



Public Schools of Petoskey

A Special Place for Everyone

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

PUBLIC SCHOOLS OF PETOSKEY

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INDEPENDENT AUDITORS' REPORT

August 28, 2007

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, 2007, 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 **Public Schools of Petoskey** as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2007 on our consideration of ***Public Schools of Petoskey***'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

The other supplementary information included on pages 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, reading "Lehmann Lohman".

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, 2007. 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 Building & Site Fund, Roof Repair Fund, and Sinking 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 4.62% to \$26,313,014. Table 1 provides a summary of the District's net assets as of June 30, 2007 and June 30, 2006:

Public Schools of Petoskey
Condensed Statement of Net Assets
Table 1

	<u>Governmental Activities</u>		<u>Percentage</u>
	<u>2007</u>	<u>2006</u>	<u>Change</u>
Assets			
Current assets	\$ 8,397,175	\$ 8,575,167	(4.43)%
Deferred bond refunding costs	686,275	743,465	(7.69)%
Capital assets, net of accumulated depreciation	<u>45,794,692</u>	<u>45,377,329</u>	<u>0.92 %</u>
Total assets	54,878,142	54,875,961	(0.05)%
Liabilities			
Current liabilities	3,864,110	3,917,750	(1.59)%
Premium on bond refunding	560,725	606,975	(7.62)%
Long-term liabilities	<u>24,140,743</u>	<u>25,201,121</u>	<u>(4.21)%</u>
Total liabilities	28,565,128	29,725,846	(3.93)%
Invested in capital assets, net of related debt	22,260,126	21,182,978	5.08 %
Restricted	2,331,343	2,491,787	(6.44)%
Unrestricted	<u>1,721,545</u>	<u>1,475,350</u>	<u>15.24%</u>
Total net assets	<u>\$ 26,313,014</u>	<u>\$ 25,150,115</u>	<u>4.54 %</u>

Capital assets net of related debt, \$22,260,126, 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 \$2,331,343 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 \$1,721,545 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 2007 and 2006.

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

	<u>Governmental Activities</u>		<u>Percentage</u>
	<u>2007</u>	<u>2006</u>	<u>Change</u>
Revenue			
Program Revenues			
Charges for services	\$ 935,402	\$ 951,211	(1.62)%
Grants and contributions	3,225,921	3,088,128	4.46 %
General Revenues			
Property taxes	18,392,068	17,180,471	7.05 %
State foundation allowance	7,045,871	7,568,912	(7.19)%
Other	<u>485,962</u>	<u>443,050</u>	<u>9.69 %</u>
Total revenues	<u>30,085,222</u>	<u>29,231,772</u>	<u>2.85%</u>
Expenses			
Instruction	16,393,643	15,834,830	3.53 %
Support services	7,461,159	7,352,972	1.47 %
Community services	40,493	39,287	3.07 %
Food services	1,072,670	1,051,611	2.00 %
Athletics	680,142	571,841	18.94 %
Interest/fees on long-term debt	1,044,019	1,036,935	0.68 %
Depreciation (unallocated)	<u>2,230,196</u>	<u>2,222,800</u>	<u>0.33 %</u>
Total expenses	<u>28,922,322</u>	<u>28,110,276</u>	<u>2.89%</u>
Increase (decrease) in net assets	<u>\$ 1,162,900</u>	<u>\$ 1,121,496</u>	<u>1.79%</u>

Of the District's total revenues available to operate the District, 3.1% or \$935,402 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 12.3% or \$3,711,883.

Local property taxes, in the amount of 61.1% or \$18,392,068, 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 \$1,698,928 of the \$18,392,068 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 23.5% or \$7,045,871 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 \$16,393,643 or 56.68% of total expenses. Support services cost \$7,461,159 or 25.80% 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 \$1,162,900 or 4.62%. Overall, revenue increased 2.85%, while expenses increased by 2.89%. 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.

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 \$4,691,118, which is a decrease of \$314,014 from the prior year.

Of the combined governmental fund balances, 49.13% or \$2,304,937 constitutes *unreserved fund balance*, which is available for spending at the District's discretion. The remainder of the combined fund balances, or \$2,386,181, is *reserved* to indicate that it is not available for spending at the District's discretion. Of the reserved fund balance, \$2,008,015 is earmarked for capital improvements and \$323,328 is earmarked for payments on long-term debt.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,277,652, while total fund balance was \$2,321,443. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent approximately 9.0% of total General Fund expenditures and transfers.

The fund balance of the District's General Fund decreased, as planned, by \$104,788 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 \$532,326 less than the final amended budget, a variance of 2.1%. 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 \$868,052 less than the final amended budget, a variance of 3.5%. The reduction of actual expenditures under budget is due to cost saving programs implemented throughout the year.

Capital Asset and Debt Administration

Capital Assets. By June 30, 2007, the District had invested \$68,830,984 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 \$2,647,559 or 4.0% 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 roofing replacement at four schools, boiler replacement at Ottawa Elementary, and plumbing upgrades at Central Elementary. In addition, the District purchased approximately 35 acres of land adjacent to the middle school/high school campus, for future expansion. Construction-in-progress consists of a major auditorium renovation at the high school, and a parking lot expansion project at Ottawa Elementary.

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

	2007	2006
Land	\$ 3,394,351	\$ 2,457,476
Construction-in-progress	780,590	670,388
Buildings	57,237,666	55,708,708
Furniture and equipment	7,418,377	7,346,853
 Total capital assets	 68,830,984	 66,183,425
 Less accumulated depreciation	 23,036,292	 20,806,096
 Net capital assets	 \$ 45,794,692	 \$ 45,377,329

Debt. At year-end, the District had \$24,140,743 in general obligation bonds and other long-term debt outstanding – a reduction of 4.2% 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**

	2007	2006
General obligation bonds	\$ 22,175,000	\$ 23,485,000
Other general obligation debt	1,965,743	1,716,181
 Total long-term debt	 \$ 24,140,743	 \$ 25,201,181

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 \$686,796 at June 30, 2007. 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 \$576,949.

Factors Bearing on the District's Future

We consider many factors when setting the District's 2007-08 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 75 students below our expectations. Our investigations show significant movement of families out-of-state due to the stagnant economy. In setting the budget for 2007-08, we assumed a further reduction of 52 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 2006-07, the District enjoyed a foundation allowance of \$7,085, a \$210 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 2007-08, once again the revenue picture is murky, with competing proposals being considered by the State legislature. The legislature's revenue increase estimates range from a reduction of \$50 per pupil to an increase of \$50 per pupil. The District used a reduction of \$23 per pupil for budget building purposes for 2007-08. The combination of expected results in count, reductions in foundation allowance, and increases in expenditures results in 2007-08 budget with an approximately \$900,000 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 is based upon an anticipated cost saving of approximately \$250,000, which will likely be used to help offset anticipated budget deficits.

