

CARSON CITY-CRYSTAL AREA SCHOOLS

**REPORT ON FINANCIAL STATEMENTS
(with required supplementary and
additional supplementary information)**

YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Carson City-Crystal Area Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carson City-Crystal Area Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to 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 Carson City-Crystal Area Schools as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Carson City-Crystal Area Schools' basic financial statements. The additional supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016 on our consideration of Carson City-Crystal Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Carson City-Crystal Area Schools' internal control over financial reporting and compliance.

Maney Costeiran PC

October 24, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Carson City-Crystal Area Schools (CCCAS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) require reporting two types of financial statements: district wide financial statements and fund financial statements.

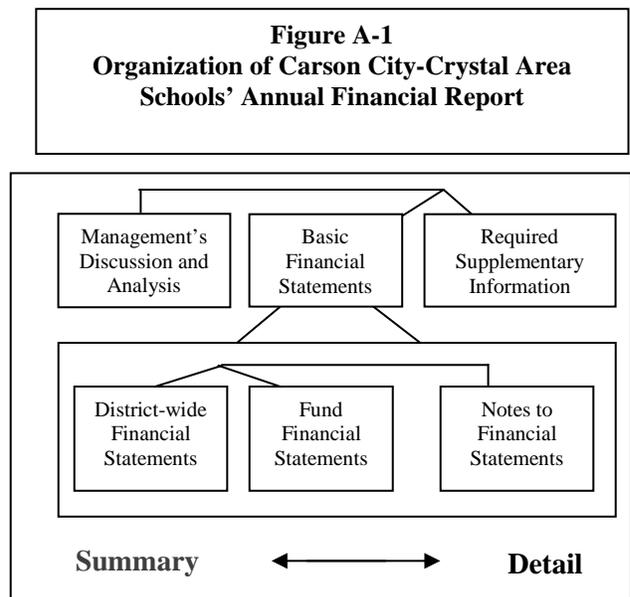
FINANCIAL OVERVIEW

- The District's general fund financial situation increased from the 2015 fiscal year to 2016.
- For the 2015-16 school year, general fund balance was increased by \$333,039
- District received \$609,650 from the annexation of Palo Community Schools
- Student enrollment decreased by 14 students from 2015 to 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide notes to financial statements.
- The governmental funds statements tell how basic services like instruction and support services were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget and pension related disclosures for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	<u>Fund Financial Statements</u>		
	<u>District-wide statements</u>	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Carson City-Crystal Area Schools' funds do not currently contain capital assets, although they can
Type of inflow-outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when good or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net position include all of the District's assets, deferred outflows, liabilities, and deferred inflows. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

District-wide financial statements:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects fund) or to show that it is properly using certain revenues (like food service).

The District has two kinds of funds.

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

- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District's combined net position changed as follows:

Table A-3 Carson City-Crystal Area Schools Net Position		
	2016	2015
Current and other assets	\$ 3,750,018	\$ 12,072,762
Capital assets, net of accumulated depreciation	14,493,433	7,044,958
Total assets	18,243,451	19,117,720
Deferred outflows of resources	2,234,144	1,110,703
Current liabilities	3,174,012	4,028,674
Non-current liabilities	11,707,489	12,427,892
Net pension liability	12,757,248	10,889,390
Total liabilities	27,638,749	27,345,956
Deferred inflows of resources	390,980	1,203,826
Net position:		
Net investment in capital assets	2,466,972	2,121,640
Restricted for debt service	270,660	323,475
Unrestricted	(10,289,766)	(10,766,474)
Total net position	\$ (7,552,134)	\$ (8,321,359)

	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ 192,106	\$ 194,429
Federal and state categorical grants	1,548,219	1,874,801
General revenues:		
Property taxes	2,069,271	2,078,670
Investment	14,730	2,554
State aid - unrestricted	5,528,878	5,567,459
Other	364,632	229,352
Total revenues	<u>9,717,836</u>	<u>9,947,265</u>
Expenses:		
Instruction	4,684,719	4,784,818
Support services	3,729,583	3,734,870
Community services	47,651	42,941
Food services	428,818	463,241
Interest on long-term debt	362,795	326,476
Unallocated depreciation	304,695	285,457
Total expenses	<u>9,558,261</u>	<u>9,637,803</u>
Change in net position before special item	159,575	309,462
Special item:		
Proceeds from annexation of Palo Community Schools	609,650	-
Change in net position after special item	<u>\$ 769,225</u>	<u>\$ 309,462</u>

District Governmental Activities

The District's financial condition has come about through a number of areas.

- Proposal A which established the student foundation grant concept, and has increased that amount from \$4,989 per student in 1995 to \$7,391 per student in 2016.
- The District continues to work earnestly toward aligning expenditures with declining revenue each year. The District looks to manage staffing levels in accordance with student count, and seeks to save money in non-instructional areas whenever possible.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

For the District as a whole its *combined* fund balance is \$1,371,339 compared to \$8,915,203 in 2015. The total fund balance decreased by \$7,543,864 for the year primarily due to capital outlay incurred on the 2014 capital projects fund.

General Fund and Budget Highlights

During the 2015-16 fiscal year the original district budget was amended to reflect changes which affected the District. The final budget was amended to show a current year increase of \$633,988 while the actual for the year was an increase of \$333,039.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5 Carson City-Crystal Area Schools				
	2016		2015	
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 158,090	\$ -	\$ 158,090	\$ 158,090
Construction in progress	9,293,959	-	9,293,959	2,446,340
Buildings and improvements	9,357,132	5,431,485	3,925,647	3,982,320
Machinery and equipment	3,672,493	2,724,187	948,306	349,693
Transportation equipment	1,095,263	927,832	167,431	108,515
Total	\$ 23,576,937	\$ 9,083,504	\$ 14,493,433	\$ 7,044,958

LONG-TERM DEBT

At year end the District had \$12,444,475 long-term debt outstanding as shown in Table A-6. More detailed information is available in the notes to the financial statements.

