. Negotiations with the Petoskey Education Association are expected to commence in the spring of 2009.

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, 2008

ASSETS	
Cash and cash equivalents	\$ 2,398,460
Investments	4,000,949
Receivables	1,503,159
Other current assets	37,623
Deferred bond refunding costs	629,085
Capital assets not being depreciated	3,603,651
Capital assets being depreciated, net	<u>43,867,796</u>
Total assets	<u>56,040,723</u>
LIABILITIES	
Accounts payable and accrued expenditures	2,791,689
Unearned revenue	842,836
Premium on bond refunding	513,584
Long-term liabilities	
Due within one year	1,758,694
Due in more than one year	<u>20,848,835</u>
Total liabilities	<u>26,755,638</u>
NET ASSETS	
Invested in capital assets, net of related debt	25,438,166
Restricted for capital projects	2,022,218
Restricted for debt service	301,994
Unrestricted	<u>1,522,707</u>
Total net assets	<u>\$ 29,285,085</u>

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

PUBLIC SCHOOLS OF PETOSKEY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 16,595,166	\$ 178,906	\$ 2,866,206	\$ (13,550,054)
Supporting services	7,671,069	46,557	-	(7,624,512)
Community services	43,150	-	-	(43,150)
Food services	1,021,821	517,009	472,228	(32,584)
Athletics	567,515	111,987	29,750	(425,778)
Interest on long-term debt	1,020,188	-	-	(1,020,188)
Unallocated depreciation	1,480,838	-	-	(1,480,838)
Total governmental activities	\$ 28,399,747	\$ 854,459	\$ 3,368,184	(24,177,104)
General revenues				
Property taxes - operations				17,285,052
Property taxes - debt service				2,332,095
Unrestricted state aid				5,991,732
Unrestricted investment earnings				250,213
Other				367,183
Total general revenues				26,226,275
Change in net assets				2,049,171
Net assets, beginning of year				26,313,014
Prior period adjustment				922,900
Net assets, beginning of year, as restated				27,235,914
Net assets, end of year				\$ 29,285,085

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

FUND FINANCIAL STATEMENTS

PUBLIC SCHOOLS OF PETOSKEY

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2008

	General	Sinking	Debt Service	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 3,793	\$ 1,517,118	\$ 249,132	\$ 628,417	\$ 2,398,460
Investments	3,736,450	211,637	52,862	-	4,000,949
Accounts receivable	-	-	-	22,540	22,540
Due from other funds	-	-	-	29,660	29,660
Due from other governmental units	1,480,619	-	-	-	1,480,619
Inventory and prepaid expenditures	29,617	-	-	8,006	37,623
Total assets	\$ 5,250,479	\$ 1,728,755	\$ 301,994	\$ 688,623	\$ 7,969,851
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 55,439	\$ -	\$ -	\$ 74,244	\$ 129,683
Contracts payable	-	270,365	-	-	270,365
Salaries payable	1,419,625	-	-	-	1,419,625
Accrued expenses	805,828	-	-	-	805,828
Due to other funds	29,660	-	-	-	29,660
Deferred revenue	822,368	-	-	20,468	842,836
Total liabilities	3,132,920	270,365	-	94,712	3,497,997
Fund balances					
Reserved for inventory and prepaid items	29,617	-	-	8,006	37,623
Reserved for capital improvements	-	1,458,390	-	563,828	2,022,218
Reserved for debt service	-	-	301,994	-	301,994
Unreserved					
Undesignated, reported in nonmajor special revenue funds	-	-	-	22,077	22,077
Undesignated	2,087,942	-	-	-	2,087,942
Total fund balances	2,117,559	1,458,390	301,994	593,911	4,471,854
Total liabilities and fund balances	\$ 5,250,479	\$ 1,728,755	\$ 301,994	\$ 688,623	\$ 7,969,851

Continued...

PUBLIC SCHOOLS OF PETOSKEY

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2008

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 **\$ 4,471,854**

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	70,969,427
Deduct	- accumulated depreciation	(23,497,980)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Add	- bond issuance costs, net of amortization	629,085
Deduct	- bond premium, net of amortization	(513,584)
	- bonds and other long-term liabilities	(22,033,281)
	- accrued interest on bonds payable	(166,188)
	- compensated absences	(574,248)

Net assets of governmental activities **\$ 29,285,085**

Concluded

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

PUBLIC SCHOOLS OF PETOSKEY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Sinking</u>	<u>Debt Service</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Local sources					
Property taxes	\$ 15,114,169	\$ 1,803,744	\$ 2,332,095	\$ -	\$ 19,250,008
Revenue in lieu of taxes	367,139	-	-	-	367,139
Charges for services	102,776	-	-	628,996	731,772
Tuition	76,130	-	-	-	76,130
Rent income	-	-	-	46,557	46,557
Interest income	165,136	43,974	27,240	13,862	250,212
Contributions	-	-	-	29,750	29,750
Other income	71,862	-	-	1,541	73,403
State sources	6,925,233	-	-	68,881	6,994,114
Federal sources	608,084	-	-	403,347	1,011,431
Interdistrict sources	1,324,621	-	-	-	1,324,621
Total revenues	24,755,150	1,847,718	2,359,335	1,192,934	30,155,137
Expenditures					
Instruction	16,765,914	-	-	-	16,765,914
Supporting services	7,701,398	-	-	-	7,701,398
Community services	43,150	-	-	-	43,150
Food services	-	-	-	1,021,821	1,021,821
Athletics	-	-	-	567,515	567,515
Capital outlay	-	1,882,225	-	172,635	2,054,860
Other	-	3,296	11,210	-	14,506
Debt service					
Principal	-	-	1,501,285	-	1,501,285
Interest	-	-	1,001,028	-	1,001,028
Total expenditures	24,510,462	1,885,521	2,513,523	1,761,971	30,671,477
Revenues over (under) expenditures	244,688	(37,803)	(154,188)	(569,037)	(516,340)
Other financing sources (uses)					
Proceeds from sale of property	-	-	-	297,076	297,076
Transfers in	-	-	132,854	448,572	581,426
Transfers out	(448,572)	(132,854)	-	-	(581,426)
Total other financing sources (uses)	(448,572)	(132,854)	132,854	745,648	297,076
Net change in fund balances	(203,884)	(170,657)	(21,334)	176,611	(219,264)
Fund balances, beginning of year	2,321,443	1,629,047	323,328	417,300	4,691,118
Fund balances, end of year	\$ 2,117,559	\$ 1,458,390	\$ 301,994	\$ 593,911	\$ 4,471,854

Continued...