The District's labor contracts with the Petoskey Education Association and the Petoskey Educational Support Personnel Association, which represents both the District's teachers and the District's support personnel, are set to expire in August 2007. Negotiations are expected to be finalized by early winter 2007.

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, 2007

ASSETS

Cash and cash equivalents	\$ 2,702,023
Investments	4,366,870
Receivables	1,273,444
Other current assets	54,838
Deferred bond refunding costs	686,275
Capital assets not being depreciated	4,174,941
Capital assets being depreciated, net	41,619,751

Total assets

54,878,142

LIABILITIES

Accounts payable and accrued expenditures	3,104,806
Unearned revenue	759,304
Premium on bond refunding	560,275
Long-term liabilities	
Due within one year	1,563,043
Due in more than one year	22,577,700

Total liabilities

28,565,128

NET ASSETS

Invested in capital assets, net of related debt	22,260,126
Restricted for capital projects	2,008,015
Restricted for debt service	323,328
Unrestricted	1,721,545

Total net assets

\$ 26,313,014

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, 2007

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 16,393,643	\$ 171,009	\$ 2,716,203	\$ (13,506,431)
Supporting services	7,461,159	58,861	-	(7,402,298)
Community services	40,493	-	-	(40,493)
Food services	1,072,670	581,108	475,214	(16,348)
Athletics	680,142	124,424	34,557	(521,161)
Interest on long-term debt	1,044,019	-	-	(1,044,019)
Unallocated depreciation	2,230,196	-	-	(2,230,196)
Total governmental activities	\$ 28,922,322	\$ 935,402	\$ 3,225,974	(24,760,946)
General revenues				
Property taxes - operations				16,018,664
Property taxes - debt service				2,373,404
Unrestricted state aid				7,045,871
Unrestricted investment earnings				352,130
Other				133,777
Total general revenues				25,923,846
Change in net assets				1,162,900
Net assets, beginning of year				25,150,114
Net assets, end of year				\$ 26,313,014

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, 2007

	<u>General</u>	<u>Sinking</u>	<u>Debt Service</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 9,868	\$ 1,901,981	\$ 272,556	\$ 517,617	\$ 2,702,022
Investments	4,112,535	203,563	50,772	-	4,366,870
Accounts receivable	-	-	-	8,631	8,631
Due from other governmental units	1,264,813	-	-	-	1,264,813
Inventory and prepaid expenditures	43,791	-	-	11,047	54,838
Total assets	\$ 5,431,007	\$ 2,105,544	\$ 323,328	\$ 537,295	\$ 8,397,174
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 179,979	\$ -	\$ -	\$ 107,584	\$ 287,563
Contracts payable	-	476,497	-	-	476,497
Salaries payable	1,382,645	-	-	-	1,382,645
Accrued expenses	800,047	-	-	-	800,047
Deferred revenue	746,893	-	-	12,411	759,304
Total liabilities	3,109,564	476,497	-	119,995	3,706,056
Fund balances					
Reserved for inventory and prepaid items	43,791	-	-	11,047	54,838
Reserved for capital improvements	-	1,629,047	-	378,968	2,008,015
Reserved for debt service	-	-	323,328	-	323,328
Unreserved					
Undesignated, reported in nonmajor special revenue funds	-	-	-	27,285	27,285
Undesignated	2,277,652	-	-	-	2,277,652
Total fund balances	2,321,443	1,629,047	323,328	417,300	4,691,118
Total liabilities and fund balances	\$ 5,431,007	\$ 2,105,544	\$ 323,328	\$ 537,295	\$ 8,397,174

Continued...

PUBLIC SCHOOLS OF PETOSKEY

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2007

**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 **\$ 4,691,118**

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	68,830,984
Deduct	- accumulated depreciation	(23,036,292)

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	686,275
Deduct	- bond premium, net of amortization	(560,274)
	- bonds and other long-term liabilities	(23,534,566)
	- accrued interest on bonds payable	(158,054)
	- compensated absences	(606,177)

Net assets of governmental activities **\$ 26,313,014**

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, 2007

	<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	\$ 14,319,736	\$ 1,698,928	\$ 2,367,907	\$ -	\$ 18,386,571
Charges for services	81,873	-	-	705,532	787,405
Tuition	89,136	-	-	-	89,136
Rent income	-	-	-	58,861	58,861
Interest income	229,565	75,709	39,264	13,088	357,626
Contributions	-	-	-	34,557	34,557
Other income	138,278	-	-	8,262	146,540
State sources	8,046,350	-	-	66,630	8,112,980
Federal sources	502,483	-	-	408,584	911,067
Interdistrict sources	1,213,241	-	-	-	1,213,241
Total revenues	24,620,662	1,774,637	2,407,171	1,295,514	30,097,984
Expenditures					
Instruction	16,364,433	-	-	-	16,364,433
Supporting services	7,841,337	-	-	-	7,841,337
Community services	40,493	-	-	-	40,493
Food services	-	-	-	1,071,392	1,071,392
Athletics	-	-	-	680,142	680,142
Capital outlay	-	2,661,072	-	-	2,661,072
Other	-	12,763	37,915	-	50,678
Debt service					
Principal	-	-	1,359,785	-	1,359,785
Interest	-	-	1,042,666	-	1,042,666
Total expenditures	24,246,263	2,673,835	2,440,366	1,751,534	31,111,998
Revenues over (under) expenditures	374,399	(899,198)	(33,195)	(456,020)	(1,014,014)
Other financing sources (uses)					
Bond proceeds	-	700,000	-	-	700,000
Transfers in	-	-	94,105	479,187	573,292
Transfers out	(479,187)	(94,105)	-	-	(573,292)
Total other financing sources (uses)	(479,187)	605,895	94,105	479,187	700,000
Net change in fund balances	(104,788)	(293,303)	60,910	23,167	(314,014)
Fund balances, beginning of year	2,426,231	1,922,350	262,418	394,133	5,005,132
Fund balances, end of year	\$ 2,321,443	\$ 1,629,047	\$ 323,328	\$ 417,300	\$ 4,691,118

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2007

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 **\$ (314,014)**

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	2,647,559
Deduct	- depreciation expense	(2,230,196)

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	46,691
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	1,922,735
Deduct	- proceeds of long-term liabilities	(700,000)

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

Add	- decrease in accrued interest payable on bonds	9,672
Deduct	- increase in the accrual for compensated absences	(162,357)

Change in net assets - governmental activities **\$ 1,162,900**

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, 2007

	Budget		Actual	Variance - Positive (Negative) Amended to Actual
	Original	Final Amended		
Revenues				
Local sources	\$ 15,112,330	\$ 14,807,079	\$ 14,858,588	\$ 51,509
State sources	7,838,810	8,157,208	8,046,350	(110,858)
Federal sources	526,979	528,604	502,483	(26,121)
Interdistrict sources	1,382,037	1,660,097	1,213,241	(446,856)
Total revenues	24,860,156	25,152,988	24,620,662	(532,326)
Expenditures				
Education				
Instruction	16,696,732	16,906,089	16,364,433	541,656
Supporting services	8,021,088	8,161,199	7,841,337	319,862
Community services	46,912	47,027	40,493	6,534
Total expenditures	24,764,732	25,114,315	24,246,263	868,052
Revenues (under) over expenditures	95,424	38,673	374,399	335,726
Other financing uses				
Transfers out	447,187	479,187	479,187	-
Net change in fund balance	(351,763)	(440,514)	(104,788)	335,726
Fund balance, beginning of year	2,426,231	2,426,231	2,426,231	-
Fund balance, end of year	\$ 2,074,468	\$ 1,985,717	\$ 2,321,443	\$ 335,726

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, 2007

ASSETS

Cash and cash equivalents	\$ 73,733
Investments	400,000
Accounts receivable	71
	<hr/>

Total assets	\$ 473,804
	<hr/> <hr/>

LIABILITIES

Due to student groups	\$ 152,634
Scholarships payable	237,878
Due to others	83,292
	<hr/>

Total liabilities	\$ 473,804
	<hr/> <hr/>

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, 2007.

