

**CARSON CITY-CRYSTAL AREA SCHOOLS**

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

**YEAR ENDED JUNE 30, 2014**

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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, 2014, 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, 2014, 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.

### ***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 12 to the financial statements, Carson City-Crystal Area Schools implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. In addition the District changed its method of accounting for inventory and health insurance. Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison 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, and schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such 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 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 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 15, 2014 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.

*Manes Costeiron PC*

October 15, 2014

## 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, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### FINANCIAL OVERVIEW

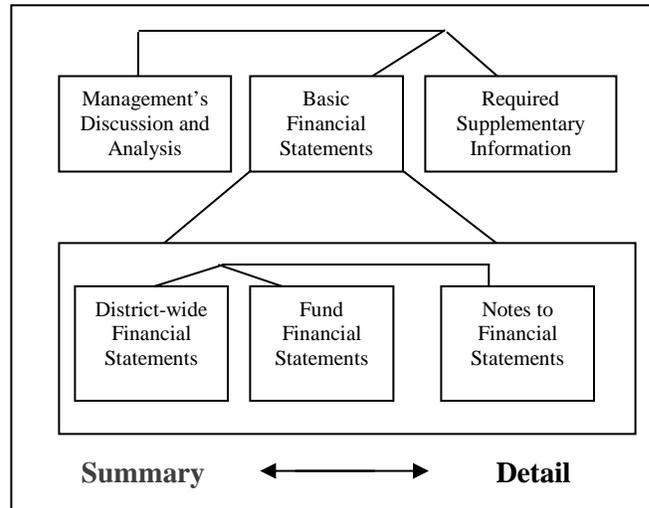
- The District's general fund financial situation declined from the 2013 fiscal year to 2014.
- For the 2013-14 school year, general fund, fund balance, after restatement, was decreased by \$272,588.
- Student enrollment decreased by 9 students from 2013 to 2014.

### 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.

**Figure A-1**  
**Organization of Carson City-Crystal Area Community Schools' Annual Financial**



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 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**

	Fund Financial Statements		
	District-wide statements	Governmental Funds	Fiduciary Funds
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 School's 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 and liabilities. 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 and liabilities - 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 school lunch).

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 increased on June 30, 2014 over the year before, increasing by \$36,228 to \$2,299,560.

Table A-3 Carson City-Crystal Area Schools Net Position		
	2014	As restated 2013
Current and other assets	\$ 2,930,461	\$ 2,490,094
Capital assets, net of accumulated depreciation	4,629,352	5,150,553
Total assets	<u>7,559,813</u>	<u>7,640,647</u>
Current liabilities	3,248,770	2,977,315
Non-current liabilities	2,011,483	2,400,000
Total liabilities	<u>5,260,253</u>	<u>5,377,315</u>
Net position:		
Net investment in capital assets	2,446,501	1,685,292
Restricted for debt service	160,779	209,772
Restricted for food service	12,102	2,939
Unrestricted	<u>(319,822)</u>	<u>365,329</u>
Total net position	<u>\$ 2,299,560</u>	<u>\$ 2,263,332</u>

Table A-4 Changes in Carson City-Crystal Area Schools' Net Position		
	2014	As restated 2013
<b>Revenues:</b>		
<b>Program revenues:</b>		
Charges for services	\$ 204,865	\$ 213,820
Federal and state categorical grants	1,539,061	2,468,886
<b>General revenues:</b>		
Property taxes	2,116,452	2,176,018
Investment	2,202	-
State aid - unrestricted	5,601,380	4,663,520
Other	134,067	53,799
<b>Total revenues</b>	<b>9,598,027</b>	<b>9,576,043</b>
<b>Expenses:</b>		
Instruction	5,403,362	5,181,652
Support services	3,416,266	3,155,888
Community services	16,575	-
Food services	389,722	427,196
Interest on long-term debt	39,971	176,199
Unallocated depreciations	295,903	288,331
<b>Total expenses</b>	<b>9,561,799</b>	<b>9,229,266</b>
<b>Change in net position</b>	<b>\$ 36,228</b>	<b>\$ 346,777</b>

### **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 \$7,026 per student in 2014.
- 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 \$509,864 compared to \$824,931 in 2013. The total fund balance decreased by \$315,067 for the year primarily due to the decrease in the general fund of \$272,588.

### General Fund and Budget Highlights

During the 2013-14 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 \$23,000 while the actual for the year was a decrease of \$272,588. The final results was due largely to transition in the business office.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The District's capital assets are as follows:

Table A-5 Carson City-Crystal Area Schools				
	2014			2013
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 158,090	\$ -	\$ 158,090	\$ 158,090
Construction in progress	-	-	-	34,516
Buildings and improvements	9,048,196	4,968,584	4,079,612	4,250,799
Machinery and equipment	2,902,128	2,651,378	250,750	268,576
Transportation equipment	1,014,290	873,390	140,900	191,681
Total	<u>\$ 13,122,704</u>	<u>\$ 8,493,352</u>	<u>\$ 4,629,352</u>	<u>\$ 4,903,662</u>

## LONG-TERM DEBT

At year end the District had \$2,833,335 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		
	2014	2013
QZAB bonds	\$ 155,000	\$ 155,000
2008 General Obligation Bonds	2,265,825	3,293,236
Compensated absences and terminated benefits	412,510	-
	\$ 2,833,335	\$ 3,448,236

### 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 was increased during the 2014-2015 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, 2014**