PUBLIC SCHOOLS OF PETOSKEY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

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 **\$ (219,264)**

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	2,242,443
Deduct	- depreciation expense	(1,480,838)
Deduct	- loss on disposal of capital assets	(7,750)

Governmental funds report bond refunding costs and bond premiums as expenditures and revenue, respectively. However, in the statement of activities, these costs are allocated over the life of the related bonds and reported as amortization expense.

Add	- amortization of bond premium	46,690
Deduct	- amortization of bond refunding cost	(57,190)

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	1,501,285
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Add	- decrease in the accrual for compensated absences	31,929
Deduct	- increase in accrued interest payable on bonds	(8,134)

Change in net assets - governmental activities **\$ 2,049,171**

Concluded

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

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2008

	Budget		Actual	Variance - Positive (Negative) Amended to Actual
	Original	Final Amended		
Revenues				
Local sources	\$ 15,882,898	\$ 15,935,639	\$ 15,897,212	\$ (38,427)
State sources	6,817,544	7,003,620	6,925,233	(78,387)
Federal sources	464,128	634,187	608,084	(26,103)
Interdistrict sources	1,219,984	1,664,781	1,324,621	(340,160)
Total revenues	24,384,554	25,238,227	24,755,150	(483,077)
Expenditures				
Education				
Instruction	17,080,100	17,213,215	16,765,914	447,301
Supporting services	8,055,503	8,034,749	7,701,398	333,351
Community services	47,786	52,733	43,150	9,583
Total expenditures	25,183,389	25,300,697	24,510,462	790,235
Revenues (under) over expenditures	(798,835)	(62,470)	244,688	307,158
Other financing sources (uses)				
Transfers in	-	22,000	-	(22,000)
Transfers out	(482,917)	(460,606)	(448,572)	12,034
Total other financing sources(uses)	(482,917)	(438,606)	(448,572)	(9,966)
Net change in fund balance	(1,281,752)	(501,076)	(203,884)	297,192
Fund balance, beginning of year	2,321,443	2,321,443	2,321,443	-
Fund balance, end of year	\$ 1,039,691	\$ 1,820,367	\$ 2,117,559	\$ 297,192

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

PUBLIC SCHOOLS OF PETOSKEY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND

JUNE 30, 2008

ASSETS

Cash and cash equivalents	\$ 61,781
Investments	425,000

Total assets	\$ 486,781
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LIABILITIES

Due to student groups	\$ 144,156
Scholarships payable	246,125
Due to others	96,500

Total liabilities	\$ 486,781
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The accompanying notes are an integral part of these basic 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, 2008.

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. However, agency funds do not have a measurement focus. 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 or within one year for reimbursement type grants. 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* 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 *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 and 2) operating 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.

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, 2008.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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. Generally, 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 and improvements	5-50
Furniture and equipment	5-15

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.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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 straight line 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.

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 for the General Fund.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and cash equivalents 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	\$ 2,398,460
Investments	<u>4,000,949</u>
Total Statement of Net Assets	<u>6,399,409</u>
Statement of Fiduciary Net Assets	
Agency Funds	
Cash and cash equivalents	61,781
Investments	<u>425,000</u>
Total Statement of Fiduciary Net Assets	<u>486,781</u>
Total deposits and investments	<u>\$ 6,886,190</u>

A reconciliation of cash and investments as shown in the financial statements to the District's deposits and investments is as follows:

Bank deposits (checking accounts, savings accounts)	\$ 2,459,841
Certificates of deposit	425,000
Investments	4,000,949
Cash on hand	<u>400</u>
Total deposits and investments	<u>\$ 6,886,190</u>

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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.

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

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following deposits and investments:

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Bank deposits	n/a	\$ 2,459,841	n/a
Certificates of deposit	3/8/2009	425,000	n/a
Michigan Liquid Asset Fund	n/a	<u>4,000,949</u>	S&P – AAAM
		<u>\$ 6,885,790</u>	

Investment and deposit risk

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

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$32,948 of the District's bank balance of \$3,232,948 was exposed to custodial credit risk because it was uninsured and uncollateralized. In addition to the standard FDIC insurance coverage, the District has additional insurance coverage on their bank deposits in the amount of \$3 million.

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

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

B. Receivables

Receivables in the governmental activities are entirely due from other governments.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

C. Capital assets

Capital assets activity was as follows for the year ended June 30, 2008:

	Restated Balance July 1, 2007	Additions	Transfers	Disposals	Balance June 30, 2008
Capital assets not being depreciated					
Land	\$ 3,394,351	\$ -	\$ -	\$ -	\$ 3,394,351
Construction in process	<u>780,590</u>	<u>209,300</u>	<u>(780,590)</u>	<u>-</u>	<u>209,300</u>
Total capital assets not being depreciated	<u>4,174,941</u>	<u>209,300</u>	<u>(780,590)</u>	<u>-</u>	<u>3,603,651</u>
Capital assets being depreciated					
Buildings and improvements	57,237,666	1,753,275	780,590	-	59,771,531
Furniture and equipment	<u>7,418,377</u>	<u>279,868</u>	<u>-</u>	<u>(104,000)</u>	<u>7,594,245</u>
Total capital assets being depreciated	<u>64,656,043</u>	<u>2,033,143</u>	<u>780,590</u>	<u>(104,000)</u>	<u>67,365,776</u>
Accumulated depreciation					
Buildings and improvements	(15,839,864)	(1,264,178)	-	-	(17,104,042)
Furniture and equipment	<u>(6,273,528)</u>	<u>(216,660)</u>	<u>-</u>	<u>96,250</u>	<u>(6,393,938)</u>
Total accumulated depreciation	<u>(22,113,392)</u>	<u>(1,480,838)</u>	<u>-</u>	<u>96,250</u>	<u>(23,497,980)</u>
Total capital assets being depreciated, net	<u>42,542,651</u>	<u>552,305</u>	<u>780,590</u>	<u>(7,750)</u>	<u>43,867,796</u>
Governmental activities capital assets, net	<u>\$ 46,717,592</u>	<u>\$ 761,605</u>	<u>\$ -</u>	<u>\$ (7,750)</u>	<u>\$ 47,471,447</u>

Unallocated depreciation expense of \$1,480,838 was charged to the governmental activities. The adjustment of \$922,900 to decrease the beginning balance of accumulated depreciation and increase the District's net assets reflects the correction of an error in the calculation of accumulated depreciation on certain assets in prior years.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

D. Accounts payable and accrued expenses

Payables are 5 percent vendors, 10 percent contracts, 51 percent salaries, and 34 percent accrued expenses.

E. Interfund receivables, payables and transfers

The District reports interfund balances between certain funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. As of June 30, 2008, there were no interfund balances.