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, 2007.

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	\$ 2,702,023
Investments	<u>4,366,870</u>
Total Statement of Net Assets	<u>7,068,893</u>
Statement of Fiduciary Net Assets	
Agency Funds	
Cash and cash equivalents	73,733
Investments	<u>400,000</u>
Total Statement of Fiduciary Net Assets	<u>473,733</u>
Total deposits and investments	<u>\$ 7,542,626</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 and CDs)	\$ 3,175,356
Investments	4,366,870
Cash on hand	<u>400</u>
Total deposits and investments	<u>\$ 7,542,626</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	\$ 3,175,356	n/a
Michigan Liquid Asset Fund	n/a	<u>4,366,870</u>	S&P – AAAm
		<u>\$ 7,542,226</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, \$411,085 of the District's bank balance of \$3,611,085 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, 2007:

	Balance July 1, 2006	Additions	Transfers	Balance June 30, 2007
Capital assets not being depreciated				
Land	\$ 2,457,476	\$ 936,875	\$ -	\$ 3,394,351
Construction in process	670,388	780,590	(670,388)	780,590
Total capital assets not being depreciated	3,127,864	1,717,465	(670,388)	4,174,941
Capital assets being depreciated				
Buildings and improvements	55,708,708	858,570	670,388	57,237,666
Furniture and equipment	7,346,853	71,524	-	7,418,377
Total capital assets being depreciated	63,055,561	930,094	670,388	64,656,043
Accumulated depreciation				
Buildings and improvements	(14,657,437)	(1,182,427)	-	(15,839,864)
Furniture and equipment	(6,148,659)	(1,047,769)	-	(7,196,428)
Total accumulated depreciation	(20,806,096)	(2,230,196)	-	(23,036,292)
Total capital assets being depreciated, net	42,249,465	(1,300,102)	670,388	41,619,751
Governmental activities capital assets, net	\$ 45,377,329	\$ 417,363	\$ -	\$ 45,794,692

Unallocated depreciation expense of \$2,230,196 was charged to the governmental activities.

D. Accounts payable and accrued expenses

Payables are 7.4 percent vendors, 12.4 percent contracts, 35.9 percent salaries, and 44.3 percent accrued expenses.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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, 2007, 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, 2007, the District's General Fund transferred \$479,187 to the Athletic Special Revenue Fund to subsidize the athletic programs. The Sinking Capital Project Fund transferred \$94,105 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:

	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation	\$ 23,485,000	\$ -	\$ (1,310,000)	\$ 22,175,000	\$ 1,430,000
Durant resolution	<u>95,821</u>	<u>-</u>	<u>-</u>	<u>95,821</u>	<u>-</u>
Total bonds payable	<u>23,580,821</u>	<u>-</u>	<u>(1,310,000)</u>	<u>22,270,821</u>	<u>1,430,000</u>
Other liabilities					
Land contracts	613,530	700,000	(49,785)	1,263,745	71,285
Early retirement incentives	562,950	-	(562,950)	-	-
Compensated absences	<u>443,820</u>	<u>162,357</u>	<u>-</u>	<u>606,177</u>	<u>61,758</u>
Total other liabilities	<u>1,620,300</u>	<u>862,357</u>	<u>(612,735)</u>	<u>1,869,922</u>	<u>133,043</u>
Total long-term liabilities	<u>\$ 25,201,121</u>	<u>\$ 862,357</u>	<u>\$ (1,922,735)</u>	<u>\$ 24,140,743</u>	<u>\$ 1,563,043</u>

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

Long-term debt at June 30, 2007 includes the following:

General Obligation Bonds

1998 school building and site bonds partially refunded; final installment of \$1,205,000 with interest of 4.6% due May 1, 2008. \$ 1,205,000

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. 20,970,000

Total general obligation bonds 22,175,000

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 **22,270,821**

Other Liabilities

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 1, 2019. 576,949

Land contract payable in monthly installments of \$5,536 including interest charged at 5.00%; final payment due May 1, 2022. 686,796

Compensated absences 606,177

Total long-term debt **\$ 24,140,743**

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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.

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>
2008	\$ 1,501,285	\$ 1,002,898	\$ 2,504,183
2009	1,705,120	958,451	2,663,571
2010	1,718,227	880,048	2,598,275
2011	1,777,707	818,517	2,596,224
2012	1,832,414	754,834	2,587,248
2013-2017	10,387,560	2,426,353	12,813,913
2018-2022	<u>4,612,253</u>	<u>296,620</u>	<u>4,908,873</u>
Total	<u>\$ 23,534,566</u>	<u>\$ 7,137,721</u>	<u>\$ 30,672,287</u>

Interest expense and paying agent fees were \$1,042,666 for the year ended June 30, 2007.

Compensated absences and the early retirement incentives 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.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

The current rate is 17.74% 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, 2007, 2006 and 2005 were \$2,402,301, \$1,982,972, and \$1,975,949, respectively, equal to the required contributions for each year.

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 MPERS 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.

PUBLIC SCHOOLS OF PETOSKEY

NOTES TO THE FINANCIAL STATEMENTS

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, 2007.

As of June 30, 2007, the District had entered into various construction contracts amounting to approximately \$2,699,000. The contracts are for auditorium renovations, parking lot expansion, a dust collector system and a boiler upgrade. As of June 30, 2007, \$780,590 was recorded as construction-in-progress related to these projects.