Table A-6 Carson City-Crystal Area Schools Outstanding Long-Term Debt		
	2016	2015
QZAB bonds	\$ 155,000	\$ 155,000
General Obligation Bonds	12,183,717	12,901,679
Compensated absences and terminated benefits	105,758	182,819
	\$ 12,444,475	\$ 13,239,498

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The State of Michigan per pupil foundation allowance will increase during the 2016-2017 fiscal year.
- The District continues to work to have a balanced general fund budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Carson City-Crystal Area Schools, 115 East Main Street, Carson City, Michigan 48811.

BASIC FINANCIAL STATEMENTS

**CARSON CITY-CRYSTAL AREA SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental activities
ASSETS:	
Cash and cash equivalents	\$ 667,065
Investments	462,755
Receivables:	
Accounts receivable	6,277
Due from agency fund	2,974
Intergovernmental receivables	1,571,144
Inventories	63,380
Investments restricted - capital projects	940,423
Capital assets not being depreciated	9,452,049
Capital assets, net of accumulated depreciation	<u>5,041,384</u>
TOTAL ASSETS	<u>18,243,451</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Related to pensions	<u>2,234,144</u>
LIABILITIES:	
Accounts payable	153,149
Retainage payable	80,415
Accrued salaries and related items	509,542
Accrued retirement	213,363
Accrued interest	70,058
Notes payable	1,410,499
Noncurrent liabilities:	
Due within one year	736,986
Due in more than one year	11,707,489
Net pension liability	<u>12,757,248</u>
TOTAL LIABILITIES	<u>27,638,749</u>
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	42,256
Related to state aid funding for pension	<u>348,724</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>390,980</u>
NET POSITION:	
Net investment in capital assets	2,466,972
Restricted for debt service	270,660
Unrestricted	<u>(10,289,766)</u>
TOTAL NET POSITION	<u>\$ (7,552,134)</u>

**CARSON CITY-CRYSTAL AREA SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net position</u>
Governmental activities:				
Instruction	\$ 4,684,719	\$ -	\$ 1,011,529	\$ (3,673,190)
Support services	3,729,583	48,917	252,882	(3,427,784)
Community services	47,651	-	-	(47,651)
Food services	428,818	143,189	283,808	(1,821)
Interest on long-term debt	362,795	-	-	(362,795)
Unallocated depreciation	304,695	-	-	(304,695)
Total governmental activities	<u>\$ 9,558,261</u>	<u>\$ 192,106</u>	<u>\$ 1,548,219</u>	<u>(7,817,936)</u>
General revenues:				
Property taxes, levied for general purposes				1,069,201
Property taxes, levied for debt service				1,000,070
Investment earnings				14,730
State sources - unrestricted				5,528,878
Other				364,632
Total general revenues				<u>7,977,511</u>
CHANGE IN NET POSITION BEFORE SPECIAL ITEM				159,575
SPECIAL ITEM				
Proceeds from annexation of Palo Community Schools				609,650
CHANGE IN NET POSITION AFTER SPECIAL ITEM				769,225
NET POSITION, beginning of year				<u>(8,321,359)</u>
NET POSITION, end of year				<u>\$ (7,552,134)</u>

**CARSON CITY-CRYSTAL AREA SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

ASSETS	General Fund	2014 Capital Projects	2014 Debt	Total nonmajor funds	Total governmental funds
ASSETS:					
Cash and cash equivalents	\$ 554,452	\$ -	\$ 27,264	\$ 85,349	\$ 667,065
Investments	462,755	-	-	-	462,755
Receivables:					
Accounts receivable	6,277	-	-	-	6,277
Intergovernmental receivables	1,558,430	-	-	12,714	1,571,144
Due from other funds	208,356	-	223,978	-	432,334
Due from agency activities	2,974	-	-	-	2,974
Inventories	56,224	-	-	7,156	63,380
Prepays	36,000	-	-	-	36,000
Investments - restricted	-	940,423	-	-	940,423
TOTAL ASSETS	\$ 2,885,468	\$ 940,423	\$ 251,242	\$ 105,219	\$ 4,182,352
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 8,761	\$ 128,775	\$ -	\$ 15,613	\$ 153,149
Retainage payable	-	80,415	-	-	80,415
Accrued salaries and related items	509,542	-	-	-	509,542
Accrued retirement	213,363	-	-	-	213,363
Accrued interest	11,711	-	-	-	11,711
Due to other funds	-	418,977	-	13,357	432,334
Notes payable	1,410,499	-	-	-	1,410,499
TOTAL LIABILITIES	2,153,876	628,167	-	28,970	2,811,013
FUND BALANCES:					
Nonspendable:					
Inventories	56,224	-	-	7,156	63,380
Prepays	36,000	-	-	-	36,000

See notes to financial statements.

	<u>General Fund</u>	<u>2014 Capital Projects</u>	<u>2014 Debt</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
FUND BALANCES (Concluded):					
Restricted for:					
Debt service	\$ -	\$ -	\$ 251,242	\$ 77,765	\$ 329,007
Capital projects	-	312,256	-	-	312,256
Assigned for:					
Severance pay	105,758	-	-	-	105,758
Unassigned:					
Food service fund	-	-	-	(8,672)	(8,672)
General fund	533,610	-	-	-	533,610
TOTAL FUND BALANCES	<u>731,592</u>	<u>312,256</u>	<u>251,242</u>	<u>76,249</u>	<u>1,371,339</u>
TOTAL LIABILITIES					
AND FUND BALANCES	<u>\$ 2,885,468</u>	<u>\$ 940,423</u>	<u>\$ 251,242</u>	<u>\$ 105,219</u>	<u>\$ 4,182,352</u>
Total governmental fund balances					<u>\$ 1,371,339</u>
Amounts reported for governmental activities in the statement of net position are different because:					
Deferred outflows of resources - related to pensions				\$ 2,234,144	
Deferred inflows of resources - related to pensions				(42,256)	
Deferred inflows of resources - related to state pension funding				<u>(348,724)</u>	1,843,164
Capital assets used in governmental activities are not financial resources and are not reported in the funds:					
The cost of the capital assets is				23,576,937	
Accumulated depreciation is				<u>(9,083,504)</u>	14,493,433
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Bonds and other long-term debt payable					(12,115,000)
Bond premium					(223,717)
Compensated absences and terminated benefits payable					(105,758)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid					(58,347)
Net pension liability					<u>(12,757,248)</u>
Net position of governmental activities					<u><u>\$ (7,552,134)</u></u>

See notes to financial statements.