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, 2008, the District's General Fund transferred \$448,572 to the Athletic Special Revenue Fund to subsidize the athletic programs. The Sinking Capital Project Fund transferred \$132,854 to the Debt Service Fund for debt principal and interest payments on the land contracts.

F. Long-Term Debt

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

	Balance July 1, 2007	Increases	(Decreases)	Balance June 30, 2008	Due Within One Year
Bonds payable					
General obligation	\$ 22,175,000	\$ -	\$ (1,430,000)	\$ 20,745,000	\$ 1,575,000
Durant resolution	95,821	-	-	95,821	55,188
Total bonds payable	22,270,821	-	(1,430,000)	20,840,821	1,630,188
Other liabilities					
Land contracts	1,263,745	-	(71,285)	1,192,460	74,932
Compensated absences	606,177	-	(31,929)	574,248	53,574
Total other liabilities	1,869,922	-	(103,214)	1,766,708	128,506
Total long-term liabilities	\$ 24,140,743	\$ -	\$ (1,533,214)	\$ 22,607,529	\$ 1,758,694

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

Long-term debt at June 30, 2008 includes the following:

General Obligation Bonds

2005 refunding bonds due in annual installments ranging from \$200,000 to \$2,125,000 with interest ranging from 3.0% to 5.00%; final payment due May 2019. \$ 20,745,000

Durant Resolution Bond

1998 series, school improvement bond due in annual installments ranging from \$9,461 to \$55,188 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. 95,821

Total bonds **20,840,821**

Other Liabilities

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 1, 2022. 653,963

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 1, 2019. 538,497

Compensated absences 574,248

Total long-term debt **\$ 22,607,529**

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 was required for May 15, 2003 through 2005. The debt service payments resumed in 2006, but again, were deferred in fiscal 2007 and 2008.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

Bond debt service requirements

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>
2009	\$ 1,705,120	\$ 958,451	\$ 2,663,571
2010	1,718,227	880,049	2,598,276
2011	1,777,707	818,518	2,596,225
2012	1,832,414	754,834	2,587,248
2013	1,927,361	663,137	2,590,498
2014-2018	10,702,606	1,951,854	12,654,460
2019-2022	<u>2,369,846</u>	<u>107,988</u>	<u>2,477,834</u>
Total	<u>\$ 22,033,281</u>	<u>\$ 6,134,831</u>	<u>\$ 28,168,112</u>

Interest and paying agent fees paid were \$1,001,028 for the year ended June 30, 2008.

Compensated absences are generally liquidated by the General Fund.

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 (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS 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 MPERS. 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 16.72% 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 MPERS for the years ended June 30, 2008, 2007 and 2006 were \$2,707,899, \$2,402,301, and \$1,982,972, respectively, equal to the required contributions for each year.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

Other Post-employment Benefits

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 1998 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.

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, 2008.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

As of June 30, 2008, the District had entered into various construction contracts amounting to approximately \$423,600. The contracts are for boiler upgrades and auditorium renovations. As of June 30, 2008, \$209,300 was recorded as construction-in-progress related to these projects.

* * * * *

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

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2008

	<u>Special Revenue Funds</u>		<u>Capital Project Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food</u>	<u>Athletics</u>	<u>Roof Repair</u>	<u>Building</u>	
	<u>Service</u>			<u>and Site</u>	
ASSETS					
Cash and cash equivalents	\$ 36,547	\$ 31,738	\$ 14,816	\$ 545,316	\$ 628,417
Accounts receivable	18,425	419	-	3,696	22,540
Due from other funds	29,660	-	-	-	29,660
Inventory	8,006	-	-	-	8,006
Total assets	\$ 92,638	\$ 32,157	\$ 14,816	\$ 549,012	\$ 688,623
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 74,125	\$ 119	\$ -	\$ -	\$ 74,244
Deferred revenue	17,968	2,500	-	-	20,468
Total liabilities	92,093	2,619	-	-	94,712
Fund balances					
Reserved for inventory	8,006	-	-	-	8,006
Reserved for capital improvements	-	-	14,816	549,012	563,828
Unreserved, undesignated (deficit)	(7,461)	29,538	-	-	22,077
Total fund balances	545	29,538	14,816	549,012	593,911
Total liabilities and fund balances	\$ 92,638	\$ 32,157	\$ 14,816	\$ 549,012	\$ 688,623

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue Funds		Capital Project Funds		Total Nonmajor Governmental Funds
	Food Service	Athletics	Roof Repair	Building and Site	
Revenues					
Local sources					
Charges for services	\$ 517,009	\$ 111,987	\$ -	\$ -	\$ 628,996
Rent income	-	-	-	46,557	46,557
Interest income	-	-	450	13,412	13,862
Contributions	-	29,750	-	-	29,750
Other	-	1,541	-	-	1,541
State sources	68,881	-	-	-	68,881
Federal sources	403,347	-	-	-	403,347
Total revenues	989,237	143,278	450	59,969	1,192,934
Expenditures					
Food services	1,021,821	-	-	-	1,021,821
Athletics	-	567,515	-	-	567,515
Capital outlay	-	-	-	172,635	172,635
Total expenditures	1,021,821	567,515	-	172,635	1,761,971
Revenues over (under) expenditures	(32,584)	(424,237)	450	(112,666)	(569,037)
Other financing sources (uses)					
Proceeds from sale of property	-	-	-	297,076	297,076
Transfers in	-	448,572	-	-	448,572
Total other financing sources (uses)	-	448,572	-	297,076	745,648
Net change in fund balances	(32,584)	24,335	450	184,410	176,611
Fund balances, beginning of year	33,129	5,203	14,366	364,602	417,300
Fund balances, end of year	\$ 545	\$ 29,538	\$ 14,816	\$ 549,012	\$ 593,911

PUBLIC SCHOOLS OF PETOSKEY

**BALANCE SHEET
GENERAL FUND**

**JUNE 30, 2008
(WITH COMPARATIVE BALANCES FOR JUNE 30, 2007)**

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 3,793	\$ 9,868
Investments	3,736,450	4,112,535
Due from other governmental units	1,480,619	1,264,813
Inventory and prepaid expenditures	29,617	43,791
Total assets	<u>\$ 5,250,479</u>	<u>\$ 5,431,007</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 55,439	\$ 179,979
Salaries payable	1,419,625	1,382,645
Accrued expenses	805,828	800,047
Due to other funds	29,660	-
Deferred revenue	822,368	746,893
Total liabilities	<u>3,132,920</u>	<u>3,109,564</u>
Fund balance		
Reserved for inventory and prepaid expenditures	29,617	43,791
Unreserved, undesignated	2,087,942	2,277,652
Total fund balance	<u>2,117,559</u>	<u>2,321,443</u>
Total liabilities and fund balance	<u>\$ 5,250,479</u>	<u>\$ 5,431,007</u>