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

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2007

	<u>Special Revenue Funds</u>		<u>Capital Project Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service</u>	<u>Athletics</u>	<u>Roof Repair</u>	<u>Building and Site</u>	
ASSETS					
Cash and cash equivalents	\$ 99,232	\$ 46,809	\$ 14,366	\$ 357,210	\$ 517,617
Accounts receivable	-	1,239	-	7,392	8,631
Inventory	10,897	150	-	-	11,047
Total assets	\$ 110,129	\$ 48,198	\$ 14,366	\$ 364,602	\$ 537,295
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 72,923	\$ 34,661	\$ -	\$ -	\$ 107,584
Deferred revenue	4,077	8,334	-	-	12,411
Total liabilities	77,000	42,995	-	-	119,995
Fund balances					
Reserved for inventory	10,897	150	-	-	11,047
Reserved for capital improvements	-	-	14,366	364,602	378,968
Unreserved, undesignated	22,232	5,053	-	-	27,285
Total fund balances	33,129	5,203	14,366	364,602	417,300
Total liabilities and fund balances	\$ 110,129	\$ 48,198	\$ 14,366	\$ 364,602	\$ 537,295

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue Funds		Capital Project Funds		Total Nonmajor Governmental Funds
	Food Service	Athletics	Roof Repair	Building and Site	
Revenues					
Local sources					
Charges for services	\$ 581,108	\$ 124,424	\$ -	\$ -	\$ 705,532
Rent income	-	-	-	58,861	58,861
Interest income	-	-	547	12,541	13,088
Contributions	-	34,557	-	-	34,557
Other	-	8,262	-	-	8,262
State sources	66,630	-	-	-	66,630
Federal sources	408,584	-	-	-	408,584
Total revenues	1,056,322	167,243	547	71,402	1,295,514
Expenditures					
Food services	1,071,392	-	-	-	1,071,392
Athletics	-	680,142	-	-	680,142
Total expenditures	1,071,392	680,142	-	-	1,751,534
Revenues over (under) expenditures	(15,070)	(512,899)	547	71,402	(456,020)
Other financing sources (uses)					
Transfers in	32,000	447,187	-	-	479,187
Net change in fund balances	16,930	(65,712)	547	71,402	23,167
Fund balances, beginning of year	16,199	70,915	13,819	293,200	394,133
Fund balances, end of year	\$ 33,129	\$ 5,203	\$ 14,366	\$ 364,602	\$ 417,300

PUBLIC SCHOOLS OF PETOSKEY

**BALANCE SHEET
GENERAL FUND**

**JUNE 30, 2007
(WITH COMPARATIVE BALANCES FOR JUNE 30, 2006)**

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$ 9,868	\$ 794,452
Investments	4,112,535	3,642,504
Due from other governmental units	1,264,813	1,464,052
Inventory and prepaid expenditures	43,791	24,709
Total assets	<u>\$ 5,431,007</u>	<u>\$ 5,925,717</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 179,979	\$ 733,029
Salaries payable	1,382,645	1,284,031
Accrued expenses	800,047	746,233
Due to other funds	-	500
Deferred revenue	746,893	735,693
Total liabilities	<u>3,109,564</u>	<u>3,499,486</u>
Fund balance		
Reserved for inventory and prepaid expenditures	43,791	24,709
Unreserved, undesignated	2,277,652	2,401,522
Total fund balance	<u>2,321,443</u>	<u>2,426,231</u>
Total liabilities and fund balance	<u>\$ 5,431,007</u>	<u>\$ 5,925,717</u>

PUBLIC SCHOOLS OF PETOSKEY

**SCHEDULE OF REVENUES
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2006)**

	<u>2007</u>	<u>2006</u>
Revenues		
Local sources		
Property taxes	\$ 14,319,736	\$ 13,355,131
Sales	81,873	144,479
Tuition	89,136	74,586
Interest	229,565	191,999
Other local revenue	138,278	138,366
Total local sources	<u>14,858,588</u>	<u>13,904,561</u>
State sources		
State school aid - Proposal A	1,141,759	2,230,142
State school aid - Headlee	5,735,234	5,338,771
State school aid - Prior year adjustments	168,878	110,529
State school aid - Special Education Headlee Obligation	627,577	488,060
At-risk	317,504	250,028
Other state revenue	55,398	136,797
Total state sources	<u>8,046,350</u>	<u>8,443,797</u>
Federal sources		
Title I	316,538	346,961
Title II	111,386	111,480
Title V	673	1,336
Title IX	49,789	44,829
Other	24,097	26,612
Total federal sources	<u>502,483</u>	<u>531,218</u>
Interdistrict sources		
Vocational education - Millage	480,233	455,801
Vocational education - Added Cost	107,665	122,436
Expense reimbursements	625,343	610,371
Total interdistrict sources	<u>1,213,241</u>	<u>1,188,608</u>
Total revenues	<u>\$ 24,620,662</u>	<u>\$ 24,068,184</u>

PUBLIC SCHOOLS OF PETOSKEY

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

**FOR THE YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006)**

	<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	\$ 3,453,418	\$ 1,794,482	\$ 243,421	\$ 194,592	\$ -
Middle school	1,915,757	963,168	47,867	70,854	5,295
High school	2,236,987	1,069,836	166,652	89,139	5,295
Summer school	3,255	797	-	-	-
Total basic programs	7,609,417	3,828,283	457,940	354,585	10,590
Added needs					
Special education	1,183,135	672,101	27,329	8,255	-
Compensatory education	265,189	182,115	86,424	59,761	-
Vocational education	718,899	353,534	77,139	425,184	44,553
Total added needs	2,167,223	1,207,750	190,892	493,200	44,553
Total instruction	9,776,640	5,036,033	648,832	847,785	55,143
Supporting services					
Pupil services					
Guidance services	336,624	160,198	-	9,671	-
Health services	-	-	132,160	-	-
Other	55,338	14,132	-	-	-
Total pupil services	391,962	174,330	132,160	9,671	-
Instructional staff services					
Improvement of instruction	222	53	12,927	-	-
Library	225,041	157,329	6,995	39,181	-
Technology assisted instruction	133,061	61,151	10,975	23,599	-
Supervision	97,982	36,048	121,832	6,971	-
Academic student assessment	-	-	-	30,513	-
Total instructional staff services	456,306	254,581	152,729	100,264	-

Total	
2007	2006
\$ 5,685,913	\$ 5,471,548
3,002,941	2,961,530
3,567,909	3,570,162
4,052	6,890
12,260,815	12,010,130
1,890,820	1,786,371
593,489	592,511
1,619,309	1,494,827
4,103,618	3,873,709
16,364,433	15,883,839
506,493	380,677
132,160	192,161
69,470	70,412
708,123	643,250
13,202	18,339
428,546	397,287
228,786	217,914
262,833	231,095
30,513	
963,880	864,635

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

**FOR THE YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006)**

	<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	\$ -	\$ -	\$ 54,625	\$ 18,969	\$ -
Executive administration	179,479	96,397	154,399	12,323	-
Total general administration	<u>179,479</u>	<u>96,397</u>	<u>209,024</u>	<u>31,292</u>	<u>-</u>
School administration					
Office of the principal	663,190	388,811	428,286	33,077	-
Business services					
Fiscal services	196,241	110,851	46,988	266,769	-
Transportation	-	-	1,029,613	-	-
Operations and maintenance	675,337	467,070	541,273	755,432	-
Security services	-	-	50,204	-	-
Total supporting services	<u>2,562,515</u>	<u>1,492,040</u>	<u>2,590,277</u>	<u>1,196,505</u>	<u>-</u>
Community services					
Community services direction	16,443	12,862	11,188	-	-
Total operating expenditures	<u>\$ 12,355,598</u>	<u>\$ 6,540,935</u>	<u>\$ 3,250,297</u>	<u>\$ 2,044,290</u>	<u>\$ 55,143</u>
Other financing uses					
Transfers out					
Total expenditures and other financing uses					