	<b>Governmental activities</b>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 1,016,436
Investments	2,165
Receivables:	
Accounts receivable	67,623
Due from agency fund	1,335
Intergovernmental receivables	1,497,715
Inventories	57,022
Prepays	50,191
Restricted cash - capital projects	237,974
Capital assets not being depreciated	158,090
Capital assets net of accumulated depreciation	4,471,262
<b>TOTAL ASSETS</b>	<b>7,559,813</b>
 <b>LIABILITIES:</b>	
Accounts payable	29,461
Accrued salaries and related items	665,869
Accrued interest	20,181
Unearned revenue	997
Intergovernmental payables	60,410
Note payable	1,650,000
Noncurrent liabilities:	
Due within one year	821,852
Due in more than one year	2,011,483
<b>TOTAL LIABILITIES</b>	<b>5,260,253</b>
 <b>NET POSITION:</b>	
Net investment in capital assets	2,446,501
Restricted for special revenue (food service)	12,102
Restricted for debt service	160,779
Unrestricted	(319,822)
<b>TOTAL NET POSITION</b>	<b>\$ 2,299,560</b>

**CARSON CITY-CRYSTAL AREA SCHOOLS  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014**

<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	\$ 5,403,362	\$ -	\$ 837,119	\$ (4,566,243)
Support services	3,416,266	68,244	428,650	(2,919,372)
Community services	16,575	11,081	-	(5,494)
Food services	389,722	125,540	273,292	9,110
Interest on long-term debt	39,971	-	-	(39,971)
Unallocated depreciation	295,903	-	-	(295,903)
Total governmental activities	<u>\$ 9,561,799</u>	<u>\$ 204,865</u>	<u>\$ 1,539,061</u>	<u>(7,817,873)</u>
General revenues:				
Property taxes, levied for general purposes				1,074,332
Property taxes, levied for debt service				1,042,120
Investment earnings				2,202
State sources - unrestricted				5,601,380
Other				<u>134,067</u>
Total general revenues				<u>7,854,101</u>
<b>CHANGE IN NET POSITION</b>				36,228
<b>NET POSITION</b> , beginning of year, as restated				<u>2,263,332</u>
<b>NET POSITION</b> , end of year				<u>\$ 2,299,560</u>

**CARSON CITY-CRYSTAL AREA SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014**

	<b>General Fund</b>	<b>Total nonmajor funds</b>	<b>Total governmental funds</b>
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 941,088	\$ 75,348	\$ 1,016,436
Investments	2,165	-	2,165
Receivables:			
Accounts receivable	67,623	-	67,623
Intergovernmental receivables	1,497,715	-	1,497,715
Due from other funds	-	105,453	105,453
Due from agency activities	1,335	-	1,335
Inventories	53,032	3,990	57,022
Prepays	50,191	-	50,191
Restricted cash and cash equivalents	-	237,974	237,974
<b>TOTAL ASSETS</b>	<b>\$ 2,613,149</b>	<b>\$ 422,765</b>	<b>\$ 3,035,914</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 28,859	\$ 602	\$ 29,461
Accrued salaries and related items	665,869	-	665,869
Accrued interest	13,860	-	13,860
Due to other governments	60,410	-	60,410
Due to other funds	105,453	-	105,453
Note payable	1,650,000	-	1,650,000
Unearned revenue	-	997	997
<b>TOTAL LIABILITIES</b>	<b>2,524,451</b>	<b>1,599</b>	<b>2,526,050</b>
<b>FUND BALANCES:</b>			
Nonspendable:			
Inventories	53,032	3,990	57,022
Prepays	50,191	-	50,191

See notes to financial statements.

	<u>General Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
<b>FUND BALANCES (Concluded):</b>			
Restricted for:			
Debt service	\$ -	\$ 167,100	\$ 167,100
Capital projects	-	237,974	237,974
Special revenue food service	-	12,102	12,102
Unassigned:			
General Fund	(14,525)	-	(14,525)
<b>TOTAL FUND BALANCES</b>	<u>88,698</u>	<u>421,166</u>	<u>509,864</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 2,613,149</u>	<u>\$ 422,765</u>	<u>\$ 3,035,914</u>
<b>Total governmental fund balances</b>			\$ 509,864
Capital assets used in governmental activities are not financial resources and are not reported in the funds:			
The cost of the capital assets is		\$ 13,122,704	
Accumulated depreciation is		<u>(8,493,352)</u>	4,629,352
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			(2,400,000)
Bond premium			(20,825)
Compensated absences and terminated benefits payable			(412,510)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid			(6,321)
<b>Net position of governmental activities</b>			<u>\$ 2,299,560</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, 2014**

	<u>General Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
<b>REVENUES:</b>			
Local sources:			
Property taxes	\$ 1,074,333	\$ 1,042,120	\$ 2,116,453
Investment earnings	2,133	69	2,202
Food sales and community service	-	125,540	125,540
Community service	11,081	-	11,081
Other	218,922	-	218,922
Total local sources	1,306,469	1,167,729	2,474,198
State sources	6,454,368	15,535	6,469,903
Federal sources	412,781	257,919	670,700
Total revenues	8,173,618	1,441,183	9,614,801
<b>EXPENDITURES:</b>			
Current:			
Instruction	5,012,415	-	5,012,415
Supporting services	3,406,145	-	3,406,145
Food service activities	-	389,722	389,722

See notes to financial statements.

	<u>General Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
<b>EXPENDITURES (Concluded):</b>			
Current (Concluded):			
Community service activities	\$ 16,575	\$ -	\$ 16,575
Capital outlay	-	8,978	8,978
Debt service:			
Principal repayment	-	1,020,000	1,020,000
Interest expense	-	50,675	50,675
Other	-	25,358	25,358
Total expenditures	<u>8,435,135</u>	<u>1,494,733</u>	<u>9,929,868</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(261,517)</u>	<u>(53,550)</u>	<u>(315,067)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	-	108,969	108,969
Transfers out	<u>(11,071)</u>	<u>(97,898)</u>	<u>(108,969)</u>
Total other financing sources (uses)	<u>(11,071)</u>	<u>11,071</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(272,588)</u>	<u>(42,479)</u>	<u>(315,067)</u>
<b>FUND BALANCES:</b>			
Beginning of year, as restated	<u>361,286</u>	<u>463,645</u>	<u>824,931</u>
End of year	<u>\$ 88,698</u>	<u>\$ 421,166</u>	<u>\$ 509,864</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, 2014**

