



December 2, 2019

The Board of Education
Carson City-Crystal Area Schools
Ionia County, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Carson City-Crystal Area Schools for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 10, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Carson City-Crystal Area Schools are described in the notes to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 Government-Wide financial statements were:

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.

Management's estimate of the lives of capital assets. We evaluated the key factors and assumptions 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 by appraisers based on historical information for assets placed in service prior to implementation of GASB Statement No. 34.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were related to the District's share of the net pension and net OPEB liabilities related to GASB Statements No. 68 and 75.

The disclosure of the net pension liability and the net OPEB liability in the Notes to the financial statements were recorded as of June 30, 2019 based on information received from the Michigan Office of Retirement Services. We evaluated the key factors and assumptions used to develop these liabilities in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

The lack of preparedness by and monitoring of the Business Office throughout the year caused significant delays in allowing the audit to commence and significant delays in the District providing schedules and information requested. As such, we experienced difficulties in performing and completing the audit for the year ended June 30, 2019. See findings 2019-001, 2019-002, and 2019-003 included in the annual financial report.

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. Significant adjustments derived from the audit process are detailed as follows:

General Fund:

- \$544,509 to record capital lease proceeds and corresponding capital outlay.
- \$42,738 to record deferred revenue for Title I and Title V reimbursements that were not requested and received within 60 days of year-end.
- \$28,329 to record accrued interest on the District's 2018-19 State Aid Note.
- \$191,600 to reverse a prior period adjustment. After reviewing the detail of the transaction the general ledger activity occurred, and was properly recorded, in the 2017-18 fiscal year.

2014 Debt Fund:

- \$126,056 to reverse property tax revenue improperly recorded based on analytical expectation of tax receipts, and reflected as being due from the General Fund. Corresponding entry made in general fund, in same amount, to reverse entry that incorrectly reduced miscellaneous revenue and recorded the amount as due to other funds.

Food Service Fund:

- \$14,408 to back out prior year receivable in order to reconcile current year federal revenue.

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. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 2, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matter, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s 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. The District contracted additional accounting services from an independent accountant to close its fiscal year-end. Such services were necessary to assist in getting these procedures done timely so that the year-end audit could be performed. We reviewed these transactions as part of the audit process.

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 governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We did identify certain deficiencies in internal control and non-compliance with laws and regulations described in the schedule of findings and responses that we consider to be material weaknesses. See Findings 2019-001, 2019-002, and 2019-003 for additional details related to these findings.

Other Matters

We applied certain limited procedures to the Management’s Discussion and Analysis and Schedules related to the Proportionate Share and Contributions of the District’s Net Pension and Net OPEB Liabilities, which are required supplementary information (RSI) that supplements 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 combining and individual fund statements and schedules, which accompany the financial statements but are not RSI. With respect to this 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 supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Comments

The District General Fund balance decreased by \$160,432 to \$324,095 at June 30, 2019. This balance represents approximately 3.58 percent of the District's 2019-20 expenditure budget (down from 5.52 percent at June 30, 2018). Maintaining a fund balance of at least 10 to 15 percent of the ensuing year's expenditure budget is advisable for Carson City-Crystal Area Schools. This would give the District more stable operating funds during the year, help avoid or reduce the necessity of borrowing for short-term cash flow purposes and act as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Restriction on Use

This communication is intended solely for the information and use of the Carson City-Crystal Area Schools Board of Education and management and is not intended to be, and should not be, used by anyone other than these specified parties. We have furnished a copy of this letter to the Michigan Departments of Education and Treasury as an enclosure with the audited financial statements as required by the State of Michigan.



Certified Public Accountants