Total	
2007	2006
\$ 73,594	\$ 77,257
442,598	448,266
516,192	525,523
1,513,364	1,485,368
620,849	288,523
1,029,613	996,286
2,439,112	2,525,668
50,204	55,097
7,841,337	7,384,350
40,493	39,286
24,246,263	23,307,475
479,187	477,736
\$ 24,725,450	\$ 23,785,211

Concluded

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS**

**JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2006)**

	Food Service	Athletics	Total	
			2007	2006
ASSETS				
Assets				
Cash and cash equivalents	\$ 99,232	\$ 46,809	\$ 146,041	\$ 158,330
Accounts receivable	-	1,239	1,239	874
Due from other funds	-	-	-	500
Due from other governmental units	-	-	-	8,809
Inventory	10,897	150	11,047	7,959
Total assets	\$ 110,129	\$ 48,198	\$ 158,327	\$ 176,472
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 72,923	\$ 34,661	\$ 107,584	\$ 68,770
Deferred revenue	4,077	8,334	12,411	20,588
Total liabilities	77,000	42,995	119,995	89,358
Fund balances				
Reserved for inventory	10,897	150	11,047	7,959
Unreserved, undesignated	22,232	5,053	27,285	79,155
Total fund balances	33,129	5,203	38,332	87,114
Total liabilities and fund balances	\$ 110,129	\$ 48,198	\$ 158,327	\$ 176,472

PUBLIC SCHOOLS OF PETOSKEY

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

**FOR THE YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006)**

	Food Service	Athletics	Total	
			2007	2006
Revenues				
Local sources				
Lunch sales	\$ 328,302	\$ -	\$ 328,302	\$ 279,311
Breakfast sales	14,354	-	14,354	13,784
Ala Carte sales	238,452	-	238,452	255,923
Athletic ticket sales	-	124,424	124,424	130,922
Contributions	-	34,557	34,557	41,500
Other	-	8,262	8,262	6,694
State sources	66,630	-	66,630	69,948
Federal sources	408,584	-	408,584	370,571
Total revenues	1,056,322	167,243	1,223,565	1,168,653
Expenditures				
Salaries	236,637	319,918	556,555	562,966
Employee benefits	235,237	128,222	363,459	309,989
Purchased services	128,434	47,025	175,459	141,166
Supplies, materials and other expenditures	68,747	97,649	166,396	146,245
Food costs	402,337	-	402,337	425,317
Transportation	-	87,328	87,328	61,078
Total expenditures	1,071,392	680,142	1,751,534	1,646,761
Revenues over (under) expenditures	(15,070)	(512,899)	(527,969)	(478,108)
Other financing sources (uses)				
Transfers in	32,000	447,187	479,187	477,736
Net change in fund balances	16,930	(65,712)	(48,782)	(372)
Fund balances, beginning of year	16,199	70,915	87,114	87,486
Fund balances, end of year	\$ 33,129	\$ 5,203	\$ 38,332	\$ 87,114

PUBLIC SCHOOLS OF PETOSKEY

**COMBINING BALANCE SHEET
CAPITAL PROJECT FUNDS**

**JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2006)**

ASSETS	Sinking	Roof Repair	Building	Total	
	Fund		and Site	2007	2006
Assets					
Cash and cash equivalents	\$ 1,901,981	\$ 14,366	\$ 357,210	\$ 2,273,557	\$ 2,197,161
Investments	203,563	-	-	203,563	193,898
Accounts receivable	-	-	7,392	7,392	-
Total assets	\$ 2,105,544	\$ 14,366	\$ 364,602	\$ 2,484,512	\$ 2,391,059
LIABILITIES AND FUND BALANCES					
Liabilities					
Contracts payable	\$ 476,497	\$ -	\$ -	\$ 476,497	\$ 161,690
Fund balances					
Reserved for capital improvements	1,629,047	14,366	364,602	2,008,015	2,229,369
Total liabilities and fund balances	\$ 2,105,544	\$ 14,366	\$ 364,602	\$ 2,484,512	\$ 2,391,059

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, 2006)**

	Sinking Fund	Roof Repair	Building and Site	Total	
				2007	2006
Revenues					
Property taxes	\$ 1,698,928	\$ -	\$ -	\$ 1,698,928	\$ 1,594,527
Rent income	-	-	58,861	58,861	52,206
Interest income	75,709	547	12,541	88,797	73,667
Total revenues	1,774,637	547	71,402	1,846,586	1,720,400
Expenditures					
Capital outlay	2,661,072	-	-	2,661,072	1,373,765
Other	12,763	-	-	12,763	-
Total expenditures	2,673,835	-	-	2,673,835	1,373,765
Revenues over (under) expenditures	(899,198)	547	71,402	(827,249)	346,635
Other financing sources (uses)					
Bond proceeds	700,000	-	-	700,000	-
Transfers out	(94,105)	-	-	(94,105)	(66,427)
Total other financing sources (uses)	605,895	-	-	605,895	(66,427)
Net change in fund balances	(293,303)	547	71,402	(221,354)	280,208
Fund balances, beginning of year	1,922,350	13,819	293,200	2,229,369	1,949,161
Fund balances, end of year	\$ 1,629,047	\$ 14,366	\$ 364,602	\$ 2,008,015	\$ 2,229,369

PUBLIC SCHOOLS OF PETOSKEY
COMBINING SCHEDULE OF DEBT SERVICE BALANCES
DEBT SERVICE FUND

JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2006)

	<u>1998</u> <u>Bonds</u>	<u>2005</u> <u>Refunding</u> <u>Bonds</u>	<u>Foster</u> <u>Land</u> <u>Contract</u>	<u>Veurink</u> <u>Land</u> <u>Contract</u>
ASSETS				
Cash and cash equivalents	\$ 41,596	\$ 230,960	\$ -	\$ -
Investments	50,772	-	-	-
Total assets (equal to fund balance reserved for debt service)	<u>\$ 92,368</u>	<u>\$ 230,960</u>	<u>\$ -</u>	<u>\$ -</u>