**CARSON CITY-CRYSTAL AREA SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	<u>General Fund</u>	<u>2014 Capital Projects</u>	<u>2014 Debt</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
REVENUES:					
Local sources:					
Property taxes	\$ 1,069,201	\$ -	\$ 508,968	\$ 491,102	\$ 2,069,271
Investment earnings	997	13,733	-	-	14,730
Food sales and community service	-	-	-	143,189	143,189
Other	413,549	-	-	12	413,561
Total local sources	1,483,747	13,733	508,968	634,303	2,640,751
State sources	6,746,666	-	-	4,750	6,751,416
Federal sources	395,347	-	-	279,058	674,405
Total revenues	8,625,760	13,733	508,968	918,111	10,066,572
EXPENDITURES:					
Current:					
Instruction	5,032,085	-	-	-	5,032,085
Supporting services	3,811,563	-	-	-	3,811,563
Food service activities	-	-	-	428,830	428,830

See notes to financial statements.

	<u>General Fund</u>	<u>2014 Capital Projects</u>	<u>2014 Debt</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
EXPENDITURES (Concluded):					
Current (Concluded):					
Community service activities	\$ 47,651	\$ -	\$ -	\$ -	\$ 47,651
Capital projects:					
Capital outlay	-	7,611,883	-	222,955	7,834,838
Debt service:					
Principal repayment	-	-	230,000	465,000	695,000
Interest expense	-	-	333,232	30,725	363,957
Other	-	-	6,054	108	6,162
Total expenditures	<u>8,891,299</u>	<u>7,611,883</u>	<u>569,286</u>	<u>1,147,618</u>	<u>18,220,086</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(265,539)</u>	<u>(7,598,150)</u>	<u>(60,318)</u>	<u>(229,507)</u>	<u>(8,153,514)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	16,072	16,072
Transfers out	<u>(11,072)</u>	<u>-</u>	<u>(5,000)</u>	<u>-</u>	<u>(16,072)</u>
Total other financing sources (uses)	<u>(11,072)</u>	<u>-</u>	<u>(5,000)</u>	<u>16,072</u>	<u>-</u>
SPECIAL ITEM:					
Proceeds from annexation of Palo Community Schools	<u>609,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>609,650</u>
NET CHANGE IN FUND BALANCES	<u>333,039</u>	<u>(7,598,150)</u>	<u>(65,318)</u>	<u>(213,435)</u>	<u>(7,543,864)</u>
FUND BALANCES:					
Beginning of year	<u>398,553</u>	<u>7,910,406</u>	<u>316,560</u>	<u>289,684</u>	<u>8,915,203</u>
End of year	<u>\$ 731,592</u>	<u>\$ 312,256</u>	<u>\$ 251,242</u>	<u>\$ 76,249</u>	<u>\$ 1,371,339</u>

See notes to financial statements.

**CARSON CITY-CRYSTAL AREA SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Net change in fund balances total governmental funds \$ (7,543,864)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(304,695)
Capital outlay	7,753,170

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	59,509
Accrued interest payable, end of the year	(58,347)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items are as follows:

Payments on debt	695,000
Amortization of bond premium	22,962

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and termination benefits, beginning of the year	182,819
Accrued compensated absences and termination benefits, end of the year	(105,758)

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:

Pension related items	417,153
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Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period:

State aid funding for pension	(348,724)
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Change in net position of governmental activities	<u><u>\$ 769,225</u></u>
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**CARSON CITY-CRYSTAL AREA SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2016**

	<u>Agency fund</u>
ASSETS:	
Cash and cash equivalents	\$ 64,933
LIABILITIES:	
Due to general fund	\$ 2,974
Due to student and other groups	61,959
TOTAL LIABILITIES	<u>\$ 64,933</u>

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

B. Reporting Entity

Carson City-Crystal Area Schools (the “District”) is governed by the Carson City-Crystal Area Schools Board of Education (the “Board”), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

C. Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District’s funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

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

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Continued)

2014 debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of governmental funds.

The *2014 capital projects fund* accounts for the revenue and expenditures that are related to the net proceeds from the issuance of the general obligations bonds that are going to be used to erect, furnish, and equip additions to Carson City-Crystal Area Schools; partially remodel, furnish and refurnish, equip and re-equip Carson City-Crystal Area Schools' facilities, in part, for security improvements; acquire, install, and equip instructional technology for school facilities; purchase school buses; roof replacement, and developing and improving sites; and paying the cost of insurance for the Bonds.

The 2014 capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital projects fund, the District has complied with the applicable provisions of § 1351a of the Revised School Code.

The District issued \$10,990,000 of bonds on August 19, 2014, at which time all funds were available for the intended purpose of the bond issue. Beginning with the year of bond issuance, the District has reported the annual construction activity in the 2014 capital projects fund. The following is a summary of the cumulative revenues and expenditures for the capital project bond activity since inception:

	2014
Revenues and other financing sources	\$ 11,253,326
Expenditures and transfers out	\$ 10,941,070

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service as a special revenue fund. The food service fund has a deficit of \$(1,516) at June 30, 2016.

The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Concluded)

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Continued)

The 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 District considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid, 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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the Foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

F. Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue funds. The capital projects fund is appropriated on a project-length basis. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year ended June 30, 2016. The District does not consider these amendments to be significant.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and cash equivalents

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

2. Investments

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

4. Capital assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their 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. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land and construction in progress if any are not depreciated. The other property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Land improvements	20
Buildings and additions	50
Furniture and equipment	5 - 20
Transportation equipment	8

5. Defined benefit plan

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

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

6. Deferred outflows/inflows of resources

Deferred outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the pension related items reported in the government-wide statement of net position. These amounts are expensed in the plan years in which they apply.

