

PALO COMMUNITY SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and
additional supplementary information)
YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Palo Community 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 Palo Community Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Palo Community Schools as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As more fully discussed in Note 2 to the financial statements, the District has annexed into Carson City-Crystal Area Schools to form Carson City-Crystal Area Schools effective June 10, 2016.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016 on our consideration of Palo Community 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 Palo Community Schools' internal control over financial reporting and compliance.

Maney Costeiran PC

October 17, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Palo Community Schools annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

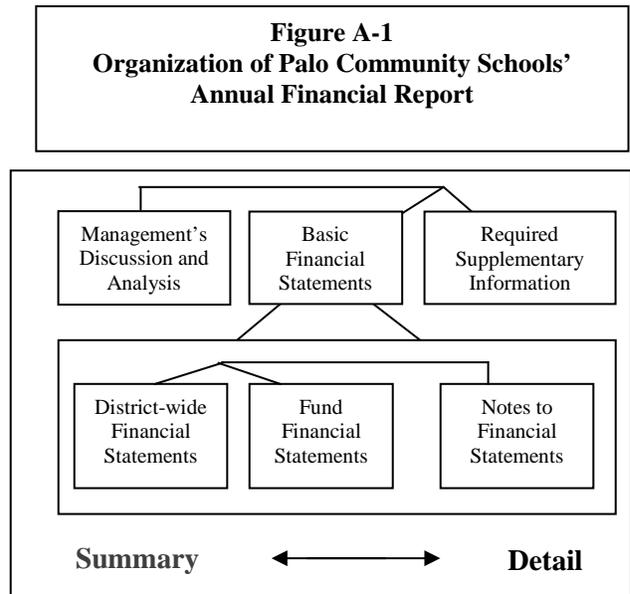
FINANCIAL OVERVIEW

- The District's general fund financial situation decreased from the 2015 fiscal year to 2016.
- The District completed annexation into Carson City-Crystal Area Schools and transferred their remaining fund balance to Carson City as of June 10, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget 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, Palo Community Schools' funds do not currently contain capital assets, although they can
Type of inflow-outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when good or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

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

DISTRICT-WIDE STATEMENTS

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

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

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

District-wide financial statements:

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

FUND FINANCIAL STATEMENTS

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

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

The District has two kinds of funds.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

Table A-3 Palo Community Schools Net Position		
	2016	2015
Assets		
Current and other assets	\$ -	\$ 573,777
Liabilities		
Current and other liabilities	-	22,683
Net position		
Restricted:		
Food service	-	(3,823)
Unrestricted	-	554,917
Total net position	\$ -	\$ 551,094

Table A-4 Changes in Palo Community Schools' Net Position		
	2016	2015
Revenues:		
General Revenues:		
Property taxes	\$ 64,371	\$ 98,632
State aid - unrestricted	23,982	119,930
Other general revenues	3,870	4,118
Total revenues	92,223	222,680
Functions/Program Expenses:		
Instruction	-	22,157
Support services	33,627	56,342
Food service	40	4,214
Interest on long-term debt	-	5,368
Total expenses	33,667	88,081
Special item:		
Payment for annexation into Carson City-Crystal Area Schools	(609,650)	-
Increase (decrease) in net position after special item	\$ (551,094)	\$ 134,599

District Governmental Activities

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

- Proposal A which established the student foundation grant concept, and has increased that amount from \$4,989 per student in 1995 to \$7,391 per student in 2016 but the District has not been in operation for several years and has no students.
- As of June 10, 2016, the District consolidated with Carson City-Crystal Area Schools and transferred their combined remaining fund balance of \$551,094. Total cash transferred amounted to \$609,650.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

For the District as a whole its *combined* fund balance is \$0 compared to \$551,094 in 2015. The total fund balance decreased by \$551,094 for the year as a result of the consolidation into Carson City-Crystal Area Schools.