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

Total	
2007	2006
\$ 272,556	\$ 214,119
50,772	48,299
\$ 323,328	\$ 262,418

PUBLIC SCHOOLS OF PETOSKEY

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

**FOR THE YEAR ENDED JUNE 30, 2007
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006)**

	1998 Bonds	2005 Refunding Bonds	Foster Land Contract	Veurink Land Contract
Revenues				
Local sources				
Property taxes	\$ 1,183,953	\$ 1,183,954	\$ -	\$ -
Interest income	19,632	19,632	-	-
State sources	-	-	-	-
Other income	-	-	-	-
Total revenues	1,203,585	1,203,586	-	-
Expenditures				
Principal	1,110,000	200,000	36,581	13,204
Interest	106,490	891,856	29,846	14,474
Other	18,995	18,920	-	-
Total expenditures	1,235,485	1,110,776	66,427	27,678
Revenues over (under) expenditures	(31,900)	92,810	(66,427)	(27,678)
Other financing sources (uses)				
Transfers in	-	-	66,427	27,678
Net change in fund balances	(31,900)	92,810	-	-
Fund balances, beginning of year	124,268	138,150	-	-
Fund balances, end of year	\$ 92,368	\$ 230,960	\$ -	\$ -

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

Total	
2007	2006
\$ 2,367,907	\$ 2,230,814
39,264	24,896
-	11,396
-	7,429
2,407,171	2,274,535
1,359,785	1,267,655
1,042,666	1,022,787
37,915	755
2,440,366	2,291,197
(33,195)	(16,662)
94,105	66,427
60,910	49,765
262,418	212,653
\$ 323,328	\$ 262,418

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2007

	Balances July 1, 2006	Receipts	Disbursements	Balances June 30, 2007
ASSETS				
Cash	\$ 136,102	\$ 548,329	\$ 610,698	\$ 73,733
Investments	341,453	58,547	-	400,000
Accounts receivable	2,796	-	2,725	71
Total assets	\$ 480,351	\$ 606,876	\$ 613,423	\$ 473,804
LIABILITIES				
Due to student groups	\$ 187,006	\$ 429,723	\$ 464,095	\$ 152,634
Scholarships payable	237,487	27,747	27,356	237,878
Due to others	55,858	149,406	121,972	83,292
Total liabilities	\$ 480,351	\$ 606,876	\$ 613,423	\$ 473,804

The balances consist of the following:

Deposits due to student groups

Student groups				
6th Grade Club	\$ 3,258	\$ 23,263	\$ 25,025	\$ 1,496
7th Grade Club	3,008	16,593	17,345	2,256
8th Grade Fund	1,199	4,440	4,912	727
Middle School Art Club	1,887	1,857	2,278	1,466
Middle School Athletics	664	4,187	4,334	517
Middle School Drama	2	-	2	-
Middle School Ecology Club	473	1,500	1,587	386
Middle School Enrichment	663	1,300	839	1,124
Middle School Football	1,397	4,156	2,942	2,611
Middle School Journalism/Onlooker	597	-	597	-
Middle School Photo Club	589	213	244	558
Middle School Student Council	1,732	2,648	2,702	1,678
Middle School Track	2,495	1,110	1,449	2,156
Middle School Vocal	794	-	-	794
Middle School Volleyball	961	1,914	1,629	1,246
Middle School Yearbook	4,048	18,360	21,749	659
Odyssey Of The Mind	670	-	-	670
Ottawa 4th Grade Field Trip	417	1,630	1,893	154
Ottawa 5th Grade Field Trip	583	4,471	4,923	131
Sheridan 3rd Grade	143	2,480	2,418	205
Sheridan 4th Grade	398	1,238	1,275	361
Sheridan 5th Grade	11	450	350	111
Sheridan Drama Club	495	245	695	45
Sheridan Garden Fund	548	216	480	284
Special Needs-Kilborn	208	-	111	97

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2007

	Balances July 1, 2006	Receipts	Disbursements	Balances June 30, 2007
Builder's Club	\$ 555	\$ 493	262	\$ 786
Building Trades Fund	304	1,820	1,847	277
Business Club	18	200	-	218
Central 5th Grade	1,608	4,440	4,897	1,151
Central 3rd Grade	18	-	-	18
Central Learning Center	80	-	80	-
Central Library & Computer	4,050	4,000	6,182	1,868
Central School Fund	16,066	13,828	28,608	1,286
Central School Store	480	626	961	145
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 2005	728	-	728	-
Class Of 2006	880	-	880	-
Class of 2007	8,089	8,581	14,275	2,395
Class of 2008	2,098	8,446	5,947	4,597
Class of 2009	2,135	823	813	2,145
Class of 2010	-	895	-	895
DECA	276	2,524	1,046	1,754
Debate Club	1,685	770	1,391	1,064
Elementary Enrichment	4,721	2,926	3,531	4,116
Elementary Enrichment Play	2,398	8,453	7,278	3,573
Elementary Music Fund	271	1,534	1,530	275
FCCLA	81	5,296	5,331	46
FCCLA Region II	66	930	886	110
French Club	45	2,185	2,188	42
Future Farmers of America	1,162	741	140	1,763
G Wing Productions	1,912	6,648	5,521	3,039
HOSA	581	4,939	5,028	492
High School Art Club	2,159	300	-	2,459
High School Chess Club	592	-	592	-
High School Spring Musical	147	6,889	5,093	1,943
High School Fall Play	1,752	-	-	1,752
High School Journalism	162	1,225	1,186	201
High School Learning Center	2,572	300	1,443	1,429
High School Fund	8,758	3,570	1,755	10,573
High School Steel Drum Band	123	29,300	29,300	123
High School Enrichment	196	14,647	14,352	491
High School Quiz Bowl Team	339	700	667	372
High School Student Council	618	18,615	13,830	5,403

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2007

	Balances July 1, 2006	Receipts	Disbursements	Balances June 30, 2007
High School Vocal	\$ 178	\$ 4,597	\$ 4,515	\$ 260
High School Yearbook	16,312	26,476	43,073	(285)
Hospitality Foods Tip Fund	1,634	2,016	3,050	600
Inward Bound Fund	761	18	126	653
Key Club	29	351	-	380
Landscape Project Fund	2,359	627	1,618	1,368
Lincoln Learning Center	3	-	3	-
Lincoln School Fund	3,545	1,975	2,730	2,790
Lincoln 4th Grade	1,000	-	999	1
Middle School Enrichment Play	1,839	520	974	1,385
Middle School Book Fair	669	2,411	2,333	747
Middle School Fund	1,034	3,945	4,137	842
Middle School Store	646	2,005	2,123	528
Middle School Adventure Education	251	190	-	441
Middle School Washington DC Club	1,546	2,327	2,809	1,064
National Honor Society	520	181	171	530
Northmen Club	5,203	1,759	6,262	700
Ottawa After-School	1,306	-	-	1,306
Ottawa Learning Center	6	-	6	-
Ottawa Popcorn Sales	1,524	1,535	1,048	2,011
Ottawa School Fund	4,020	3,107	3,119	4,008
Ottawa School Store	233	-	-	233
Petoskey High School Papermakers	1,655	1,837	1,106	2,386
Sheridan School	17,131	4,056	19,270	1,917
Spanish Club	51	100	-	151
World History Trip Fund	450	-	-	450
Athletic Hall Of Fame	817	681	1,498	-
Anime Club	197	-	-	197
Boys Basketball	443	-	-	443
Boys Golf	301	1,500	-	1,801
Golf Camp	5,095	2,426	5,513	2,008
Communications Camp	2,882	2,450	2,948	2,384
Girls Basketball	2,378	-	-	2,378
Girls Golf	2,215	3,880	4,556	1,539
Girls Softball	359	-	-	359
Boys Tennis	302	-	-	302
Girls Tennis	697	3,706	3,817	586
Girls Track	758	-	286	472
Dance	181	863	969	75
High School Baseball	1	-	-	1
High School Boys Soccer	2,359	5,007	2,950	4,416
High School Cross Country	124	11,743	6,699	5,168

Continued...