PUBLIC SCHOOLS OF PETOSKEY

**SCHEDULE OF REVENUES
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2008
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007)**

	<u>2008</u>	<u>2007</u>
Revenues		
Local sources		
Property taxes	\$ 15,114,169	\$ 14,261,124
Revenue in Lieu of Taxes	367,139	58,612
Sales	102,776	81,873
Tuition	76,130	89,136
Interest	165,136	229,565
Other local revenue	71,862	138,278
Total local sources	<u>15,897,212</u>	<u>14,858,588</u>
State sources		
State school aid - Proposal A	49,487	1,141,759
State school aid - Headlee	6,009,220	5,735,234
State school aid - Prior year adjustments	(94,015)	168,878
State school aid - Special Education Headlee Obligation	640,598	627,577
State school aid - Equity Payments	27,040	-
At-risk	279,154	317,504
Other state revenue	13,749	55,398
Total state sources	<u>6,925,233</u>	<u>8,046,350</u>
Federal sources		
Title I	422,915	316,538
Title II	106,766	111,386
Title V	654	673
Title IX	50,910	49,789
Other	26,839	24,097
Total federal sources	<u>608,084</u>	<u>502,483</u>
Interdistrict sources		
Vocational education - Millage	589,435	480,233
Vocational education - Added Cost	103,289	107,665
Expense reimbursements	631,897	625,343
Total interdistrict sources	<u>1,324,621</u>	<u>1,213,241</u>
Total revenues	<u>\$ 24,755,150</u>	<u>\$ 24,620,662</u>

PUBLIC SCHOOLS OF PETOSKEY

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

**FOR THE YEAR ENDED JUNE 30, 2008
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007)**

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies, Materials and Other Expenses</u>	<u>Capital Outlay</u>
Instruction					
Basic programs					
Elementary	\$ 3,580,400	\$ 1,831,832	\$ 214,667	\$ 94,903	\$ -
Middle school	1,888,356	928,625	211,768	38,728	-
High school	2,212,962	1,041,098	87,443	171,490	-
Summer school	7,234	1,858	-	-	-
Total basic programs	7,688,952	3,803,413	513,878	305,121	-
Added needs					
Special education	1,353,586	794,005	45,602	7,885	-
Compensatory education	289,047	210,078	103,309	71,510	-
Vocational education	743,851	366,372	95,432	251,411	122,462
Total added needs	2,386,484	1,370,455	244,343	330,806	122,462
Total instruction	10,075,436	5,173,868	758,221	635,927	122,462
Supporting services					
Pupil services					
Guidance services	351,806	160,894	-	7,167	-
Health services	-	-	232,581	-	-
Other	54,115	12,878	-	-	-
Total pupil services	405,921	173,772	232,581	7,167	-
Instructional staff services					
Improvement of instruction	31,374	10,541	36,315	994	-
Library	160,458	106,401	8,130	36,692	-
Technology assisted instruction	132,892	54,370	11,274	3,906	-
Supervision	197,421	79,887	6,835	4,738	-
Academic student assessment	-	-	-	25,485	-
Total instructional staff services	522,145	251,199	62,554	71,815	-

Total	
2008	2007
\$ 5,721,802	\$ 5,685,913
3,067,477	3,002,941
3,512,993	3,567,909
9,092	4,052
12,311,364	12,260,815
2,201,078	1,890,820
673,944	593,489
1,579,528	1,619,309
4,454,550	4,103,618
16,765,914	16,364,433
519,867	506,493
232,581	132,160
66,993	69,470
819,441	708,123
79,224	13,202
311,681	428,546
202,442	228,786
288,881	262,833
25,485	30,513
907,713	963,880

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

**FOR THE YEAR ENDED JUNE 30, 2008
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007)**

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies, Materials and Other Expenses</u>	<u>Capital Outlay</u>
General administration					
Board of education	\$ -	\$ -	\$ 53,613	\$ 12,567	\$ -
Executive administration	181,970	96,000	147,209	10,965	-
Total general administration	181,970	96,000	200,822	23,532	-
School administration					
Office of the principal	692,962	414,677	433,048	34,284	-
Business services					
Fiscal services	207,399	117,565	19,253	133,912	-
Transportation	-	-	1,066,157	-	-
Operations and maintenance	556,770	391,760	540,839	774,802	36,927
Security services	-	-	51,565	-	-
Total supporting services	2,567,167	1,444,973	2,606,819	1,045,512	36,927
Community services					
Community services direction	14,860	10,747	11,352	250	-
Non-public school pupils	-	-	2,270	3,671	-
Total community services	14,860	10,747	13,622	3,921	-
Total operating expenditures	\$ 12,657,463	\$ 6,629,588	\$ 3,378,662	\$ 1,685,360	\$ 159,389
Other financing uses					
Transfers out					
Total expenditures and other financing uses					

Total	
2008	2007
\$ 66,180	\$ 73,594
436,144	442,598
502,324	516,192
1,574,971	1,513,364
478,129	620,849
1,066,157	1,029,613
2,301,098	2,439,112
51,565	50,204
7,701,398	7,841,337
37,209	40,493
5,941	-
43,150	40,493
24,510,462	24,246,263
448,572	479,187
\$ 24,959,034	\$ 24,725,450

Concluded

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS**

**JUNE 30, 2008
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)**

	<u>Food Service</u>	<u>Athletics</u>	<u>Total</u>	
			<u>2008</u>	<u>2007</u>
ASSETS				
Assets				
Cash and cash equivalents	\$ 36,547	\$ 31,738	\$ 68,285	\$ 146,041
Accounts receivable	18,425	419	18,844	1,239
Due from other funds	29,660	-	29,660	-
Due from other governmental units	-	-	-	-
Inventory	8,006	-	8,006	11,047
Total assets	\$ 92,638	\$ 32,157	\$ 124,795	\$ 158,327
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 74,125	\$ 119	\$ 74,244	\$ 107,584
Deferred revenue	17,968	2,500	20,468	12,411
Total liabilities	92,093	2,619	94,712	119,995
Fund balances				
Reserved for inventory	8,006	-	8,006	11,047
Unreserved, undesignated (deficit)	(7,461)	29,538	22,077	27,285
Total fund balances	545	29,538	30,083	38,332
Total liabilities and fund balances	\$ 92,638	\$ 32,157	\$ 124,795	\$ 158,327