**Net change in fund balances total governmental funds** \$ (315,067)

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	(295,903)
Capital outlay	22,385
Net book value of asset disposals	(792)

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	17,025
Accrued interest payable, end of the year	(6,321)

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 is the treatment of long-term debt and related items and are as follows:

Payments on debt	1,020,000
Amortization of bond premium	7,411

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	-
Accrued compensated absences and termination benefits, end of the year	(412,510)

**Change in net position of governmental activities** \$ 36,228

**CARSON CITY-CRYSTAL AREA SCHOOLS  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
YEAR ENDED JUNE 30, 2014**

	<u>Agency fund</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 50,405
<b>LIABILITIES:</b>	
Accounts payable	\$ 1,335
Due to student and other groups	49,070
<b>TOTAL LIABILITIES</b>	<u>\$ 50,405</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 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.

**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)**

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.

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

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

Beginning with the year of bond issuance, the District has reported the annual construction activity in the 2010 and 2012 capital project funds. The projects for which the 2010 and 2012 bonds were issued were considered complete on June 30, 2014. The following is a summary of the cumulative revenue and expenditures for the capital project bond activity since inception:

	2010	2012
Revenue and bond proceeds	\$ 1,032,420	\$ 995,000
Expenditures	\$ 971,181	\$ 818,265

**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.

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 (primarily student activities).

**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)**

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.

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.

**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)**

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.

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.

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Budgetary Information (Concluded)**

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, 2014. The District does not consider these amendments to be significant.

**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.

**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)**

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. (See Note 12).

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.

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.

**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 (Concluded)

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. Deferred outflows/inflows of resources

In addition to assets, the statement of financial 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 has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial 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 no items that qualify for reporting in this category.

6. 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)**

7. 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.

8. 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 September 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, 2014, 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	4.20

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, 2014, the District had the following investments:

<u>Investment Type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard &amp; Poor's Rating</u>	<u>%</u>
MILAF External Investment pool - MIMAX	\$ 2,165	0.0027	AAAm	100%
Total fair value	<u>\$ 2,165</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, 2014, 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)**

**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, 2014, \$1,029,350 of the District's bank balance of \$1,529,350 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 \$1,304,815. 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.

**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 \$50,405	\$ 1,304,815
Investments	2,165
	<u>\$ 1,306,980</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:

Cash restricted - 2010 bond proceeds	\$ 61,239
Cash restricted - 2012 bond proceeds	176,735
Cash - fiduciary funds	50,405
Cash - district-wide	1,016,436
Investments	2,165
	<u>\$ 1,306,980</u>

**NOTE 3 - CAPITAL ASSETS**

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

	Balance July 1, 2013	Additions	Deletions (reclassifications)	Balance June 30, 2014
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 158,090	\$ -	\$ -	\$ 158,090
Construction in progress	34,516	-	34,516	-
Total assets not being depreciated	<u>192,606</u>	<u>-</u>	<u>34,516</u>	<u>158,090</u>
Capital assets, being depreciated:				
Land improvements	768,949	-	-	768,949
Buildings and improvements	8,229,196	50,051	-	8,279,247
Equipment, computers and furnishing	2,901,371	6,850	6,093	2,902,128
School buses and other vehicles	1,014,290	-	-	1,014,290
Total capital assets, being depreciated	<u>12,913,806</u>	<u>56,901</u>	<u>6,093</u>	<u>12,964,614</u>
Accumulated depreciation:				
Land improvements	517,474	15,244	-	532,718
Buildings and improvements	4,229,872	205,994	-	4,435,866
Equipment, computers and furnishing	2,632,795	23,884	5,301	2,651,378
School buses and other vehicles	822,609	50,781	-	873,390
Total accumulated depreciation	<u>8,202,750</u>	<u>295,903</u>	<u>5,301</u>	<u>8,493,352</u>
Net capital assets being depreciated	<u>4,711,056</u>	<u>(239,002)</u>	<u>792</u>	<u>4,471,262</u>
Net governmental capital assets	<u>\$ 4,903,662</u>	<u>\$ (239,002)</u>	<u>\$ 35,308</u>	<u>\$ 4,629,352</u>

Depreciation for the fiscal year ended June 30, 2014 amounted to \$295,903. 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, 2014 consist of the following:

Intergovernmental units:	
State aid	\$ 1,252,646
Federal revenue	244,520
Other	<u>549</u>
	<u><u>\$ 1,497,715</u></u>

**NOTE 5 - NOTE PAYABLE**

At June 30, 2014, the District has notes payable outstanding of \$1,650,000. The note has the following interest rates and maturities:

<u>Note</u>	<u>Amount</u>	<u>Interest rate</u>	<u>Maturity date</u>
2013 A-1	\$ 1,650,000	0.84%	August 20, 2014

The notes are secured by the full faith and credit of the District as well as pledged state aid.

<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2014</u>
<u>\$ 790,000</u>	<u>\$ 1,650,000</u>	<u>\$ 790,000</u>	<u>\$ 1,650,000</u>

Subsequent to year-end, the District set aside an additional amount to pay off the note principal and related interest expense. The District has approved a note payable of \$2,000,000 for the fiscal year ending June 30, 2015.