Deferred inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary. The second is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.

7. Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)

8. Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board of education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *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 requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are October 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2016, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General Fund:	
Non-Principal Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	3.90

3. Compensated absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

4. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

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.

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2016, the District had the following investments:

<u>Investment Type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
MILAF External Investment pool - MIMAX	\$ 1,403,178	0.0027	AAAm	100%
Total fair value	<u>\$ 1,403,178</u>			<u>100%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2016, the fair value of the District’s investments is the same as the value of the pool shares.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2016, \$368,759 of the District's bank balance of \$868,759 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing accounts. The carrying amount on the financial statements is \$731,998. The fiduciary fund balances are included in the above balances.

Custodial credit risk - investments. For an investment, this 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.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Fair value measurement. The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District does not have any investments subject to the fair value measurement.

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

The carrying amount of deposits and investments is as follows:

Deposits - including fiduciary funds of \$64,933	\$ 731,998
Investments	<u>1,403,178</u>
	<u><u>\$ 2,135,176</u></u>

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

The above amounts are reported in the financial statements as follows:

Investments - restricted - 2014 bond proceeds	\$ 940,423
Cash - district-wide	667,065
Cash - fiduciary funds	64,933
Investments	462,755
	<u>\$ 2,135,176</u>

NOTE 3 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 158,090	\$ -	\$ -	\$ 158,090
Construction in progress	2,446,340	6,847,619	-	9,293,959
Total assets not being depreciated	<u>2,604,430</u>	<u>6,847,619</u>	<u>-</u>	<u>9,452,049</u>
Capital assets, being depreciated:				
Land improvements	898,101	-	-	898,101
Buildings and improvements	8,279,247	179,784	-	8,459,031
Equipment, computers and furnishing	3,027,699	644,794	-	3,672,493
School buses and other vehicles	1,014,290	80,973	-	1,095,263
Total capital assets, being depreciated	<u>13,219,337</u>	<u>905,551</u>	<u>-</u>	<u>14,124,888</u>
Accumulated depreciation:				
Land improvements	547,962	15,244	-	563,206
Buildings and improvements	4,647,066	221,213	-	4,868,279
Equipment, computers and furnishing	2,678,006	46,181	-	2,724,187
School buses and other vehicles	905,775	22,057	-	927,832
Total accumulated depreciation	<u>8,778,809</u>	<u>304,695</u>	<u>-</u>	<u>9,083,504</u>
Net capital assets being depreciated	<u>4,440,528</u>	<u>600,856</u>	<u>-</u>	<u>5,041,384</u>
Net governmental capital assets	<u>\$ 7,044,958</u>	<u>\$ 7,448,475</u>	<u>\$ -</u>	<u>\$ 14,493,433</u>

Depreciation for the fiscal year ended June 30, 2016 amounted to \$304,695. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Receivables at June 30, 2016 consist of the following:

Intergovernmental units:		
State aid		\$ 1,216,042
Federal revenue		160,386
Other		<u>194,716</u>
		<u><u>\$ 1,571,144</u></u>

NOTE 5 - NOTES PAYABLE

At June 30, 2016, the District has notes payable outstanding. The notes have the following interest rates and maturities:

<u>Note</u>	<u>Amount</u>	<u>Interest rate</u>	<u>Maturity date</u>
2015 C-1	\$ 543,656	0.772%	July 20, 2016
2015 C-2	556,960	1.251%	August 22, 2016
2015 C-3	743,040	1.251%	August 22, 2016
2015 C-4	256,344	0.673%	July 20, 2016

The notes are secured by the full faith and credit of the District as well as pledged state aid. Note 2015 C-1 and C-4 required payments to an irrevocable set-aside account in total of \$689,500 at June 30, 2016. At year-end the balance of these payments are considered defeased debt and are not included in the year-end balance. The District has approved a note payable of \$2,000,000 for the fiscal year ending June 30, 2017.

<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2016</u>
<u>\$ 1,308,385</u>	<u>\$ 2,100,000</u>	<u>\$ 1,997,886</u>	<u>\$ 1,410,499</u>

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2016:

	QZAB bonds	General obligation bonds	Sub-total bonds and notes	Accumulated compensated absences	Total
Balance, July 1, 2015	\$ 155,000	\$ 12,901,679	\$ 13,056,679	\$ 182,819	\$ 13,239,498
Deletions	-	717,962	717,962	77,061	795,023
Balance, June 30, 2016	155,000	12,183,717	12,338,717	105,758	12,444,475
Due within one year	-	710,000	710,000	26,986	736,986
Due in more than one year	\$ 155,000	\$ 11,473,717	\$ 11,628,717	\$ 78,772	\$ 11,707,489

Long-term obligation debt at June 30, 2016 is comprised of the following:

2008 Qualified Zone Academy Bond (QZAB) - Amount \$155,000. Due on December 18, 2022. No interest, but bondholder (a bank) requires annual deposits to a non-interest-bearing debt retirement account.	\$ 155,000
2014 bonds acquired - original amount \$10,990,000. Due in annual installments of \$260,000 to \$1,080,000 through May 1, 2030, interest at 3.00% to 3.25%, payable semi-annually.	10,660,000
2012 Refunding Bonds acquired to refund most of 2003 refunding bonds - original amount \$2,810,000. Due in annual installments of \$415,000 to \$450,000 through May 1, 2019, interest at 1.5% to 2.0%, payable semi-annually.	1,300,000
Plus: premiums on bond refundings	<u>223,717</u>
Total bonded debt	12,338,717
Obligation under contract for compensated absences	<u>105,758</u>
Total general long-term debt	<u><u>\$ 12,444,475</u></u>

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2016, \$1,330,000 of bonds outstanding are considered defeased.