PUBLIC SCHOOLS OF PETOSKEY

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

**FOR THE YEAR ENDED JUNE 30, 2008
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007)**

	Food Service	Athletics	Total	
			2008	2007
Revenues				
Local sources				
Lunch sales	\$ 301,471	\$ -	\$ 301,471	\$ 328,302
Breakfast sales	12,079	-	12,079	14,354
Ala Carte sales	203,459	-	203,459	238,452
Athletic ticket sales	-	111,987	111,987	124,424
Contributions	-	29,750	29,750	34,557
Other	-	1,541	1,541	8,262
State sources	68,881	-	68,881	66,630
Federal sources	403,347	-	403,347	408,584
Total revenues	989,237	143,278	1,132,515	1,223,565
Expenditures				
Salaries	81,623	232,165	313,788	556,555
Employee benefits	113,311	57,231	170,542	363,459
Purchased services	303,770	122,643	426,413	175,459
Supplies, materials and other expenditures	92,083	76,937	169,020	166,396
Food costs	431,034	-	431,034	402,337
Transportation	-	78,539	78,539	87,328
Total expenditures	1,021,821	567,515	1,589,336	1,751,534
Revenues over (under) expenditures	(32,584)	(424,237)	(456,821)	(527,969)
Other financing sources (uses)				
Transfers in	-	448,572	448,572	479,187
Net change in fund balances	(32,584)	24,335	(8,249)	(48,782)
Fund balances, beginning of year	33,129	5,203	38,332	87,114
Fund balances, end of year	\$ 545	\$ 29,538	\$ 30,083	\$ 38,332

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING BALANCE SHEET
CAPITAL PROJECT FUNDS**

**JUNE 30, 2008
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)**

ASSETS	Sinking	Roof Repair	Building	Total	
	Fund		and Site	2008	2007
Assets					
Cash and cash equivalents	\$ 1,517,118	\$ 14,816	\$ 545,316	\$ 2,077,250	\$ 2,273,557
Investments	211,637	-	-	211,637	203,563
Accounts receivable	-	-	3,696	3,696	7,392
Total assets	\$ 1,728,755	\$ 14,816	\$ 549,012	\$ 2,292,583	\$ 2,484,512
LIABILITIES AND FUND BALANCES					
Liabilities					
Contracts payable	\$ 270,365	\$ -	\$ -	\$ 270,365	\$ 476,497
Fund balances					
Reserved for capital improvements	1,458,390	14,816	549,012	2,022,218	2,008,015
Total liabilities and fund balances	\$ 1,458,390	\$ 14,816	\$ 549,012	\$ 2,022,218	\$ 2,484,512

PUBLIC SCHOOLS OF PETOSKEY

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

**FOR THE YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007)**

	Sinking	Roof Repair	Building	Total	
	Fund		and Site	2008	2007
Revenues					
Property taxes	\$ 1,803,744	\$ -	\$ -	\$ 1,803,744	\$ 1,698,928
Rent income	-	-	46,557	46,557	58,861
Interest income	43,974	450	13,412	57,836	88,797
Total revenues	1,847,718	450	59,969	1,908,137	1,846,586
Expenditures					
Capital outlay	1,882,225	-	172,635	2,054,860	2,661,072
Other	3,296	-	-	3,296	12,763
Total expenditures	1,885,521	-	172,635	2,058,156	2,673,835
Revenues over (under) expenditures	(37,803)	450	(112,666)	(150,019)	(827,249)
Other financing sources (uses)					
Proceeds from sale of property	-	-	297,076	297,076	-
Bond proceeds	-	-	-	-	700,000
Transfers out	(132,854)	-	-	(132,854)	(94,105)
Total other financing sources (uses)	(132,854)	-	297,076	164,222	605,895
Net change in fund balances	(170,657)	450	184,410	14,203	(221,354)
Fund balances, beginning of year	1,629,047	14,366	364,602	2,008,015	2,229,369
Fund balances, end of year	\$ 1,458,390	\$ 14,816	\$ 549,012	\$ 2,022,218	\$ 2,008,015

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING SCHEDULE OF DEBT SERVICE BALANCES
DEBT SERVICE FUND**

**JUNE 30, 2008
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)**

	<u>1998 Bonds</u>	<u>2005 Refunding Bonds</u>	<u>Foster Land Contract</u>	<u>Veurink Land Contract</u>
ASSETS				
Cash and cash equivalents	\$ -	\$ 249,132	\$ -	\$ -
Investments	52,862	-	-	-
Total assets (equal to fund balance reserved for debt service)	<u>\$ 52,862</u>	<u>\$ 249,132</u>	<u>\$ -</u>	<u>\$ -</u>

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

Total	
2008	2007
\$ 249,132	\$ 272,556
<u>52,862</u>	<u>50,772</u>
<u>\$ 301,994</u>	<u>\$ 323,328</u>

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING SCHEDULE OF DEBT SERVICE ACTIVITIES
AND CHANGES IN FUND BALANCES
DEBT SERVICE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007)**

	1998 Bonds	2005 Refunding Bonds	Foster Land Contract	Veurink Land Contract
Revenues				
Local sources				
Property taxes	\$ 1,197,727	\$ 1,134,368	\$ -	\$ -
Interest income	13,620	13,620	-	-
Total revenues	1,211,347	1,147,988	-	-
Expenditures				
Principal	1,205,000	225,000	38,452	32,833
Interest	53,563	885,896	27,975	33,594
Other	(7,710)	18,920	-	-
Total expenditures	1,250,853	1,129,816	66,427	66,427
Revenues over (under) expenditures	(39,506)	18,172	(66,427)	(66,427)
Other financing sources (uses)				
Transfers in	-	-	66,427	66,427
Net change in fund balances	(39,506)	18,172	-	-
Fund balances, beginning of year	92,368	230,960	-	-
Fund balances, end of year	\$ 52,862	\$ 249,132	\$ -	\$ -

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

Total	
2008	2007
\$ 2,332,095	\$ 2,367,907
27,240	39,264
2,359,335	2,407,171
1,501,285	1,359,785
1,001,028	1,042,666
11,210	37,915
2,513,523	2,440,366
(154,188)	(33,195)
132,854	94,105
(21,334)	60,910
323,328	262,418
\$ 301,994	\$ 323,328

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2008

	Balances July 1, 2007	Receipts	Disbursements	Balances June 30, 2008
ASSETS				
Cash	\$ 73,733	\$ 568,605	\$ 580,557	\$ 61,781
Investments	400,000	25,000	-	425,000
Accounts receivable	71	-	71	-
Total assets	\$ 473,804	\$ 593,605	\$ 580,628	\$ 486,781
LIABILITIES				
Due to student groups	\$ 152,634	\$ 412,565	\$ 421,043	\$ 144,156
Scholarships payable	237,878	28,671	20,424	246,125
Due to others	83,292	152,369	139,161	96,500
Total liabilities	\$ 473,804	\$ 593,605	\$ 580,628	\$ 486,781