**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, 2014:

	QZAB bonds	General obligation bonds	Sub-total bonds and notes	Accumulated compensated absences	Total
Balance, July 1, 2013	\$ 155,000	\$ 3,293,236	\$ 3,448,236	\$ -	\$ 3,448,236
Additions	-	-	-	412,510	412,510
Deletions	-	1,027,411	1,027,411	-	1,027,411
Balance, June 30, 2014	155,000	2,265,825	2,420,825	412,510	2,833,335
Due within one year	-	480,000	480,000	341,852	821,852
Due in more than one year	\$ 155,000	\$ 1,785,825	\$ 1,940,825	\$ 70,658	\$ 2,011,483

Long-term obligation debt at June 30, 2014 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
2012 Refunding Bonds acquired to refund most of 2003 refunding bonds - original amount \$2,810,000. Due in annual installments of \$415,000 to \$480,000 through May 1, 2019, interest at 1.5% to 2.0%, payable semi-annually.	2,245,000
Plus: premiums on bond refundings	20,825
Total bonded debt	2,420,825
Obligation under contract for compensated absences	412,510
Total general long-term debt	\$ 2,833,335

**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, 2014, \$2,245,000 of bonds outstanding are considered defeased.

The annual requirement to amortize debt outstanding as of June 30, 2014, including interest payments of \$117,700 are as follows:

Year ending June 30,	Principal	Interest	Total
2015	\$ 480,000	\$ 37,925	\$ 517,925
2016	465,000	30,725	495,725
2017	450,000	23,750	473,750
2018	435,000	17,000	452,000
2019	415,000	8,300	423,300
2020 - 2024	155,000	-	155,000
	2,400,000	117,700	2,517,700
Premium on bond refunding	20,825	-	20,825
Accumulated compensated absences	412,510	-	412,510
	<u>\$ 2,833,335</u>	<u>\$ 117,700</u>	<u>\$ 2,951,035</u>

**NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund payable and receivable balances at June 30, 2014 are as follows:

Receivable fund		Payable fund	
Special revenue	\$ 13,701	General	\$ 105,453
Debt service	91,752		
	<u>\$ 105,453</u>		<u>\$ 105,453</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 District participates in the statewide Michigan Public School Employees' Retirement System (System) which 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. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111. It is also available at <http://www.michigan.gov/orsschools>.

The System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director who serves as Executive Secretary to the System's Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

**Benefit Provisions - Pension**

***Introduction***

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. A DB member or Pension Plus hybrid plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

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

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

**Funding Policy**

*Member Contributions*

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when 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. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan Member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

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

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

*Employer Contributions*

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits on a prefunded basis. The School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System ("MPERS"), which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the following table. The District contributions to MPERS were equal to the required contribution for those years.

The School District's contributions to MPERS are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Contributions to MPERS</u>
2014	\$ 1,318,456
2013	1,060,244
2012	1,002,899

Included in the amounts paid above, the District received \$219,370 and \$84,493 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPERS. The District has recorded these amounts as state revenue and additional pension expenditures/expenses for the year ended June 30, 2014 and June 30, 2013.

PA 464 Retirees Returning to Work, effective December 27, 2012 also requires applicable employer contributions to the defined benefit and defined contribution plans. These amounts if any are included in the amounts paid above.

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

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

		<b>Fiscal Year 2014</b>					
		Effective October 1, 2013					
<b>Public School Employee Pension Rates (FYE Sept. 30th)</b>		Pension Plus PHF - First worked after 9/2/13	Pension Plus to DC with PHF First worked after 9/2/13	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF	
		Basic MIP	Pension Plus				
Pension Normal Cost	2.90%	2.67%	2.67%	0.00%	0.00%	2.90%	
Pension UAL	14.08%	14.08%	14.08%	14.08%	14.08%	14.08%	
Pension Early Retirement Incentive	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	
<b>Pension Contributions - Total Rate</b>	<b>18.34%</b>	<b>18.11%</b>	<b>18.11%</b>	<b>15.44%</b>	<b>15.44%</b>	<b>18.34%</b>	
Health Normal Cost	0.93%	0.93%	0.00%	0.00%	0.00%	0.00%	
Health UAL	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%	
<b>Health Contributions - Total Rate</b>	<b>6.45%</b>	<b>6.45%</b>	<b>5.52%</b>	<b>5.52%</b>	<b>6.45%</b>	<b>5.52%</b>	
<b>Total</b>	<b>24.79%</b>	<b>24.56%</b>	<b>23.63%</b>	<b>20.96%</b>	<b>21.89%</b>	<b>23.86%</b>	
				<b>DC Contributions</b>			
DC Employer Contributions	0.00%	1.00%	1.00%	3.00%	4.00%	0.00%	
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	
<b>Total</b>	<b>0.00%</b>	<b>1.00%</b>	<b>3.00%</b>	<b>5.00%</b>	<b>4.00%</b>	<b>2.00%</b>	
<b>Grand Total</b>	<b>24.79%</b>	<b>25.56%</b>	<b>26.63%</b>	<b>25.96%</b>	<b>25.89%</b>	<b>25.86%</b>	

		<b>Fiscal Year 2013</b>					
		Effective February 1, 2013					
<b>Public School Employee Pension Rates (FYE Sept. 30th)</b>		Pension Plus PHF - First worked after 9/3/12	Pension Plus to DC with PHF First worked after 9/3/12	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF	
		Basic MIP	Pension Plus				
<b>Grand Total</b>	<b>24.32%</b>	<b>24.13%</b>	<b>26.20%</b>	<b>25.96%</b>	<b>25.89%</b>	<b>25.39%</b>	

		<b>Fiscal Year 2013</b>			
		4 months ended 1/31/2013			
<b>Public School Employee Pension Rates (FYE Sept. 30th)</b>		First worked between 6/30/10 and 9/3/12	Pension Plus and First worked after 9/3/12	Elected DC and First worked after 9/3/12	
		First worked before 7/1/10			
<b>Total</b>	<b>25.36%</b>	<b>24.13%</b>	<b>23.20%</b>	<b>20.96%</b>	

		<b>Fiscal Year 2012</b>			
		FY 2011 - 2012		11 months ended 9/30/11	
<b>Public School Employee Pension Rates (FYE Sept. 30th)</b>		First worked before 7/1/10	First worked after 6/30/10	First worked before 7/1/10	First worked after 6/30/10
	<b>Total</b>	<b>24.46%</b>	<b>23.23%</b>	<b>20.66%</b>	<b>19.16%</b>

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

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

**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.

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.

