



**CLIMAX-SCOTT'S COMMUNITY SCHOOLS
KALAMAZOO COUNTY, MICHIGAN**

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2011

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Climax-Scotts Community Schools, State of Michigan, County of Kalamazoo

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Climax-Scotts Community Schools (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Climax-Scotts Community Schools as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2011, on our consideration of the District's 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 11 and 30 through 36 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 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. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Seber Tans, PLC
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October 18, 2011

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Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2011
Management's Discussion and Analysis

Climax-Scotts Community Schools is a K-12 school district covering areas throughout Kalamazoo and Calhoun Counties, Michigan. Climax-Scotts Community Schools encompasses an area of approximately 61 square miles, and is located in the southwestern portion of Michigan's Lower Peninsula. The School District currently operates one Elementary School (K-5), one Jr./Sr. High School (grades 6-12), and an Adult/Alternative Education Program. Employed by the District are thirty-four full and part-time teachers (K-12) twelve part-time teachers for Adult & Alternative Education, one counselor, one psychologist, one contracted speech therapist, one social worker, three administrators, forty-four full and part-time support staff personnel, which includes office personnel, maintenance/custodial, food service, pre-school, latch key, transportation, and Superintendent of Schools.

This 2011 annual financial report is written in conjunction with the School District's financial statements, which immediately follow this section. In this financial report, the Climax-Scotts Community Schools present their discussion and analysis of the school's financial condition for the fiscal year ended June 30, 2011.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The purpose of these statements is to present to the reader the financial condition of Climax-Scotts Community Schools. The District-Wide Financial Statements, reported on a full accrual basis, provide information about the activities of the whole School District, presenting both an aggregate and long-term view of those finances. The fund financial statements, reported on a modified accrual basis, provide the next level of detail. These statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's General Fund, classified as a significant fund. All other funds are presented in one column as non-major funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole – Financial Statements

To follow, are Climax-Scotts Community School's District-Wide Statement of Net Deficit and Statement of Activities. The Statement of Net Deficit includes all assets and liabilities, using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District's net assets (deficit), which are the difference between assets and liabilities, as reported in the Statement of Net Deficit, as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets (deficit), as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating.

Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2011
Management's Discussion and Analysis

The relationship between revenues and expenses represent the School District's operating results. It should be noted that the School District's goal is to provide services to our students not to generate profits as commercial entities do. Scope and quality of the education provided, as well as the safety of the students and schools, are other non-financial factors that should be considered to assess the overall health of the School District.

The Statement of Net Deficit and the Statement of Activities report the governmental activities for the School District, as a whole, which encompass all of the School District's services, including expenses for instruction and instructional support, support services, food services, athletics, as well as interest on long-term debt, asset disposal, and depreciation. Revenues include property taxes levied for general obligations, property taxes levied for debt service, unrestricted state aid (foundation allowance) and interest and investment income. State and federal grants are also a revenue source.

Statement of Net Deficit

A summary of the School District's net deficit as of June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets	\$ 1,816,084	\$ 1,701,746
Capital assets, net book value	4,272,412	4,469,045
TOTAL ASSETS	<u><u>\$ 6,088,496</u></u>	<u><u>\$ 6,170,791</u></u>
LIABILITIES		
Current liabilities	\$ 1,299,635	\$ 1,284,614
Long-term liabilities	5,560,289	6,071,266
TOTAL LIABILITIES	<u>6,859,924</u>	<u>7,355,880</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	(1,383,999)	(1,639,826)
Restricted	142,689	158,550
Unrestricted and undesignated	469,882	296,187
TOTAL NET DEFICIT	<u>(771,428)</u>	<u>(1,185,089)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u><u>\$ 6,088,496</u></u>	<u><u>\$ 6,170,791</u></u>

Climax-Scotts Community Schools
 Kalamazoo and Calhoun Counties Michigan
 For the Year End June 30, 2011
 Management's Discussion and Analysis

Statement of Activities

As detailed in the District-Wide Statement of Activities that follows, the net deficit of Climax-Scotts Community Schools decreased during the fiscal year ended June 30, 2011 by \$413,661. In comparison, during the fiscal year ended June 30, 2010 the District realized a decrease in net deficit of \$499,084.