The balances consist of the following:

Deposits due to student groups

Student groups				
6th Grade Club	\$ 1,496	\$ 24,070	\$ 25,288	\$ 278
7th Grade Club	2,256	17,669	18,855	1,070
8th Grade Fund	727	7,550	6,920	1,357
Middle School Art Club	1,466	3,688	4,121	1,033
Middle School Athletics	517	-	-	517
Middle School Ecology Club	386	1,300	1,252	434
Middle School Enrichment	1,124	3,007	1,819	2,312
Middle School Football	2,611	3,896	3,956	2,551
Middle School Photo Club	558	224	101	681
Middle School Student Council	1,678	2,200	2,190	1,688
Middle School Track	2,156	4,561	3,740	2,977
Middle School Vocal	794	-	794	-
Middle School Volleyball	1,246	3,459	1,770	2,935
Middle School Yearbook	659	17,389	17,410	638
Odyssey Of The Mind	670	-	670	-
Ottawa 4th Grade Field Trip	154	1,878	1,885	147
Ottawa 5th Grade Field Trip	131	4,392	4,270	253
Ottawa Field Trip Fund	-	6,195	5,118	1,077
Sheridan 3rd Grade	205	1,645	1,347	503
Sheridan 4th Grade	361	745	930	176
Sheridan 5th Grade	111	429	256	284
Sheridan Drama Club	45	-	-	45
Sheridan Garden Fund	284	-	175	109
Special Needs-Kilborn	97	-	97	-

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2008

	Balances July 1, 2007	Receipts	Disbursements	Balances June 30, 2008
Builder's Club	\$ 786	\$ 341	492	\$ 635
Building Trades Fund	277	-	275	2
Business Club	218	-	-	218
Central 5th Grade	1,151	3,289	4,138	302
Central 3rd Grade	18	-	-	18
Central Library & Computer	1,868	5,100	6,391	577
Central School Fund	1,286	2,209	2,589	906
Central School Store	145	1,686	1,365	466
Class of 1991	96	-	-	96
Class of 1992	1,131	-	-	1,131
Class of 1993	8	-	-	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 2007	2,395	6,727	7,240	1,882
Class of 2008	4,597	12,917	16,547	967
Class of 2009	2,145	7,501	3,727	5,919
Class of 2010	895	492	715	672
Class of 2011	-	1,175	-	1,175
DECA	1,754	5,770	7,069	455
Debate Club	1,064	2,424	933	2,555
Elementary Enrichment	4,116	1,480	2,402	3,194
Elementary Enrichment Play	3,573	8,243	6,091	5,725
Elementary Music Fund	275	2,058	1,475	858
FCCLA	46	8,714	9,044	(284)
FCCLA Region II	110	754	843	21
French Club	42	300	150	192
Future Farmers of America	1,763	623	783	1,603
Skateboarding Club	-	47	-	47
G Wing Productions	3,039	3,616	4,132	2,523
HOSA	492	4,273	3,730	1,035
High School Art Club	2,459	300	-	2,759
High School Spring Musical	1,943	6,575	8,047	471
High School Fall Play	1,752	-	-	1,752
High School Journalism	201	2,400	1,362	1,239
High School Learning Center	1,429	-	-	1,429
High School Fund	10,573	7,661	11,534	6,700
High School Steel Drum Band	123	12,600	12,723	-
High School Enrichment	491	14,023	12,925	1,589
High School Quiz Bowl Team	372	720	571	521
High School Student Council	5,403	18,750	18,702	5,451

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2008

	Balances July 1, 2007	Receipts	Disbursements	Balances June 30, 2008
High School Vocal	\$ 260	\$ -	\$ 175	\$ 85
High School Yearbook	(285)	21,249	21,756	(792)
Hospitality Foods Tip Fund	600	3,626	4,146	80
Inward Bound Fund	653	-	-	653
Key Club	380	347	295	432
Landscape Project Fund	1,368	140	1,508	-
Lincoln School Fund	2,790	2,317	2,469	2,638
Lincoln 4th Grade	1	-	1	-
Middle School Enrichment Play	1,385	6,223	3,124	4,484
Middle School Book Fair	747	100	179	668
Middle School Fund	842	4,302	1,859	3,285
Middle School Store	528	4,450	5,007	(29)
Middle School Adventure Education	441	-	-	441
Middle School Washington DC Club	1,064	3,298	2,392	1,970
National Honor Society	530	1,371	1,127	774
Northmen Club	700	103	-	803
Ottawa After-School	1,306	-	-	1,306
Ottawa Popcorn Sales	2,011	4,615	3,458	3,168
Ottawa School Fund	4,008	2,305	1,843	4,470
Ottawa School Store	233	-	-	233
Petoskey High School Papermakers	2,386	787	801	2,372
Sheridan School	1,917	6,018	3,149	4,786
Spanish Club	151	-	-	151
World History Trip Fund	450	200	200	450
Athletic Hall Of Fame	-	1,355	1,292	63
Anime Club	197	-	197	-
Boys Basketball	443	-	-	443
Boys Golf	1,801	3,207	3,472	1,536
Golf Camp	2,008	643	2,651	-
Communications Camp	2,384	-	-	2,384
Girls Basketball	2,378	605	745	2,238
Girls Golf	1,539	3,307	2,197	2,649
Girls Softball	359	-	-	359
Boys Tennis	302	1,000	1,153	149
Girls Tennis	586	11,145	10,068	1,663
Girls Track	472	379	657	194
Dance	75	22	22	75
High School Baseball	1	600	405	196
High School Boys Soccer	4,416	4,892	5,816	3,492
High School Cross Country	5,168	10,974	13,243	2,899