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

**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.

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 \$11,071 to the QZAB debt service fund to fund the required set aside funding requirement. The 2003 refunding debt service fund transferred \$97,898 to the 2012 refunding debt service fund to close out the 2003 debt service fund.

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

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

The District is committed to complete a two major capital projects plan of approximately \$1,030,000 and \$995,000. At June 30, 2014, \$61,239 and \$176,735 is remaining, respectively.

**NOTE 12 - NEW ACCOUNTING STANDARDS AND CHANGE IN ACCOUNTING**

For the year end June 30, 2014 the District implemented GASB Statement 65 which states that bond issuance costs should be expensed in the year which they are incurred. As a result, the remaining unamortized bond issuance costs were written off as of July 1, 2013. The restatement of the beginning of the year net position is follows:

	Governmental Activities
Net position as previously stated July 1, 2013	\$ 2,117,817
Adoption of GASB statement 65	(55,271)
Change in accounting for inventory	53,000
Change in accounting for health insurance	147,786
Net position as restated July 1, 2013	\$ 2,263,332

**Change in accounting:**

For the year end June 30, 2014 the District changed its method of accounting (prior period adjustment) for reporting inventory and health insurance for teachers. The District has elected to record inventory for supplies and parts that have a future useful life. In addition the District determined health insurance for teachers should be recorded over the fiscal year and contract term in prior years July and August health insurance was recorded as an expenditure in the previous fiscal year.

	General fund
Fund balance as previously stated July 1, 2013	\$ 160,500
Change in accounting for inventory	53,000
Change in accounting for health insurance	147,786
Fund balance as restated July 1, 2013	\$ 361,286

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

**NOTE 13 - UPCOMING ACCOUNTING PRONOUNCEMENT**

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012 and will be effective for the District's 2015 fiscal year. The Statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension 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 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense. The District is in the process of evaluating the financial statement impact of this statement and believes the impact of this statement will be significant.

**NOTE 14 - STATUS OF GENERAL FUND**

At June 30, 2014 the fund balance of the general fund was \$88,698. For the year ended June 30, 2014 the fund balance of the general fund decreased \$272,588. The original budget adopted for the 2014-2015 fiscal year shows revenues and incoming transfers of \$7,986,635 exceeding expenditures and outgoing transfers of \$8,036,636. This would decrease fund balance \$50,001.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CARSON CITY-CRYSTAL AREA SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2014**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget</b>
<b>REVENUES:</b>				
Local sources	\$ 1,285,840	\$ 1,293,270	\$ 1,306,469	\$ 13,199
State sources	6,265,389	6,296,525	6,454,368	157,843
Federal sources	435,406	518,882	412,781	(106,101)
Total revenues	<u>7,986,635</u>	<u>8,108,677</u>	<u>8,173,618</u>	<u>64,941</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	4,056,036	3,806,150	3,938,693	(132,543)
Added needs	907,955	937,675	1,073,722	(136,047)
Total instruction	<u>4,963,991</u>	<u>4,743,825</u>	<u>5,012,415</u>	<u>(268,590)</u>
Supporting services:				
Pupil	320,147	426,684	424,129	2,555
Instructional staff	142,594	194,283	186,719	7,564
General administration	267,797	277,820	288,138	(10,318)
School administration	537,817	658,618	646,731	11,887
Business	132,741	102,924	127,828	(24,904)
Operation/maintenance	746,589	729,734	737,528	(7,794)
Pupil transportation	503,855	515,088	540,024	(24,936)
Central	375,814	419,214	455,048	(35,834)
Total supporting services	<u>3,027,354</u>	<u>3,324,365</u>	<u>3,406,145</u>	<u>(81,780)</u>
Community services	<u>14,003</u>	<u>17,479</u>	<u>16,575</u>	<u>904</u>
Total expenditures	<u>8,005,348</u>	<u>8,085,669</u>	<u>8,435,135</u>	<u>(349,466)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(18,713)</u>	<u>23,008</u>	<u>(261,517)</u>	<u>(284,525)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	-	-	(11,071)	(11,071)
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (18,713)</u>	<u>\$ 23,008</u>	<u>(272,588)</u>	<u>\$ (295,596)</u>
<b>FUND BALANCE:</b>				
Beginning of year, as restated			<u>361,286</u>	
End of year			<u>\$ 88,698</u>	

**ADDITIONAL SUPPLEMENTARY INFORMATION**

**CARSON CITY-CRYSTAL AREA SCHOOLS  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND  
JUNE 30, 2014**

	<u>Special Revenue</u>			<u>Total nonmajor funds</u>
	<u>Food service</u>	<u>Debt service</u>	<u>Capital projects</u>	
<b>ASSETS</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	\$ -	\$ 75,348	\$ -	\$ 75,348
Restricted cash and cash equivalents	-	-	237,974	237,974
Due from other funds	13,701	91,752	-	105,453
Inventories	3,990	-	-	3,990
<b>TOTAL ASSETS</b>	<u>\$ 17,691</u>	<u>\$ 167,100</u>	<u>\$ 237,974</u>	<u>\$ 422,765</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 602	\$ -	\$ -	\$ 602
Unearned revenue	997	-	-	997
<b>TOTAL LIABILITIES</b>	<u>1,599</u>	<u>-</u>	<u>-</u>	<u>1,599</u>
<b>FUND BALANCES:</b>				
Nonspendable:				
Inventories	3,990	-	-	3,990
Restricted for:				
Debt service	-	167,100	-	167,100
Capital projects	-	-	237,974	237,974
Special revenue food service	12,102	-	-	12,102
<b>TOTAL FUND BALANCES</b>	<u>16,092</u>	<u>167,100</u>	<u>237,974</u>	<u>421,166</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 17,691</u>	<u>\$ 167,100</u>	<u>\$ 237,974</u>	<u>\$ 422,765</u>