General Fund and Budget Highlights

During the 2015-16 fiscal year the original district budget was not amended to reflect any changes and is considered the final budget. The final budget showed a current year increase of \$27,453 while the actual for the year was a decrease of \$551,733. This was a result of consolidating with Carson City-Crystal Area Schools as of June 10, 2016.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The district annexed into Carson City-Crystal Area Schools as of June 10, 2016 and, as a result, there are no factors that are bearing on the District's future.

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

**PALO COMMUNITY SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Assets	Governmental <u>Activities</u>
Total Assets		\$ - <u> </u>
	Liabilities	
Total Liabilities		\$ -
	Net Position	
Total net position		<u> </u> -
Total Liabilities and net position		<u> </u> \$ - <u> </u>

**PALO COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

	Program Revenues			Governmental Activities
Expenses	Charges for Service	Operating Grants/ Contributions	Net (Expenses) Revenues and Changes in Net Position	
Functions/Programs:				
Governmental activities:				
Support Services	\$ 33,627	\$ -	\$ -	\$ (33,627)
Food Service	40	-	-	(40)
Total governmental activities	\$ 33,667	\$ -	\$ -	(33,667)
General revenues:				
Taxes:				
Property taxes, levied for general purpose				64,371
State aid not restricted to specific purposes				23,982
Other				3,870
Total general revenues				92,223
Changes in Net Position before special item				58,556
Special item:				
Payment for annexation into Carson City-Crystal Area Schools				(609,650)
Changes in net position after special item				(551,094)
Net Position- Beginning of year				551,094
Net Position-End of year				\$ -

**PALO COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General	Other Non-Major Funds	Totals Governmental Funds
Assets			
Total assets	\$ -	\$ -	\$ -
Liabilities and Fund Balance			
Liabilities			
Total liabilities	\$ -	\$ -	\$ -
Fund Balances			
Total fund balances	-	-	-
Total liabilities and fund balances	\$ -	\$ -	\$ -

**PALO COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	General	Nonmajor Governmental Funds	Totals Governmental Funds
Revenues:			
Local sources	\$ 64,371	\$ -	\$ 64,371
State sources	23,982	-	23,982
Other	-	3,870	3,870
Total revenues	<u>88,353</u>	<u>3,870</u>	<u>92,223</u>
Expenditures:			
Support services:			
General administration	9,134	-	9,134
Operation and maintenance services	17,067	-	17,067
Other supporting services	7,426	-	7,426
School Service	-	40	40
Total expenditures	<u>33,627</u>	<u>40</u>	<u>33,667</u>
EXCESS REVENUS OVER EXPENDITURES	<u>54,726</u>	<u>3,830</u>	<u>58,556</u>
Other Financing Sources (Uses):			
Transfers in (out)	<u>3,191</u>	<u>(3,191)</u>	<u>-</u>
CHANGE IN FUND BALANCE BEFORE SPECIAL ITEM	57,917	639	58,556
Special Item:			
Payment for annexation into Carson City-Crystal Area Schools	<u>(609,650)</u>	<u>-</u>	<u>(609,650)</u>
CHANGE IN FUND BALANCE	(551,733)	639	(551,094)
Fund balances at beginning of year	<u>551,733</u>	<u>(639)</u>	<u>551,094</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**PALO COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Net Change in Fund Balances - Total Governmental funds	<u>\$ (551,094)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (551,094)</u></u>

**PALO COMMUNITY 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

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

C. Basis of Presentation - Government-wide Financial Statements

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

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

D. Basis of Presentation - Fund Financial Statements

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

The District reports the following major governmental funds:

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

**PALO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Other Non-major Funds

The *special revenue fund* accounts 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 *capital projects fund* include 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. The activity was considered substantially completed.

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.

**PALO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Continued)

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

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

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

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

**PALO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

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

F. Budgetary Information

Budgetary basis of accounting:

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

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

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

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

**PALO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Cash and cash equivalents

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

2. Investments

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

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

3. Inventories and prepaid items

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

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

**PALO COMMUNITY 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. 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.

5. 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.

6. 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.

**PALO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

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

6. Fund balance policies (Concluded)

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.

H. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

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

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

Fund	Mills
General Fund:	
Non-Principal Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00

**PALO COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - CARSON CITY-CRYSTAL AREA SCHOOLS

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

NOTE 3 - TRANSFERS

The capital projects fund transferred \$3,184 to the general fund to close out the capital projects fund.

REQUIRED SUPPLEMENTARY INFORMATION

**PALO COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	Original Budget	Final Budget	Actual	Variance with final budget
Revenues:				
Local sources	\$ 58,580	\$ 58,580	\$ 64,371	\$ 5,791
State sources	-	-	23,982	23,982
Total revenues	<u>58,580</u>	<u>58,580</u>	<u>88,353</u>	<u>29,773</u>
Expenditures:				
Instruction:				
Basic Programs	2,500	2,500	-	2,500
Support services:				
General administration	16,377	16,377	9,134	7,243
Operation and maintenance services	11,950	11,950	17,067	(5,117)
Other support services	300	300	7,426	(7,126)
Total expenditures	<u>31,127</u>	<u>31,127</u>	<u>33,627</u>	<u>(2,500)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>27,453</u>	<u>27,453</u>	<u>54,726</u>	<u>32,273</u>
Other Financing Sources (Uses):				
Transfer in	-	-	3,191	3,191
Change in fund balance before special item	27,453	27,453	57,917	35,464
Special Item:				
Payment for annexation into Carson City-Crystal Area Schools	-	-	(609,650)	(609,650)
Change in fund balance	<u>\$ 27,453</u>	<u>\$ 27,453</u>	<u>(551,733)</u>	<u>\$ (579,186)</u>
Fund balances at beginning of year			<u>551,733</u>	
Fund balances at end of year			<u>\$ -</u>	

ADDITIONAL SUPPLEMENTARY INFORMATION

**PALO COMMUNITY SCHOOLS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUND
 JUNE 30, 2016**

	<u>Non-Major Special Revenue Fund</u>		<u>Total Nonmajor Governmental Funds</u>
Assets	<u>Food Service</u>	<u>Capital Projects</u>	
Total assets	\$ -	\$ -	\$ -
Liabilities and Fund Balances			
Liabilities			
Total liabilities	\$ -	\$ -	\$ -
Fund Balances			
Total fund balance	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**PALO COMMUNITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUND TYPES
 YEAR ENDED JUNE 30, 2016**

	<u>Nonmajor Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Food Service</u>	<u>Capital Projects</u>	
Revenues:			
Miscellaneous Income	<u>\$ 3,863</u>	<u>\$ 7</u>	<u>\$ 3,870</u>
Expenditures:			
Support services			
School Service	<u>40</u>	<u>-</u>	<u>40</u>
Other Financing Sources (Uses):			
Transfer to General Fund	<u>-</u>	<u>(3,191)</u>	<u>(3,191)</u>
Excess (deficiency) of revenues over expenditures	3,823	(3,184)	639
Fund balances at beginning of year	<u>(3,823)</u>	<u>3,184</u>	<u>(639)</u>
Fund balances at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

To the Board of Education
Palo Community 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 Palo Community Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Palo Community Schools' basic financial statements and have issued our report thereon dated October 17, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Palo Community 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 Palo Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Palo Community Schools' internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Palo Community 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*.

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 17, 2016

October 17, 2016

To the Board of Directors
Palo Community Schools

We have audited the financial statements of Palo Community Schools for the year ended June 30, 2016, and have issued our report thereon dated October 17, 2016. Professional standards require that we provide you with the following information related to our audit.

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

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

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

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

Planned Scope and Timing of the Audit

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

Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

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

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

We did not identify any sensitive estimates.

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

We did not identify any sensitive disclosures.

2. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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.

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 17, 2016.

6. *Management Consultations with Other Independent Accountants*

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

7. *Other Audit Findings or Issues*

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

An emphasis of a matter paragraph was provided in our audit opinion as a result of the consolidation between Palo Community Schools and Carson City-Crystal Area Schools. We were fully aware of the consolidation between the two districts.

8. *Other Matters*

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

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

This information is intended solely for the use of the Board of Education and management of Palo Community 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