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2008

	Balances July 1, 2007	Receipts	Disbursements	Balances June 30, 2008
High School Football	\$ 45	\$ -	\$ -	\$ 45
High School Girls Soccer	1,386	4,201	408	5,179
H. S. Social Studies Club	298	-	190	108
High School Hockey	19,851	53,950	66,710	7,091
Skills USA	50	-	50	-
Indian Education - Unity Trip	2,988	3,000	3,250	2,738
Volleyball	1,712	4,769	5,543	938
Total due to student groups	152,634	412,565	421,043	144,156
Scholarships payable				
Doris Reber - Class of 1932 Scholarship	196,483	9,931	-	206,414
Robert Motely Memorial Fund	2,106	-	500	1,606
Henshaw Memorial Scholarship	3,946	202	-	4,148
Middle School Foundation Grant	1,994	-	421	1,573
McClutchey Memorial Scholarship	5,362	253	400	5,215
Midshipmen Scholarship	7,043	353	200	7,196
PEF Grants - High School	2,075	5,920	6,842	1,153
PEF Grants - Lincoln	314	1,007	1,321	-
PEF Grants - Sheridan	440	713	1,153	-
PEF Grants - Central	17	3,917	3,799	135
PEF Grants - Ottawa	139	1,738	1,727	150
PEF Grants - Middle School	574	3,328	3,022	880
Vaughn Memorial Scholarship	16,711	809	300	17,220
Wil Moyer Music Scholarship	674	500	739	435
Total scholarships payable	237,878	28,671	20,424	246,125
Due to others				
Central Gym Project	50	-	-	50
Central PTO	1,755	10,975	10,280	2,450
COATS	11,784	24,705	26,498	9,991
Eric Greyerbiehl Memorial Fund	2,312	500	300	2,512
Guidance Dept Testing	1,525	2,119	1,848	1,796
Kathy Robinson Memorial Fund	96	-	-	96
Lincoln PTO	14,614	34,723	29,537	19,800
Middle School Celebration Garden	517	-	-	517
Northmen Night	408	18,816	19,061	163
Ottawa PTO	1,272	2,228	3,251	249
Ottawa PTO Board Fund	16,058	45,882	46,826	15,114
Spitler Building Pop Fund	4	246	193	57
Student Reserve	28,891	12,175	1,367	39,699
Track Donations	4,006	-	-	4,006
Total due to others	83,292	152,369	139,161	96,500
Totals	\$ 473,804	\$ 593,605	\$ 580,628	\$ 486,781

Concluded

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2008

PURPOSE	2005 Refunding Bonds
DATE OF ISSUE	May 27, 2005
RATE OF INTEREST	3.00% to 5.00%
ORIGINAL OBLIGATION	\$ 21,370,000
AMOUNT PREVIOUSLY PAID	<u>625,000</u>
BALANCE OUTSTANDING - June 30, 2008	<u>\$ 20,745,000</u>

<u>Fiscal Year</u>	<u>November 1, Interest</u>	<u>May 1, Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2008-2009	\$ 439,575	\$ 439,575	\$ 1,575,000	\$ 2,454,150
2009-2010	412,013	412,013	1,630,000	2,454,026
2010-2011	383,488	383,488	1,685,000	2,451,976
2011-2012	354,000	354,000	1,735,000	2,443,000
2012-2013	310,625	310,625	1,825,000	2,446,250
2013-2014	278,688	278,688	1,880,000	2,437,376
2014-2015	231,688	231,688	1,970,000	2,433,376
2015-2016	182,438	182,438	2,070,000	2,434,876
2016-2017	130,688	130,688	2,125,000	2,386,376
2017-2018	86,594	86,594	2,125,000	2,298,188
2018-2019	43,563	43,563	2,125,000	2,212,126
	<u>\$ 2,853,360</u>	<u>\$ 2,853,360</u>	<u>\$ 20,745,000</u>	<u>\$ 26,451,720</u>

CALL PROVISION

Bonds of this issue maturing on or after May 1, 2016, are subject to redemption at the option of the issuer in multiples of \$5,000 in such order as the issuer may determine, and by lot within any maturity, on any date occurring on or after May 1, 2015, at par plus accrued interest to the date fixed for redemption.

Continued...

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2008

PURPOSE	Durant Resolution Package Bonds
DATE OF ISSUE	November 24, 1998
RATE OF INTEREST	4.76%
ORIGINAL OBLIGATION	\$ 162,282
AMOUNT PREVIOUSLY PAID	<u>66,461</u>
BALANCE OUTSTANDING - June 30, 2008	<u><u>\$ 95,821</u></u>

Fiscal Year	May 1, Interest	May 1, Principal	Annual Requirements
2008-2009	\$ 21,380	\$ 55,188	\$ 76,568
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	518	10,877	11,395
	<u>\$ 26,329</u>	<u>\$ 95,821</u>	<u>\$ 122,150</u>

CALL PROVISION

This bond is not subject to redemption prior to maturity.

Continued...

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2008

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>161,503</u>
BALANCE OUTSTANDING - June 30, 2008	<u><u>\$ 538,497</u></u>

<u>Fiscal Year</u>	<u>Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
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>\$ 153,449</u>	<u>\$ 538,497</u>	<u>\$ 691,946</u>

Continued...

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2008

PURPOSE	Purchase of Veurink property on land contract.
DATE OF ISSUE	December 22, 2006
RATE OF INTEREST	5.00%
ORIGINAL OBLIGATION	\$ 700,000
AMOUNT PREVIOUSLY PAID	<u>46,037</u>
BALANCE OUTSTANDING - June 30, 2008	<u><u>\$ 653,963</u></u>

<u>Fiscal Year</u>	<u>Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2008-2009	\$ 31,914	\$ 34,512	\$ 66,426
2009-2010	30,149	36,278	66,427
2010-2011	28,293	38,134	66,427
2011-2012	26,342	40,085	66,427
2012-2013	24,291	42,136	66,427
2013-2014	22,135	44,292	66,427
2014-2015	19,869	46,558	66,427
2015-2016	17,487	48,940	66,427
2016-2017	14,983	51,443	66,426
2017-2018	12,351	54,075	66,426
2018-2019	9,585	56,842	66,427
2019-2020	6,676	59,750	66,426
2020-2021	3,620	62,807	66,427
2021-2022	638	38,111	38,749
	<u>\$ 248,333</u>	<u>\$ 653,963</u>	<u>\$ 902,296</u>

Concluded

OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF PROPERTY TAX INFORMATION (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2008

Taxing District	Tax Levy	Collections and Other Reductions	Delinquent Personal Property Taxes	Percentage of Current Year Levy Collected
Bear Creek Township	\$ 5,303,855	\$ 5,295,815	\$ 8,040	99.85%
Littlefield Township	64,273	62,955	1,318	97.95%
Little Traverse Township	453,863	452,296	1,567	99.65%
Resort Township	3,221,357	3,220,500	857	99.97%
Springvale Township	823,357	822,834	523	99.94%
City of Petoskey	8,134,994	8,101,155	33,839	99.58%
Chandler Township	265,150	264,435	715	99.73%
Hayes Township	43,339	43,339	-	100.00%
Melrose Township	838,640	836,683	1,957	99.77%
Total	<u>\$ 19,148,828</u>	<u>\$ 19,100,012</u>	<u>\$ 48,816</u>	99.75%
Allocated as follows				
General Fund	\$ 15,038,149	\$ 14,979,207	\$ 58,942	99.61%
Debt Service Funds	2,315,936	2,322,823	(6,887)	100.30%
Capital Projects Fund	1,794,743	1,797,982	(3,239)	100.18%
Total allocated to all funds	<u>\$ 19,148,828</u>	<u>\$ 19,100,012</u>	<u>\$ 48,816</u>	99.75%