PUBLIC SCHOOLS OF PETOSKEY

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

FOR THE YEAR ENDED JUNE 30, 2007

	Balances July 1, 2006	Receipts	Disbursements	Balances June 30, 2007
High School Football	\$ 45	\$ -	\$ -	\$ 45
High School Girls Soccer	515	3,665	2,794	1,386
H. S. Social Studies Club	1,025	-	727	298
High School Hockey	280	72,157	52,586	19,851
Skills USA	-	50	-	50
Indian Education - Unity Trip	3,025	5,000	5,037	2,988
Volleyball	961	7,647	6,896	1,712
Total due to student groups	187,006	429,723	464,095	152,634
Scholarships payable				
Doris Reber - Class of 1932 Scholarship	196,887	9,596	10,000	196,483
Robert Motely Memorial Fund	2,606	-	500	2,106
Henshaw Memorial Scholarship	4,245	200	499	3,946
Middle School Foundation Grant	4,009	-	2,015	1,994
McClutchey Memorial Scholarship	5,412	250	300	5,362
Midshipmen Scholarship	7,293	350	600	7,043
PEF Grants - High School	341	5,880	4,146	2,075
PEF Grants - Lincoln	-	1,188	874	314
PEF Grants - Sheridan	-	837	397	440
PEF Grants - Central	-	1,657	1,640	17
PEF Grants - Ottawa	484	1,753	2,098	139
PEF Grants - Middle School	-	4,336	3,762	574
Vaughn Memorial Scholarship	16,211	800	300	16,711
Wil Moyer Music Scholarship	(1)	900	225	674
Total scholarships payable	237,487	27,747	27,356	237,878
Due to others				
Sheridan PTO	283	-	283	-
Central Gym Project	50	-	-	50
Central PTO	1,904	7,726	7,875	1,755
COATS	17,014	21,560	26,790	11,784
Eric Greyerbiehl Memorial Fund	1,912	750	350	2,312
Guidance Dept Testing	1,201	1,800	1,476	1,525
Kathy Robinson Memorial Fund	71	25	-	96
Lincoln PTO	2,477	27,074	14,937	14,614
Middle School Celebration Garden	1,203	-	686	517
Northmen Night	1,526	19,114	20,232	408
Ottawa PTO	-	2,924	1,652	1,272
Ottawa PTO Board Fund	8,618	50,801	43,361	16,058
Spitler Building Pop Fund	97	167	260	4
Student Reserve	19,563	12,308	2,980	28,891
Track Donations	-	5,035	1,029	4,006
Weight Room Donations	(61)	122	61	-
Total due to others	55,858	149,406	121,972	83,292
Totals	\$ 480,351	\$ 606,876	\$ 613,423	\$ 473,804

Concluded

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2007

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>400,000</u>
BALANCE OUTSTANDING - June 30, 2007	<u>\$ 20,970,000</u>

<u>Fiscal Year</u>	<u>November 1, Interest</u>	<u>May 1, Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2007-2008	\$ 442,950	\$ 442,950	\$ 225,000	\$ 1,110,900
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>\$ 3,296,310</u>	<u>\$ 3,296,310</u>	<u>\$ 20,970,000</u>	<u>\$ 27,562,620</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, 2007

<hr/>					
PURPOSE	1998 School Building and Site Bonds				
DATE OF ISSUE	November 1, 1998				
RATE OF INTEREST	4.60%				
ORIGINAL OBLIGATION	\$	29,700,000			
AMOUNT REFUNDED DURING 04/05		21,815,000			
AMOUNT PREVIOUSLY PAID		<u>6,680,000</u>			
BALANCE OUTSTANDING - June 30, 2007	\$	<u>1,205,000</u>			
	Fiscal Year	November 1, Interest	May 1, Interest	May 1, Principal	Annual Requirements
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	2007-2008	\$ 27,715	\$ 27,715	\$ 1,205,000	\$ 1,260,430
		<hr/>	<hr/>	<hr/>	<hr/>

CALL PROVISION

Bonds of this issue maturing on or after May 1, 2009, are subject to redemption at the option of the issuer in multiples of \$5,000 in such order as the issuer may determine, but not within any maturity, on any interest payment date occurring on or after May 1, 2008, at par and interest to the date fixed for redemption.

Continued...

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2007

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, 2007	<u>\$ 95,821</u>

<u>Fiscal Year</u>	<u>May 1, Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2007-2008	\$ -	\$ -	\$ -
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, 2007

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>123,051</u>
BALANCE OUTSTANDING - June 30, 2007	<u>\$ 576,949</u>

<u>Fiscal Year</u>	<u>Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2007-2008	\$ 27,974	\$ 38,452	\$ 66,426
2008-2009	26,007	40,420	66,427
2009-2010	23,939	42,488	66,427
2010-2011	21,765	44,661	66,426
2011-2012	19,480	46,946	66,426
2012-2013	17,078	49,348	66,426
2013-2014	14,554	51,873	66,427
2014-2015	11,900	54,527	66,427
2015-2016	9,110	57,317	66,427
2016-2017	6,178	60,249	66,427
2017-2018	3,095	63,332	66,427
2018-2019	343	27,336	27,679
	<u>\$ 181,423</u>	<u>\$ 576,949</u>	<u>\$ 758,372</u>

Continued...