**CARSON CITY-CRYSTAL AREA SCHOOLS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUND TYPES  
YEAR ENDED JUNE 30, 2014**

	<u>Special Revenue Food service</u>	<u>Debt service</u>	<u>Capital projects</u>	<u>Total nonmajor funds</u>
<b>REVENUES:</b>				
Local sources:				
Property taxes	\$ -	\$ 1,042,120	\$ -	\$ 1,042,120
Investment earnings	-	8	61	69
Food sales and other	125,540	-	-	125,540
Total local sources	125,540	1,042,128	61	1,167,729
State sources	15,373	162	-	15,535
Federal sources	257,919	-	-	257,919
Total revenues	398,832	1,042,290	61	1,441,183
<b>EXPENDITURES:</b>				
Current:				
Food service activities	389,722	-	-	389,722
Capital outlay	-	-	8,978	8,978
Debt service:				
Principal repayment	-	1,020,000	-	1,020,000
Interest expense	-	50,675	-	50,675
Other expense	-	25,358	-	25,358
Total expenditures	389,722	1,096,033	8,978	1,494,733
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	9,110	(53,743)	(8,917)	(53,550)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	108,969	-	108,969
Transfers out	-	(97,898)	-	(97,898)
Total other financing sources (uses)	-	11,071	-	11,071
<b>NET CHANGE IN FUND BALANCES</b>	9,110	(42,672)	(8,917)	(42,479)
<b>FUND BALANCES:</b>				
Beginning of year	6,982	209,772	246,891	463,645
End of year	\$ 16,092	\$ 167,100	\$ 237,974	\$ 421,166

**CARSON CITY-CRYSTAL AREA SCHOOLS  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2014**

	<b>2008 QZAB Debt</b>	<b>2012 Refunding Debt</b>	<b>2012 Debt</b>	<b>Totals</b>
<b>ASSETS</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 55,353	\$ 9,995	\$ 10,000	\$ 75,348
Due from Other Funds	-	69,488	22,264	91,752
<b>TOTAL ASSETS</b>	<b>\$ 55,353</b>	<b>\$ 79,483</b>	<b>\$ 32,264</b>	<b>\$ 167,100</b>
<b>FUND BALANCES</b>				
<b>FUND BALANCES:</b>				
Restricted for debt service	\$ 55,353	\$ 79,483	\$ 32,264	\$ 167,100

**CARSON CITY-CRYSTAL AREA SCHOOLS  
DEBT SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2014**

	<b>2003 Refunding Debt</b>	<b>2008 QZAB Debt</b>	<b>2012 Refunding Debt</b>	<b>2012 Debt</b>	<b>Totals</b>
<b>REVENUES:</b>					
Local sources:					
Property taxes	\$ -	\$ -	\$ 541,714	\$ 500,406	\$ 1,042,120
Interest	-	-	8	-	8
Other	162	-	-	-	162
Total revenues	<u>162</u>	<u>-</u>	<u>541,722</u>	<u>500,406</u>	<u>1,042,290</u>
<b>EXPENDITURES:</b>					
Redemption of bonds	-	-	510,000	510,000	1,020,000
Interest on bonded debt	-	-	45,575	5,100	50,675
Other	-	-	17,894	7,464	25,358
Total expenditures	<u>-</u>	<u>-</u>	<u>573,469</u>	<u>522,564</u>	<u>1,096,033</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>162</u>	<u>-</u>	<u>(31,747)</u>	<u>(22,158)</u>	<u>(53,743)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	-	11,071	97,898	-	108,969
Transfers out	(97,898)	-	-	-	(97,898)
Total other financing sources (uses)	<u>(97,898)</u>	<u>11,071</u>	<u>97,898</u>	<u>-</u>	<u>11,071</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(97,736)</u>	<u>11,071</u>	<u>66,151</u>	<u>(22,158)</u>	<u>(42,672)</u>
<b>FUND BALANCES:</b>					
Beginning of year	<u>97,736</u>	<u>44,282</u>	<u>13,332</u>	<u>54,422</u>	<u>209,772</u>
End of year	<u>\$ -</u>	<u>\$ 55,353</u>	<u>\$ 79,483</u>	<u>\$ 32,264</u>	<u>\$ 167,100</u>

**CARSON CITY-CRYSTAL AREA SCHOOLS  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2014**

		<u>2010 Capital Projects</u>	<u>2012 Capital Projects</u>	<u>Totals</u>
	<b>ASSETS</b>			
<b>ASSETS:</b>				
Restricted cash		<u>\$ 61,239</u>	<u>\$ 176,735</u>	<u>\$ 237,974</u>
	<b>FUND BALANCES</b>			
<b>FUND BALANCES:</b>				
Restricted for capital projects		<u>\$ 61,239</u>	<u>\$ 176,735</u>	<u>\$ 237,974</u>

**CARSON CITY-CRYSTAL AREA SCHOOLS  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2014**

	<b>2010 Capital Projects</b>	<b>2012 Capital Projects</b>	<b>Totals</b>
<b>REVENUES:</b>			
Local sources:			
Investment income	\$ 61	\$ -	\$ 61
<b>EXPENDITURES:</b>			
Capital outlay	-	8,978	8,978
<b>NET CHANGE IN FUND BALANCES</b>	61	(8,978)	(8,917)
<b>FUND BALANCES:</b>			
Beginning of year	61,178	185,713	246,891
End of year	\$ 61,239	\$ 176,735	\$ 237,974

**CARSON CITY-CRYSTAL AREA SCHOOLS  
 BONDED DEBT  
 QUALIFIED ZONE AZADEMY BONDS (QZAB)  
 JUNE 30, 2014**

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  
 BONDED DEBT  
 JUNE 30, 2014**

\$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
\$ 18,962	\$ 18,963	\$ 480,000	2015	\$ 517,925
15,362	15,363	465,000	2016	495,725
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>\$ 58,849</u>	<u>\$ 58,851</u>	<u>\$ 2,245,000</u>		<u>\$ 2,362,700</u>