PUBLIC SCHOOLS OF PETOSKEY

TEN-YEAR SUMMARY OF ENROLLMENT (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2008

Year	Special Education	Elementary School	Middle School	High School	Total	Non-Resident	Resident
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
2005	73.51	1,271.12	692.69	1,037.45	3,074.77	300.51	2,774.26
2006	75.71	1,261.31	669.92	1,050.16	3,057.10	324.00	2,733.10
2007	76.17	1,243.99	659.59	1,026.97	3,006.72	341.28	2,665.44
2008	73.36	1,224.31	669.43	1,020.37	2,987.47	342.02	2,645.45

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

PUBLIC SCHOOLS OF PETOSKEY

**TEN-YEAR SUMMARY OF GENERAL FUND
EXPENDITURES, STUDENT ENROLLMENT AND
PER PUPIL COSTS (UNAUDITED)**

Year	Expenditures and Transfers*	Enrollment	Expenditures Per Pupil
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
2005	\$ 24,942,607	3,074.77	\$ 8,112
2006	\$ 23,785,212	3,087.10	\$ 7,705
2007	\$ 24,725,450	3,006.72	\$ 8,223
2008	\$ 24,959,034	2,987.47	\$ 8,355

* General Fund expenditures and transfers only.

INTERNAL CONTROL AND COMPLIANCE



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

October 16, 2008

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Public Schools of Petoskey* (the "District") as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 16, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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".

SINGLE AUDIT

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2007
U.S. Department of Education			
Indian Education			
06/07	84.060A	\$ 49,789	\$ -
07/08	84.060A	50,910	-
Total Indian Education		100,699	-
Passed Through the Michigan Department of Education			
ECIA Title I			
071530-0607 Carryover	84.010	354,494	9,062
081530-0708 Regular	84.010	409,509	-
Total ECIA Title I		764,003	9,062
Title IIA - Improving Teacher Quality			
070520-0607 Regular	84.367	106,444	15,990
080520-0708 Regular	84.367	108,690	-
Total Title IIA		215,134	15,990
Title V, Part A - Innovative Education			
08250-0708 Regular	84.298	654	-
Title II D - Enhancing Education Through Technology			
084290-0708	84.318	3,849	-
Total Passed Through Michigan Department of Education		983,640	25,052

<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>2008</u>
\$ 48,665	\$ -	\$ -	\$ -
-	50,910	50,910	-
48,665	50,910	50,910	-
301,645	52,776	61,838	-
-	370,139	231,933	138,206
301,645	422,915	293,771	138,206
106,444	-	15,990	-
-	102,917	74,099	28,818
106,444	102,917	90,089	28,818
-	654	654	-
-	3,849	3,849	-
408,089	530,335	388,363	167,024

Continued...

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2007
Passed Through ISD			
IDEA			
060490-TS, Transition	84.027A	\$ 5,497	\$ (2,189)
080490-TS, Transition	84.027A	1,418	-
Total IDEA, Transition		6,915	(2,189)
Vocational Education Secondary CTE Perkins			
V048A070022	84.048	7,891	-
Drug Free Schools			
072860-0607 Regular	84.186A	3,000	3,000
072860-0607 Regular	84.186A	3,000	-
Total Drug Free Schools		6,000	3,000
Medicaid Outreach	93.778	12,341	-
Total Passed Through ISD		33,147	811
Total U.S. Department of Education		1,117,486	25,863
U.S. Department of Agriculture			
Passed through Michigan Department of Education			
Commodities			
Entitlement Commodities	10.550	51,602	-
Bonus Commodities	10.550	2,739	-
Total Commodities		54,341	-
National School Lunch - Breakfast			
71970	10.553	59,785	-
81970	10.553	56,305	-
Total National School Lunch - Breakfast		116,090	-

<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>2008</u>
\$ 3,308	\$ 2,189	\$ -	\$ -
-	1,418	1,418	-
3,308	3,607	1,418	-
-	7,891	7,891	-
3,000	-	3,000	-
-	3,000	-	3,000
3,000	3,000	3,000	3,000
-	12,341	12,341	-
6,308	26,839	24,650	3,000
463,062	608,084	463,923	170,024
-	51,602	51,602	-
-	2,739	2,739	-
-	54,341	54,341	-
55,539	4,246	4,246	-
-	56,305	56,305	-
55,539	60,551	60,551	-

Continued...

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2007
National School Lunch			
Section 4 All Lunches - 71950	10.555	\$ 60,021	\$ -
Section 4 All Lunches - 81950	10.555	51,295	-
Section 11 Free & Reduced - 71960	10.555	239,517	-
Section 11 Free & Reduced - 81960	10.555	208,109	-
Total National School Lunch		558,942	-
Total U.S. Department of Agriculture		729,373	-
Total Federal Financial Awards		\$ 1,846,859	\$ 25,863

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 R7120) and CMS Grant Auditors Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.

(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2008
\$ 54,377	\$ 5,644	\$ 5,644	\$ -
-	51,295	51,295	-
216,110	23,407	23,407	-
-	208,109	208,109	-
270,487	288,455	288,455	-
326,026	403,347	403,347	-
\$ 789,088	\$ 1,011,431	\$ 867,270	\$ 170,024

Continued...

PUBLIC SCHOOLS OF PETOSKEY

RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2008

RECONCILIATION TO GRANT SECTION AUDITORS' REPORT

Current payments per the grant sections auditors' report	\$ 737,369
Plus	
Amounts passed through Charlevoix-Emmet Intermediate School District	24,650
Entitlement and bonus commodities	54,341
Direct award from Department of Education	<u>50,910</u>
Total current year receipts per schedule of expenditures of federal awards	<u><u>\$ 867,270</u></u>

Concluded



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

October 16, 2008

Board of Education
Public Schools of Petoskey
Petoskey, Michigan

Compliance

We have audited the compliance of *Public Schools of Petoskey* (the "District") 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, 2008. The District's major federal programs are identified in the summary of auditors' 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 the District's management. Our responsibility is to express an opinion on the District'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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the District 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 the District'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 an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 black ink that reads "Lehmann Johnson". The signature is written in a cursive style with a large, prominent initial 'L'.

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008

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

Significant deficiencies identified
not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements
noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiencies 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

Continued...

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED JUNE 30, 2008

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	ECIA Title I

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

Auditee qualified as low-risk auditee? X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs.

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