The annual requirement to amortize debt outstanding as of June 30, 2016, including interest payments of \$2,949,872 are as follows:

Year ending June 30,	Principal	Interest	Total
2017	\$ 710,000	\$ 350,082	\$ 1,060,082
2018	725,000	335,532	1,060,532
2019	740,000	318,132	1,058,132
2020	720,000	300,082	1,020,082
2021	750,000	278,482	1,028,482
2022 - 2026	4,405,000	1,035,410	5,440,410
2027 - 2030	4,065,000	332,152	4,397,152
	12,115,000	2,949,872	15,064,872
Premium on bond refunding	223,717	-	223,717
Accumulated compensated absences	105,758	-	105,758
	<u>\$ 12,444,475</u>	<u>\$ 2,949,872</u>	<u>\$ 15,394,347</u>

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2016 are as follows:

Receivable fund		Payable fund	
General	\$ 208,356	Food Service	\$ 9,054
2014 Debt Service	223,978	2012 Refunding Debt Service	4,303
		2014 Capital Projects	418,977
	<u>\$ 432,334</u>		<u>\$ 432,334</u>

The outstanding balances between funds result mainly 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.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/mpsers-cafr>.

Benefits Provided

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

<u>Plan name</u>	<u>Plan Type</u>	<u>Plan status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

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

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled 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 including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% -7.0%.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

Regular Retirement (no reduction factor for age)

Eligibility - Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, any age with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus (PPP) members, age 60 with 10 years of credited service.

Annual Amount - Total credited service as of the Transition Date times 1.5% of final average compensation.

Pension Plus

An amount determined by the member's election of Option 1, 2, 3, or 4 described below.

Option 1 - Credited Service after the Transition Date times 1.5% times FAC.

Option 2 - Credited Service after the Transition Date (until total service reaches 30 years) times 1.5% times FAC, PLUS Credited Service after the Transition Date and over 30 years times 1.25% times FAC.

Option 3 - Credited Service after the Transition Date times 1.25% times FAC.

Option 4 - None (Member will receive benefit through a Defined Contribution plan). As a DC participant they receive a 4% employer contribution to a tax - deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Final Average Compensation (FAC) - Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the Transition Date.

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7%. Plan members electing the defined contribution plan are not required to make additional contributions.

Employer Contributions

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

March 10, 2015 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - September 30, 2016	14.56% - 18.95%

The District's pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately \$1,296,000, with \$1,233,000 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. (69.45% for pension and 30.55% for OPEB).

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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

Pension Liabilities

At June 30, 2016, the District reported a liability of \$12,757,248 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2015 and 2014, the District's proportion was .05223 and .04944 percent.

<u><i>MPERS (Plan) Non-university employers :</i></u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Total Pension Liability	\$ 66,312,041,902	\$ 65,160,887,182
Plan Fiduciary Net Position	\$ 41,887,015,147	\$ 43,134,384,072
Net Pension Liability	\$ 24,425,026,755	\$ 22,026,503,110
Proportionate share	0.05223	0.04944
Net Pension liability for the District	\$ 12,757,248	\$ 10,889,390

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

For the year ended June 30, 2016, the District recognized pension expense of \$466,696. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. These amounts have been recorded as a deferred outflow as of June 30, 2016.

At June 30, 2016, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

	Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions	\$ 314,110	\$ -
Net difference between projected and actual earnings on pension plan investments	65,115	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	760,386	-
Differences between expected and actual experience	-	42,256
Reporting Unit's contributions subsequent to the measurement date	1,094,533	-
	\$ 2,234,144	\$ 42,256

\$1,094,533, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Year ended September 30,	Amount
2016	\$ 240,435
2017	240,435
2018	223,403
2019	393,082

Actuarial Assumptions

Investment rate of return - 8.0% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

Salary increases - The rate of pay increase used for individual members is 3.5%.

Inflation - 2.5%

Mortality assumptions - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2020 using projection scale AA for men and women were used.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2014. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The long-term expected rate of return on pension plan investments - The rate was **8% (7%** Pension Plus Plan) net of investment and administrative expenses was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment category</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return*</u>
Domestic Equity Pools	28.00%	5.90%
Alternate Investment Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate and Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short Term Investment Pools	2.00%	0.00%
	<u>100.00%</u>	

* Long term rate of return does not include 2.1% inflation.

Discount rate - The discount rate used to measure the total pension liability was **8% (7%** for Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent (7% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Lower (6.0% - 7.0%)	Discount Rate (7.0% - 8.0%)	1% Higher (8.0% - 9.0%)
Reporting Unit's proportionate share of the net pension liability	\$ 16,447,363	\$ 12,757,248	\$ 9,646,330

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2015 Comprehensive Annual Financial Report.

Payable to the Pension Plan - At year end the School District is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

Benefit Provisions - Other Postemployment

Introduction

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

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Concluded)

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

Retiree Healthcare Reform of 2012

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

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

Employer Contributions

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election.

The District postemployment healthcare contributions to MPSERS for the years ended June 30, 2016, 2015 and 2014 were approximately \$462,000, \$482,000 and \$283,000.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - RISK MANAGEMENT (Concluded)

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 10 - TRANSFERS

The general fund transferred \$11,072 to the QZAB debt service fund to fund the required set aside funding requirement. The 2014 debt service fund transferred \$5,000 to the 2012 refunding debt service fund for future debt service.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The District is committed to completing a major capital project of approximately \$10,990,000. At June 30, 2016, \$312,256 is remaining.

NOTE 12 - PALO COMMUNITY SCHOOLS

On June 10, 2016, Carson City-Crystal Area Schools and Palo Community Schools Boards of Education voted in favor of district annexation of the two school districts to become Carson City-Crystal Area Schools. Palo Community Schools has not been in operation for several years and transferred over their remaining fund balance, as of June 10, 2016, of approximately \$610,000.