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

**CARSON CITY-CRYSTAL AREA SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (unearned) revenue 7/1/2013	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (unearned) revenue 6/30/2014
<u>U.S. Department of Agriculture:</u>								
Passed through Michigan Department of Education:								
Child nutrition cluster:								
Non-Cash Assistance (Donated Food):								
National School Lunch Program:								
Entitlement	10.555		\$ 18,348	\$ -	\$ -	\$ 18,348	\$ 18,348	\$ -
Cash Assistance:								
National School Lunch Program - Section 11	10.555	131960	22,009	-	-	22,009	22,009	-
National School Lunch Program - Section 11		141960	165,649	-	-	165,649	165,649	-
			<u>187,658</u>	<u>-</u>	<u>-</u>	<u>187,658</u>	<u>187,658</u>	<u>-</u>
National School Lunch Program - Breakfast	10.553	131970	4,536	-	-	4,536	4,536	-
National School Lunch Program - Breakfast		141970	39,721	-	-	39,721	39,721	-
			<u>44,257</u>	<u>-</u>	<u>-</u>	<u>44,257</u>	<u>44,257</u>	<u>-</u>
Summer Food Service Program - Meals	10.559	130900/0913	6,371	-	-	6,371	6,371	-
		130900/1113	565	-	-	565	565	-
Summer Food Service Program - Sponsor administration		131900/0913	661	-	-	661	661	-
		131900/1113	59	-	-	59	59	-
			<u>7,656</u>	<u>-</u>	<u>-</u>	<u>7,656</u>	<u>7,656</u>	<u>-</u>
Total Cash Assistance			<u>239,571</u>	<u>-</u>	<u>-</u>	<u>239,571</u>	<u>239,571</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>257,919</u>	<u>-</u>	<u>-</u>	<u>257,919</u>	<u>257,919</u>	<u>-</u>

The accompanying notes are an integral part of this schedule.

**CARSON CITY-CRYSTAL AREA SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued (unearned) revenue 7/1/2013	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (unearned) revenue 6/30/2014
<u>U.S. Department of Education:</u>								
Passed through Michigan Department of Education:								
Title I	84.010	1315301213	\$ 368,234	\$ 39,760	\$ 341,147	\$ 39,760	\$ -	\$ -
		1415301314	330,572	-	-	168,115	281,375	113,260
Total Title I			698,806	39,760	341,147	207,875	281,375	113,260
Title VI	84.358	1306601213	25,658	5	25,500	151	146	-
		1406601314	17,847	-	-	-	17,701	17,701
			43,505	5	25,500	151	17,847	17,701
Title IIA	84.367	1305201213	171,857	3,884	55,689	3,884	-	-
		1405201314	167,805	-	-	-	80,114	80,114
			339,662	3,884	55,689	3,884	80,114	80,114
Total Michigan Department of Education			1,081,973	43,649	422,336	211,910	379,336	211,075
Passed through Montcalm Area Intermediate School District								
IDEA - Special Education Flow through	84.027A	1303501314	33,445	33,445	33,445	33,445	-	-
		1404501314	33,445	-	-	-	33,445	33,445
Total IDEA - Special Education Flow Through			66,890	33,445	33,445	33,445	33,445	33,445
Total Montcalm Area Intermediate School District			66,890	33,445	33,445	33,445	33,445	33,445
Total U.S. Department of Education			1,148,863	77,094	455,781	245,355	412,781	244,520
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,406,782	\$ 77,094	\$ 455,781	\$ 503,274	\$ 670,700	\$ 244,520

The accompanying notes are an integral part of this schedule.

**CARSON CITY-CRYSTAL AREA SCHOOLS  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

1. Basis of presentation - The accompanying schedule of expenditures of federal awards (the "Schedule") includes the grant activity of Carson City-Crystal Area Schools under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Carson City-Crystal Area Schools, it is not intended to and does not present the financial position or changes in net position of Carson City-Crystal Area Schools.
2. Summary of Significant Accounting Policies - Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.
3. Title I (CFDA #84.010) was audited as a major program, representing 38% of expenditures. The District qualifies for low risk auditee status.
4. The threshold for distinguishing Type A and Type B programs was \$300,000.
5. Management has utilized the Grant Section Auditors Report in preparing the Schedule of Expenditures of Federal Awards.
6. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund revenue	\$ 412,781
Other non-major governmental funds revenue	257,919
	\$ 670,700
	\$ 670,700

**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**

**INDEPENDENT AUDITOR'S REPORT**

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, 2014, 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 15, 2014.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We considered the deficiency deemed in the schedule of findings and questions cost (2014-001) to be a material weakness.

### **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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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 15, 2014

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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
Carson City-Crystal Area Schools

**Report on Compliance for Each Major Federal Program**

We have audited Carson City-Crystal Area Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Carson City-Crystal Area Schools' major federal programs for the year ended June 30, 2014. Carson City-Crystal Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Carson City-Crystal Area Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Carson City-Crystal Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Carson City-Crystal Area Schools' compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Carson City-Crystal Area Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

Management of Carson City-Crystal Area Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Carson City-Crystal Area Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Carson City-Crystal Area Schools' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Maney Costeiran PC*

October 15, 2014

**CARSON CITY-CRYSTAL AREA SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**Section I - Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

➤ Material weakness(es) identified?   X   Yes            No

➤ Significant deficiency(ies) identified?            Yes   X   None reported

Noncompliance material to financial statements noted?            Yes   X   No

***Federal Awards***

Internal control over major programs:

➤ Material weakness(es) identified?            Yes   X   No

➤ Significant deficiency(ies) identified?            Yes   X   None reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?            Yes   X   No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I

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

Auditee qualified as low-risk auditee?   X   Yes            No

**CARSON CITY-CRYSTAL AREA SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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**Section II - Financial Statement Findings**

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**Finding 2014- 001 Finding considered a material weakness**

**Criteria:** Material audit adjustments were required to adjust several balance sheet accounts. These adjustments were accepted and recorded.