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF BOND INDEBTEDNESS

FOR THE YEAR ENDED JUNE 30, 2007

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>13,204</u>
BALANCE OUTSTANDING - June 30, 2007	<u>\$ 686,796</u>

<u>Fiscal Year</u>	<u>Interest</u>	<u>May 1, Principal</u>	<u>Annual Requirements</u>
2007-2008	\$ 33,594	\$ 32,833	\$ 66,427
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	66,427
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>\$ 281,927</u>	<u>\$ 686,796</u>	<u>\$ 968,723</u>

Concluded

OTHER SUPPLEMENTARY INFORMATION (UNAUDITED)

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

FOR THE YEAR ENDED JUNE 30, 2007

Taxing District	Tax Levy	Collections and Other Reductions	Delinquent Personal Property Taxes	Percentage of Current Year Levy Collected
Bear Creek Township	\$ 4,891,221	\$ 4,859,908	\$ 31,313	99.36%
Littlefield Township	62,617	61,148	1,469	97.65%
Little Traverse Township	436,405	428,413	7,992	98.17%
Resort Township	2,973,250	2,973,087	163	99.99%
Springvale Township	784,770	784,208	562	99.93%
City of Petoskey	8,016,601	7,996,853	19,748	99.75%
Chandler Township	252,329	252,322	7	100.00%
Hayes Township	41,559	41,559	-	100.00%
Melrose Township	787,845	787,845	-	100.00%
Total	\$ 18,246,597	\$ 18,185,343	\$ 61,254	99.66%
Allocated as follows				
General Fund	\$ 14,183,476	\$ 14,145,416	\$ 38,060	99.73%
Debt Service Funds	2,367,508	2,353,010	14,498	99.39%
Capital Projects Fund	1,695,613	1,686,917	8,696	99.49%
Total allocated to all funds	\$ 18,246,597	\$ 18,185,343	\$ 61,254	99.66%

PUBLIC SCHOOLS OF PETOSKEY

TEN-YEAR SUMMARY OF ENROLLMENT (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2007

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

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
1998	\$ 17,411,853	2,932.59	\$ 5,937
1999	\$ 17,473,707	2,918.19	\$ 5,988
2000	\$ 18,718,957	2,953.18	\$ 6,339
2001	\$ 20,110,469	3,021.20	\$ 6,656
2002	\$ 21,642,904	3,074.28	\$ 7,040
2003	\$ 22,412,914	3,083.32	\$ 7,269
2004	\$ 23,051,973	3,094.58	\$ 7,449
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

* General Fund expenditures and transfers only.



**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***

August 28, 2007

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, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 28, 2007. 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 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 generally accepted accounting principles 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.

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, others within the organization, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

SINGLE AUDIT

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2006
U.S. Department of Education			
Indian Education			
05/06	84.060A	\$ 45,954	\$ (1,124)
06/07	84.060A	49,789	-
Total Indian Education		95,743	(1,124)
Passed Through the Michigan Department of Education			
ECIA Title I			
051700-0506 Carryover	84.010	14,893	(14,893)
061530-0506 Carryover	84.010	337,013	56,673
071530-0607 Regular	84.010	354,494	-
Total ECIA Title I		706,400	41,780
Title IIA - Improving Teacher Quality			
070520-0607 Regular	84.367	106,444	-
Title V - Innovative Education			
070250-0607 Regular	84.298	673	-
Title II D - Enhancing Education Through Technology			
064290-0506 Regular	84.318	6,287	(1,304)
074290-0607 Regular	84.318	3,638	-
Total Title II D - Enhancing Education Through Technology		9,925	(1,304)
Katrina FY 2006			
064120 Regular	84.938C	3,927	2,867
Total Passed Through Michigan Department of Education		827,369	43,343

(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts Cash Basis	Accrued (Deferred) Revenue June 30, 2007
\$ 44,830	\$ 1,124	\$ -	\$ -
-	48,665	48,665	-
44,830	49,789	48,665	-
-	14,893	-	-
337,013	-	56,673	-
-	301,645	292,583	9,062
337,013	316,538	349,256	9,062
-	106,444	90,454	15,990
-	673	673	-
4,983	1,304	-	-
-	3,638	3,638	-
4,983	4,942	3,638	-
2,867	1,060	3,927	-
344,863	429,657	447,948	25,052

Continued...

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2006
Passed Through ISD			
IDEA			
060490-TS, Transition	84.027	\$ 5,497	\$ -
Vocational Education Secondary CTE Perkins	84.048	4,500	-
Drug Free Schools			
062860-0506 Regular	84.186A	6,719	6,719
072860-0607 Regular	84.186A	3,000	-
Total Drug Free Schools		9,719	6,719
Homeless Children and Youth	84.196	55	-
Medicaid Outreach	93.778	12,174	-
Total Passed Through ISD		31,945	6,719
Total U.S. Department of Education		955,057	48,938
U.S. Department of Agriculture			
Passed through Michigan Department of Education			
Commodities			
Entitlement Commodities	10.550	46,983	-
Bonus Commodities	10.550	223	-
Total Commodities		47,206	-
National School Lunch - Breakfast			
11970	10.553	(25,000)	-
51970	10.553	54,438	-
61970	10.553	55,539	-
Total National School Lunch - Breakfast		84,977	-

<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>2007</u>
\$ -	\$ 3,308	\$ 5,497	\$ (2,189)
-	4,500	4,500	-
6,719	-	6,719	-
-	3,000	-	3,000
6,719	3,000	6,719	3,000
-	55	55	-
-	12,174	12,174	-
6,719	23,037	28,945	811
396,412	502,483	525,558	25,863
-	46,983	46,983	-
-	223	223	-
-	47,206	47,206	-
-	-	(25,000)	25,000
49,488	4,950	4,950	-
-	55,539	55,539	-
49,488	60,489	35,489	25,000

Continued...

PUBLIC SCHOOLS OF PETOSKEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title/Grant Number	Federal CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2006
National School Lunch			
Section 4 All Lunches - 61950	10.555	\$ 55,236	\$ -
Section 4 All Lunches - 71950	10.555	54,377	-
Section 11 Free & Reduced - 61960	10.555	208,095	-
Section 11 Free & Reduced - 71960	10.555	216,110	-
Total National School Lunch		533,818	-
Total U.S. Department of Agriculture		666,001	-
Total Federal Financial Awards		\$ 1,621,058	\$ 48,938

Notes to Schedule of Expenditures of Federal Awards

1) Basis of Presentation-

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Public Schools of Petoskey and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State and Local Governments, and Non-Profit Organizations.

Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

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

3) This is a refund due the National School Lunch Breakfast Program due to incorrect counts in 2001. Repayment of funds was made by the Department of Education. No funds were paid by the District.

(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2007
\$ 48,934	\$ 6,302	\$ 6,302	\$ -
-	54,377	54,377	-
183,995	24,100	24,100	-
-	216,110	216,110	-
232,929	300,889	300,889	-
282,417	408,584	383,584	25,000
\$ 678,829	\$ 911,067	\$ 909,142	\$ 50,863

Continued...

PUBLIC SCHOOLS OF PETOSKEY

RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

RECONCILIATION TO GRANT SECTION AUDITORS' REPORT

Current payments per the grant sections auditors' report	\$ 804,033
Less	
State funded grant	
School breakfast program	19,707
Plus	
Amounts passed through	
Charlevoix-Emmet Intermediate School District	28,945
Cheboygan-Otsego-Presque Isle Educational Service District	55
Entitlement and bonus commodities	47,206
Direct award from Department of Education	<u>48,665</u>
Total current year receipts per schedule of expenditures of federal awards	<u>\$ 909,142</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**

August 28, 2007

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, 2007. 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 programs for the year ended June 30, 2007.

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 of 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 entity'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 management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

PUBLIC SCHOOLS OF PETOSKEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

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, 2007

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
10.555	USDA National School Lunch Program

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

Auditee qualified as low-risk auditee? _____ yes X no

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs.

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