NOTE 13 - UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued by the GASB in June 2015 and will be effective for the District's 2018 fiscal year. The Statement requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 75 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 - UPCOMING ACCOUNTING PRONOUNCEMENTS (Concluded)

Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, was issued by the GASB in August 2015 and will be effective for the District's 2017 year end. The Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements in the footnotes of the financial statements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatements recipients.
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

This Statement will improve the user's ability on how tax abatements affect the reporting unit's financial positions and results of operations, including their ability to raise resources in the future.

REQUIRED SUPPLEMENTARY INFORMATION

**CARSON CITY-CRYSTAL AREA SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 1,183,685	\$ 1,257,337	\$ 1,291,510	\$ 34,173
State sources	6,222,460	6,747,990	6,746,666	(1,324)
Federal sources	518,882	477,335	395,347	(81,988)
Incoming transfers and other	89,805	148,686	192,237	43,551
Total revenues	<u>8,014,832</u>	<u>8,631,348</u>	<u>8,625,760</u>	<u>(5,588)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	3,999,955	4,126,981	4,265,967	(138,986)
Added needs	901,837	735,706	766,118	(30,412)
Total instruction	<u>4,901,792</u>	<u>4,862,687</u>	<u>5,032,085</u>	<u>(169,398)</u>
Supporting services:				
Pupil	414,259	357,966	383,418	(25,452)
Instructional staff	199,136	285,329	290,430	(5,101)
General administration	249,865	358,410	354,815	3,595
School administration	559,724	730,467	745,468	(15,001)
Business	106,057	103,722	121,427	(17,705)
Operation/maintenance	698,138	862,748	875,443	(12,695)
Pupil transportation	517,343	548,025	582,130	(34,105)
Central	350,945	441,354	458,432	(17,078)
Total supporting services	<u>3,095,467</u>	<u>3,688,021</u>	<u>3,811,563</u>	<u>(123,542)</u>
Community services	17,573	46,580	47,651	(1,071)
Total expenditures	<u>8,014,832</u>	<u>8,597,288</u>	<u>8,891,299</u>	<u>(294,011)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	-	34,060	(265,539)	(299,599)
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(11,072)	(11,072)	-
SPECIAL ITEM:				
Proceeds from annexation of Palo Community Schools				
	-	611,000	609,650	(1,350)
NET CHANGE IN FUND BALANCE				
	<u>\$ -</u>	<u>\$ 633,988</u>	333,039	<u>\$ (300,949)</u>
FUND BALANCE:				
Beginning of year			398,553	
End of year			<u>\$ 731,592</u>	

**CARSON CITY-CRYSTAL AREA SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED
AS OF 9/30 OF EACH FISCAL YEAR)**

	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.05223%	0.04944%
Reporting unit's proportionate share of net pension liability	\$ 12,757,248	\$ 10,889,390
Reporting unit's covered-employee payroll	\$ 4,431,699	\$ 4,386,701
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	287.86%	248.24%
Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

**CARSON CITY-CRYSTAL AREA SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED
AS OF 6/30 OF EACH FISCAL YEAR)**

	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,232,573	\$ 775,756
Contributions in relation to statutorily required contributions	<u>1,232,573</u>	<u>775,756</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 4,524,026	\$ 4,355,813
Contributions as a percentage of covered-employee payroll	27.25%	17.81%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

**CARSON CITY-CRYSTAL AREA SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016**

Changes of benefits terms: There were no changes of benefits terms in 2015

Changes of assumptions: There were no changes of benefits terms in 2015

ADDITIONAL SUPPLEMENTARY INFORMATION

**CARSON CITY-CRYSTAL AREA SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND
JUNE 30, 2016**

	<u>Special Revenue</u>	<u>Debt</u>	<u>Total</u>
	<u>Food</u>	<u>service</u>	<u>nonmajor</u>
	<u>service</u>	<u>service</u>	<u>funds</u>
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 3,281	\$ 82,068	\$ 85,349
Intergovernmental receivables	12,714	-	12,714
Inventories	7,156	-	7,156
TOTAL ASSETS	<u>\$ 23,151</u>	<u>\$ 82,068</u>	<u>\$ 105,219</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 15,613	\$ -	\$ 15,613
Due to other funds	9,054	4,303	13,357
TOTAL LIABILITIES	<u>24,667</u>	<u>4,303</u>	<u>28,970</u>
FUND BALANCES:			
Nonspendable:			
Inventories	7,156	-	7,156
Restricted for:			
Debt service	-	77,765	77,765
Unassigned	(8,672)	-	(8,672)
TOTAL FUND BALANCES	<u>(1,516)</u>	<u>77,765</u>	<u>76,249</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 23,151</u>	<u>\$ 82,068</u>	<u>\$ 105,219</u>

**CARSON CITY-CRYSTAL AREA SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2016**

	<u>Special Revenue</u>			<u>Total nonmajor funds</u>
	<u>Food service</u>	<u>Debt service</u>	<u>Capital projects</u>	
REVENUES:				
Local sources:				
Property taxes	\$ -	\$ 491,102	\$ -	\$ 491,102
Food sales and other	143,189	-	-	143,189
Other	12	-	-	12
Total local sources	143,201	491,102	-	634,303
State sources	4,750	-	-	4,750
Federal sources	279,058	-	-	279,058
Total revenues	427,009	491,102	-	918,111
EXPENDITURES:				
Current:				
Food service activities	428,830	-	-	428,830
Capital outlay	-	-	222,955	222,955
Debt service:				
Principal repayment	-	465,000	-	465,000
Interest expense	-	30,725	-	30,725
Other expense	-	108	-	108
Total expenditures	428,830	495,833	222,955	1,147,618
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,821)	(4,731)	(222,955)	(229,507)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	16,072	-	16,072
NET CHANGE IN FUND BALANCES	(1,821)	11,341	(222,955)	(213,435)
FUND BALANCES:				
Beginning of year	305	66,424	222,955	289,684
End of year	\$ (1,516)	\$ 77,765	\$ -	\$ 76,249