**Condition:** The School District had employee turnover in the accounting area during the fiscal year. The School District, also, went through a software conversion during the fiscal year. As a result, balance sheet accounts were not reconciled monthly and in a timely manner.

**Context:** During the year, there was significant turnover in the business office and a transition of accounting software. This resulted in certain accounts not being reconciled and adjusted during the year.

**Cause:** Turnover in the accounting department and transition to a new accounting software.

**Effect:** Inaccurate financial information may be used for management decisions and reporting.

**Questioned Costs:** None

**Recommendation:** The School District's personnel is putting new procedures in place to review all balance sheet accounts on a monthly basis. A formalized month-end close-out procedures checklist is being modified and is intended to be put in place for the October 2014 month end.

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

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**Section III - Federal Award Findings and Questioned Costs**

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None

**CARSON CITY-CRYSTAL AREA SCHOOLS  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014**

There were no audit findings in either of the prior two years.

**CARSON CITY-CRYSTAL AREA SCHOOLS  
CORRECTIVE ACTION PLAN  
CONTACT PERSON: KEVIN MURPHY  
OVERSIGHT AGENCY: U.S. DEPARTMENT OF EDUCATION**

Carson City-Crystal Area Schools respectfully submits the following corrective action plan for the year ended June 30, 2014.

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

**Audit Period:** Year ended June 30, 2014

**District responsible individual to implement this plan:** Kevin Murphy

The findings from the June 30, 2014 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 2014.001** Considered a material weakness

**Recommendation:** The School District's personnel is putting new procedures in place to review all balance sheet accounts on a monthly basis. A formalized month-end close-out procedures checklist is being modified and is intended to be put in place for the October 2014 month end.

**Action to be taken:** Responsible parties within the business office are making the necessary changes to prevent this from happening in the future. On a monthly basis the Superintendent will review the close out process and report to the board the status of this corrective active action plan.

October 15, 2014

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, 2014, 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 15, 2014 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 Comments**

### **Initial Listing**

During our review of the cash receipts function, we noted that the entire cash receipts process (initial listing, recording, and deposit preparation) was being performed by the same person. We are aware the District maintains a small office with two employees so we would recommend that the Accounts Payable Clerk (AP Clerk) open the mail and maintain an initial listing of receipts. AP Clerk would then provide the cash receipts to the Accounts Receivable Clerk for recording and preparation of the deposit. AP Clerk would then reconcile the deposit to the initial listing and take the deposit to the bank. At month end, the Director of Finance could reconcile to the bank statement to the initial listing and deposit.

### **ACH Processing**

Through inquiry of management and testing over ACH transfers, it was discovered that bank to bank transfers can be performed by the AP Clerk, at-will, without management knowledge until the bank reconciliation process is performed at month end. We recommend management discuss with their financial institution implementing controls to prevent this from taking place. For example: confirmation being sent (through email) to management once a transfer is made or online approval by management prior to the transfer being made.

### **Monitor General Fund Budget**

At June 30, 2014 the District has used substantially all of its general fund, fund balance. There were significant budget adjustments to the fund balance after the original budget was adopted. In many areas expenditures exceeded amounts budgeted. Should this be the case for the fiscal 2014-2015 year the District will become a deficit district. Should this occur the District is required to communicate this to the Michigan Department of Education at the time you are aware of the situation. Given the financial condition of the District we recommend the District consider implementing a voluntary deficit reduction plan.

**Accounting Manual Needed**

During our audit, we noted the District does not have an up-to-date manual of accounting policies and procedures. The purposes of such a manual are to ensure that proper accounting principles are being applied, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. A well-written accounting manual will aid in the training of new employees and assist management in delegating and segregating duties.

The manual should include:

- An organizational chart,
- Job descriptions outlining duties and responsibilities,
- Descriptions of methods, procedures, and accounting principles to be followed, including explanations and examples of principle transactions,
- A chart of accounts with detailed explanation of the items to be included therein, and;
- Any other documents or forms for which uniformity of use is desired.

**Voided Checks**

During our review of voided checks, not all voids were maintained or properly defaced. We recommend that all voided checks be maintained together in one spot and properly defaced.

**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.

We recommend procedures be changed immediately and additional training be provided to individuals so they can utilize the new accounting software. The status of the corrective action of this matter should be reported to the Board of Education on a monthly basis.

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 15, 2014

To the Finance Committee  
Carson City-Crystal Area Schools

We have audited the financial statements of Carson City-Crystal Area Schools for the year ended June 30, 2014, and have issued our report thereon dated October 15, 2014. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter, 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.

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

As part of obtaining reasonable assurance about whether Carson City-Crystal Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Carson City-Crystal Area Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Carson City-Crystal Area Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Carson City-Crystal Area Schools' compliance with those requirements.

## Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you during our phone conversation about planning matters on July 2, 2014.

## 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. ***During 2014 the District implemented Governmental Accounting Standard No. 65, Items Previously Reported as Assets and Liabilities. The application of existing policies were changed during 2014 for recording inventory and teacher health insurance over the contract period.*** 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:

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences to determine 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 to determine 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.

Certain allocations on the statement of activities allocating revenue between instruction and support services have been used in preparing the statements.

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 significant disclosures.

2. *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit. The change in staffing and changes in accounting software made the audit more difficult. This fact and the fact accounts between funds did not balance added to the difficulty of the audit.

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, none of the 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 except for material audit adjustments proposed and recorded to adjust the financial statements primarily in the area of due to / due from and benefits 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. We are pleased to report that no such disagreements arose during the course of our audit.

5. *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 15, 2014.

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

8. *Other Information in Documents Containing Audited Financial Statements*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, 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.

This information is intended solely for the use of the Finance Committee, Board of Education, management and federal awarding agencies and pass-through entities 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*