**CARSON CITY-CRYSTAL AREA SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016**

	2008 QZAB Debt	2012 Refunding Debt	Totals
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 77,496	\$ 4,572	\$ 82,068
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Due to other governmental funds	\$ -	\$ 4,303	\$ 4,303
FUND BALANCES:			
Restricted for debt service	77,496	269	77,765
TOTAL LIABILITIES AND FUND BALANCES	\$ 77,496	\$ 4,572	\$ 82,068

**CARSON CITY-CRYSTAL AREA SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES
YEAR ENDED JUNE 30, 2016**

	<u>2008 QZAB Debt</u>	<u>2012 Refunding Debt</u>	<u>Totals</u>
REVENUES:			
Local sources:			
Property taxes	\$ -	\$ 491,102	\$ 491,102
EXPENDITURES:			
Redemption of bonds	-	465,000	465,000
Interest on bonded debt	-	30,725	30,725
Other	-	108	108
Total expenditures	-	495,833	495,833
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(4,731)	(4,731)
OTHER FINANCING SOURCES (USES):			
Transfers in	11,072	5,000	16,072
NET CHANGE IN FUND BALANCES	11,072	269	11,341
FUND BALANCES:			
Beginning of year	66,424	-	66,424
End of year	<u>\$ 77,496</u>	<u>\$ 269</u>	<u>\$ 77,765</u>

**CARSON CITY-CRYSTAL AREA SCHOOLS
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES
YEAR ENDED JUNE 30, 2016**

	<u>2010 Capital Projects</u>	<u>2012 Capital Projects</u>	<u>Totals</u>
EXPENDITURES:			
Capital outlay	<u>61,290</u>	<u>161,665</u>	<u>222,955</u>
NET CHANGE IN FUND BALANCES	<u>(61,290)</u>	<u>(161,665)</u>	<u>(222,955)</u>
FUND BALANCES:			
Beginning of year	<u>61,290</u>	<u>161,665</u>	<u>222,955</u>
End of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**CARSON CITY-CRYSTAL AREA SCHOOLS
 BONDED DEBT
 QUALIFIED ZONE ACADEMY BONDS (QZAB)
 JUNE 30, 2016**

2008 Qualified Zone Academy Bonds

Calendar Year	Interest rate	Principal due December 18
2022	0.00%	\$ 155,000

The above bonds dated December 4, 2008 were issued for the purpose of financing renovations and improvements to school properties. The amount of the original bond issue was \$155,000.

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

**CARSON CITY-CRYSTAL AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE
REQUIREMENTS – 2012 REFUNDING
JUNE 30, 2016**

\$2,810,000 Bonds issued June 5, 2012

Interest due		Principal due May 1,	Debt service requirement for fiscal year	
May 1,	November 1,		June 30,	Amount
\$ 11,875	\$ 11,875	\$ 450,000	2017	\$ 473,750
8,500	8,500	435,000	2018	452,000
4,150	4,150	415,000	2019	423,300
<u>\$ 24,525</u>	<u>\$ 24,525</u>	<u>\$ 1,300,000</u>		<u>\$ 1,349,050</u>

The above bonds dated June 5, 2012, have interest rates from 1.5% to 2.00%.

**CARSON CITY-CRYSTAL AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE
REQUIREMENTS – 2014 REFUNDING
JUNE 30, 2016**

\$10,990,000 Bonds issued August 19, 2014

Interest due		Principal due May 1,	Debt service requirement for fiscal year	
May 1,	November 1,		June 30,	Amount
\$ 163,166	\$ 163,166	\$ 260,000	2017	\$ 586,332
159,266	159,266	290,000	2018	608,532
154,916	154,916	325,000	2019	634,832
150,041	150,041	720,000	2020	1,020,082
139,241	139,241	750,000	2021	1,028,482
127,991	127,991	780,000	2022	1,035,982
116,291	116,291	815,000	2023	1,047,582
104,066	104,066	850,000	2024	1,058,132
91,316	91,316	885,000	2025	1,067,632
78,041	78,041	920,000	2026	1,076,082
64,241	64,241	955,000	2027	1,083,482
49,916	49,916	995,000	2028	1,094,832
34,369	34,369	1,035,000	2029	1,103,738
17,550	17,550	1,080,000	2030	1,115,100
<u>\$ 1,450,411</u>	<u>\$ 1,450,411</u>	<u>\$ 10,660,000</u>		<u>\$ 13,560,822</u>

The above bonds dated August 19, 2014, have interest rates from 3.00% to 3.25%.

**INDEPENDENT AUDITOR'S 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**

To the Board of Education
Carson City-Crystal Area Schools

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carson City-Crystal Area Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Carson City-Crystal Area Schools' basic financial statements and have issued our report thereon dated October 24, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Carson City-Crystal Area Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Carson City-Crystal Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Carson City-Crystal Area Schools' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, as described in the accompanying schedule of findings and responses that we consider to be a material weakness (2016-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Carson City-Crystal Area Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 one instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2016-002.

Carson City-Crystal Area Schools Response to Findings

Carson City-Crystal Area Schools' response to the findings identified in our audit are described in the accompanying corrective action plan. Carson City-Crystal Area Schools response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maney Costeiran PC

October 24, 2016

**CARSON CITY-CRYSTAL AREA SCHOOLS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016**

Finding 2016- 001 Material Weakness

Criteria: In order to maintain adequate internal controls and proper reporting, all accounts should be reconciled and adjusted monthly. The reconciliations should be completed and reviewed in a timely basis.

Condition: Account reconciliations were not performed on a timely basis during the course of the fiscal year for due to/from accounts and pension related expenditures. Material audit adjustments were proposed by the external auditor and accepted and recorded by the client where needed to reconcile the accounts. Material amounts were recorded as expenditures for unreconciled amounts.

Cause: Individuals responsible for recording journal entries and reviewing monthly activity did not complete their procedures. The District controls in place were inefficient in identifying this condition.

Effect: Without completing and reviewing the reconciliations in a timely manner, inaccurate financial information may be used for management decisions and reporting.

Recommendation: The District should implement a month end procedure checklist to ensure that all balance sheet accounts are reconciled with 30 days of month end, the due to/from accounts agree across the different funds, accruals agree to the subledger balances, etc. District should implement journal entry review procedures based upon the employee making the journal entry.

District's Response: The District concurs with the facts of this finding and is implementing procedures to prevent this in the future.

**CARSON CITY-CRYSTAL AREA SCHOOLS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016**

Finding 2016- 002 Material noncompliance

Criteria: Compliance with the Uniform Budgeting and Accounting Act. MCL (Michigan Compile Laws) 141.436 states, except as otherwise permitted in MCL 388.1702 the local school board shall not adopt a general appropriations act (Budget) or an amendment to that act which causes estimated total expenditures to exceed actual expenditures.

Condition: The District's budget reflects estimated budgeted expenditures less than actual expenditures.

Effect: At June 30, 2016 the District's actual expenditures exceeded budgeted expenditures by \$269,011.

Cause: Various reasons caused this situation and the District as of June 30, 2016 primarily as noted in finding 2016-01.

Recommendation: The District is developing procedures to review the budget and general ledger monthly.

District's Response: The District concurs with the facts of this finding and is implementing procedures to prevent this in the future.

**CARSON CITY-CRYSTAL AREA SCHOOLS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2016**

Carson City-Crystal Area Schools respectfully submits the following corrective action plan for the year ended June 30, 2016.

Auditor: Maner Costerisan
2425 E. Grand River Ave., Suite 1
Lansing, Michigan 48912

Audit Period: Year ended June 30, 2016

District contact person: Kevin Murphy, Superintendent

The findings from the June 30, 2016 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

Finding - Financial statement audit

Finding 2016-001 - Material Weakness

Recommendation: The District should implement a month end procedure checklist to ensure that all balance sheet accounts are reconciled with 30 days of month end, the due to/from accounts agree across the different funds, accruals agree to the sub ledger balances, etc. District should implement journal entry review procedures based upon the employee making the journal entry.

Actions to be taken: Management agrees with the finding and we are in the process of developing a month end procedure checklist as recommended. We have, also, developed a journal entry review process that is based upon the individual who makes the journal entry. We will also compare the general ledger to the budget on a monthly basis.

Finding 2016-02 - Material Noncompliance

Recommendation: The District is developing procedures to review the budget and general ledger monthly.

Actions to be taken: Management agrees with the finding and we are in the process of developing a month end procedure checklist as recommended. We have, also, developed a journal entry review process that is based upon the individual who makes the journal entry. We will then compare the general ledger to the budget on a monthly basis.

October 24, 2016

To the Board of Education
Carson City-Crystal Area Schools

In planning and performing our audit of the financial statements of Carson City-Crystal Area Schools as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Carson City-Crystal Area Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 24, 2016 on the financial statements of Carson City-Crystal Area Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Current Year Comment

Interfund Accounts

During our audit we made note that all funds have their own established bank accounts. We would recommend utilizing these cash accounts for the operating activity in each fund. This recommendation will reduce the amount of interfund activity that takes place and minimize due to and due from transactions across funds, particularly related to the debt service funds.

Repeat Comments

Segregation of Duties

While performing several walkthroughs of internal controls, it was noted that the same individual opens the mail, logs the receipts, records the receipts, and creates the deposit. We would recommend segregation of duties between the individual creating the initial receipt log and the individual creating the deposit.

Credit Card Usage

During our review of the credit card policy, we made note that purchases made for general materials and supplies are not approved through the purchase order process. We do not believe that a purchase order is necessary but we recommend that when general purchases are made, that the receipts are provided with the credit card statement for approval prior to payment.

Capital Assets

With the issuance of the new bond we would recommend that the District maintain detailed records for items to be capitalized upon being placed in service. This will, also, be beneficial to complying with the 1351a requirements and the 120 day audit required upon substantial completion of the bond projects. Please send us the certificate of substantial completion when received.

Inventory

It was noted a physical inventory at year end was not performed. We would recommend the annual inventory procedures be performed. At year end estimated amounts based on the prior year were used.

Athletic Events Ticket Reconciliation

Currently the District does not reconcile the number of tickets sold for an athletic event to actual cash receipts deposited. We would recommend the District implement a reconciliation process for all athletic events in which cash is collected. The reconciliation should include the following items:

- Utilize a double ticket system
- Verification that the beginning ticket number follows the last ticket number from the previous athletic event.
- A reconciliation of the number of tickets sold to the amount of cash being deposited.
- Signature of the individual performing the reconciliation.

Implementing these procedures will ensure that the amount of cash being deposited agrees with the actual tickets sold for that event.

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

We appreciate the opportunity to be of service.

Very truly yours

Manes Costeiran PC

October 24, 2016

To the Board of Directors
Carson City-Crystal Area Schools

We have audited the financial statements of Carson City-Crystal Area Schools for the year ended June 30, 2016, and have issued our report thereon dated October 24, 2016. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Carson City-Crystal Area Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Carson City-Crystal Area Schools' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Carson City-Crystal Area Schools are described in Note 1 to the financial statements. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Estimates have been used to calculate the net pension liability.

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

We also evaluated the key factors and assumptions management used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. Certain amounts included in capital assets have been estimated based on an outside appraisal company.

We also evaluated the key factors and assumptions management used to develop prepaid items and inventory valuations in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

We did not identify any sensitive disclosures.

2. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. Unreconciled balances primarily for accounts between funds and pension related expenditures required material audit adjustments. This situation resulted in a material weakness in internal control being reported.

3. *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. These were primarily in the area of adjusting pension expenditures and the due to/due from accounts.

4. *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. There was discussion regarding the proposed audit adjustments as noted above. Management has accepted all adjustments and recorded them.

5. *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 24, 2016.

6. *Management Consultations with Other Independent Accountants*

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

7. *Other Audit Findings or Issues*

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

8. *Other Matters*

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Finance Committee, Board of Education and management of Carson City-Crystal Area Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maney Costeiran PC