REVENUES	2011	2010
Program revenues:		
Charges for services	\$ 174,928	\$ 277,666
Operating grants	951,576	902,674
General revenues:		
Property taxes	1,208,122	1,275,676
State foundation allowance	3,776,150	3,814,091
Interest and investment earnings	6,996	11,782
Other	122,103	21,862
TOTAL REVENUES	6,239,875	6,303,751
EXPENSES		
Instructional and instructional support	2,836,436	2,789,431
Support services	2,294,454	2,073,608
Food services	208,134	207,488
Athletics	---	205,068
Interest on long-term debt	290,557	323,555
Capital Outlay	---	2784
Other transactions	---	(6,100)
Depreciation (unallocated)	196,633	196,633
TOTAL EXPENSES	5,826,214	5,804,667
DECREASE IN NET DEFICIT	\$ 413,661	\$ 499,084

Fund Financial Statements – Reporting the School District's Most Significant Fund

The School District's fund financial statements provide detailed information about the most significant funds, not the School District as a whole. Some funds are required to be established by State law and by bond covenants. In an effort to control and manage money for particular purposes, such as Food Services, the School District establishes separate accounts to assist the reader in making the determination that Climax-Scotts Community Schools is being held accountable for the resources taxpayers and others provide to it. This financial information also gives insight into the financial health of the District. Funds for Bond Issues, which fund construction for voter-approved capital projects, are also other funds that are established to show that the District is meeting legal responsibilities. By definition, the General Fund of Climax-Scotts Community Schools is the only fund that qualifies to be classified as a major fund.

Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2011
Management's Discussion and Analysis

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The Climax-Scotts Community Schools acts as the trustee for its student activity funds. These activities are reported in a separate statement of fiduciary assets and liabilities. These activities are not included in other financial statements, because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

State Aid and Property Tax on Non-Homestead Taxable Value

Approximately 85% of the District's revenues are received from State sources and local tax. This unrestricted aid from the State of Michigan is based on three variables:

- The Districts per student foundation allowance
- Student enrollment calculated by blending 75% of the September pupil count, and 25% of the February count
- The revenue generated from tax on non-homestead and commercial personal property.

Per Student Foundation Allowance

The foundation allowance that School Districts receive is established by the State of Michigan annually. For fiscal year end June 30, 2011, the allowance was set for \$7,316. Although the foundation allowance was consistent with the 2009-2010 school year, the State of Michigan cut State funding for the second year in two categoricals. The first was a 22.b Discretionary Payment Adjustment resulting in a reduction in funding of \$69,336. The other categorical reduction (11.d) came in the form of a \$170 per student FTE reduction, which totaled \$97,192. The 11.d reduction was not replaced. It should be noted that the District did receive ARRA Education Stabilization Funds for FY2010 totaling \$178,742, and Education Jobs Funds totaling \$132,031 during the fiscal year end June 30, 2011. The District received two new categorical 94a(9) CEPI Teacher Student Datalink totaling \$3,075, and 152a Headlee Obligation for Data Collection totaling \$9,257 during the 2010-2011 school year.

For fiscal year end June 30, 2010, the foundation allowance was \$7,316. However, due to lack of state revenues to support the school district's foundation, the district experienced a reduction in State Aid totaling \$178,742, which was replaced with ARRA Stabilization Funds from the Federal Government. Historically Climax-Scotts Community Schools experienced other reductions. In the 2002/2003 school year the district experienced a reduction of \$78 per student (from \$6,700 to \$6,622), and a \$74 per student decrease in foundation (from \$6,700 to \$6,626) in 2003/2004. Our District did receive full funding of \$6,700 in 2004/2005, \$6,875 in 2005/2006, \$7,108 in 2006/2007, \$7,204 in 2007/2008, \$7,316 in 2008/2009.

Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2011
Management's Discussion and Analysis

Student Enrollment

Climax-Scotts Community Schools' blended membership count of the 2010-2011 school year was 571.72 students, which includes students enrolled in our alternative education program. The following is a breakdown of student FTE for the last five years:

2006/2007	670.89
2007/2008	662.92
2008/2009	637.43
2009/2010	597.00
2010-2011	571.72

Our blended student enrollment for the 2010-2011 school year of 571.72 students was based on 25% of our February 2010 count, and 75% of our September 2010 count. As you can see from the above student enrollment history, our district has experienced declining enrollment for the last five years.

Property Taxes Levied for General Operations

Climax-Scotts Community Schools levies 18 mills on non-homestead property, which generates revenue for General Fund operations. Under Michigan law, the taxable levy is based on the taxable valuation of properties within each School District. Annually the taxable valuation increase in property values is capped at the rate of the prior years CPI increase or five percent, whichever is less. Climax-Scotts Community School levied 18 mills for operations for the 2010-2011 tax year, generating \$234,400 on non-homestead property, and \$5,644 in commercial personal property revenue. This represents a 7% decrease in tax revenue. The percent of unpaid delinquent personal property taxes at fiscal year end June 30, 2011 was .13%. Both Calhoun and Kalamazoo County Treasurers settled their delinquent tax accounts with our school district prior to June 30, 2011.

The following summarizes the District's non-homestead levy the past five years:

2006-2007	\$233,720	
2007-2008	\$241,200	Increase of 3%
2008-2009	\$236,842	Decrease of 2%
2009-2010	\$251,695	Increase of 6%
2010-2011	\$234,400	Decrease of 7%

Climax-Scotts Community Schools
 Kalamazoo and Calhoun Counties Michigan
 For the Year End June 30, 2011
 Management's Discussion and Analysis

Capital Assets

Deyo & Associates of Kalamazoo, Michigan completed the District's most recent asset appraisal for the fiscal year end June 30, 2011. Deyo provides the District an updated annual asset appraisal based on additions deletions and to assets throughout the current fiscal year. An on-site update of the school's assets was conducted in December 2008.

At June 30, 2011, the School District had capital assets net of accumulated depreciation, totaling \$4,272,412, which includes land, buildings, furniture and equipment, fleet of buses, and athletic facilities including an all weather track. This represents a net decrease (including additions, deductions, and depreciation) of approximately \$196,633 or 4.4% from fiscal year end June 30, 2010. A summary of capital assets is as follows:

	2011	2010
Buildings and improvements	\$ 6,843,107	\$ 6,843,107
Outdoor equipment	664,183	664,183
Equipment	523,491	523,491
Vehicles and tractors	445,808	445,808
	8,476,589	8,476,589
Less accumulated depreciation	(4,204,177)	(4,007,544)
NET CAPITAL ASSETS	\$ 4,272,412	\$ 4,469,045

Climax-Scotts Community Schools
 Kalamazoo and Calhoun Counties Michigan
 For the Year End June 30, 2011
 Management's Discussion and Analysis

Long-Term Obligations

At the end of fiscal year ended June 30, 2011, the School District had a balance of \$7,207,986 in outstanding debt retirement and school improvement bonds, notes payable, and a loan through the School Bond Loan Fund. When making a comparison to the balance at fiscal year ended June 30, 2010 of \$7,935,690, this represents a net decrease in long-term obligations of \$727,704. Reference page 39 for Activity in long-term obligations, which consist of the following:

	Balance at July 1, 2010	Additions	Deductions	Balance at June 30, 2011
2001 bond issue	\$ 1,305,000		\$ (130,000)	\$ 1,175,000
Interest related to 2001 bond issue	323,185		(61,560)	261,625
2008 Refunding	3,745,000		(320,000)	3,425,000
Interest related to 2008 current refunding bond issue	1,075,901		(151,813)	924,088
1998 School Improvement (Durant)	34,436	-	(3,938)	30,498
Interest related to 1998 school improvement bond issue (Durant)	8,890	-	(1,031)	7,859
School bond loan fund	1,056,411			1,056,411
Interest related to school bond loan fund	384,357	73,448	(130,300)	327,505
2006 van note payable	2,460	-	(2,460)	---
Interest related to 2006 van note payable	50	-	(50)	---
Total	\$ 7,935,690	\$ 73,448	\$(801,152)	\$ 7,207,986

The District has been participating in the School Bond Loan Fund since our bond issue in 1994. Our school district currently has two bond issues that are active, represented by our 2001 and 2008 Debt Retirement Funds.

Climax-Scotts Community Schools
 Kalamazoo and Calhoun Counties Michigan
 For the Year End June 30, 2011
 Management's Discussion and Analysis

It should be noted that due to a drop in interest rates, the District refinanced its 1994 bonds in 1997, and again refinanced their 1997 bonds in 2008. The 2008 Refunding Bond Issue totaled \$4,410,000, and the transaction took place in February of 2008. Total savings to the District's taxpayers totaled \$524,705. This number can be broken down into net cumulative savings totaling \$448,066, with additional estimated savings related to interest cost avoidance on the current School Bond Loan of \$76,639.

The following chart represents the account activity from July 1, 2010 to June 30, 2011 in both the School bond Loan Fund & School Loan Revolving Fund:

Climax-Scotts Community Schools
School District: 39-020
Statement Date: July 1, 2011
Millage Levied: 7.20 Mills

	SBLF	SBLF	SLRF	SLRF	
	Principal Outstanding	Interest Outstanding	Principal Outstanding	Interest Outstanding	Total Loans Outstanding
Beginning Balance:	\$1,056,411.00	\$384,560.49	\$0.00	\$0.00	\$1,440,971.49
New Loans & Loan Repayments	\$0.00	-\$130,300.00	\$0.00	\$0.00	-\$130,300.00
Interest Accrued in Current Period:	\$0.00	\$73,244.97	\$0.00	\$0.00	\$73,244.97
Ending Balance:	\$1,056,411.00	\$327,505.46	\$0.00	\$0.00	\$1,383,916.46

Current SLRF Interest Rate: 3.0000
 Current SBLF Interest Rate: 5.0000

Original versus Revised Budget

The Uniform Budget Act of the State of Michigan requires that a local Board of Education approve the original budget for the upcoming fiscal year prior to July 1st, the start of the fiscal year. The budget for 2010/2011 was approved on June 28, 2010, and the Board approved a final amendment to that budget on June 27, 2011.

General Fund Revenues

Total Revenues – Revised Budget	June 27, 2011	\$5,347,084
Total Revenues – Original Budget	June 28, 2010	\$5,437,773

The District's actual General Fund revenues were less than the amended budget by a difference of \$124,789.

Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2011
Management's Discussion and Analysis

General Fund Expenditures

Total Expenditures/Other Financing Uses – Revised Budget	\$5,262,944
Total Expenditures/Other Financing Uses – Original Budget	\$5,464,122

The District's actual General Fund expenditures and other financing uses were less than the amended budget by \$127,801.

Economic Factors and Next Year's Budget and Rates

The elected Board of Education and administration of Climax-Scotts Community Schools considered many factors when setting the School District's fiscal year end June 30, 2011 budget. One of the most important factors affecting the budget is our student membership. The State foundation allowance revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended student count for the 2010-2011 school year is based in 25% of the February 2010 and 75% of the September 2010 student counts. The 2010-2011 budget was amended in June 2011 based on a blended student membership count of 571.72 students. Approximately 80% of the total General Fund revenue is from the foundation allowance. Under State Law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. The health of the State's School Aid Fund depends on the State's ability to collect revenues to fund its appropriation to the school districts. The State periodically holds a revenue estimating conference to estimate revenues. If actual State revenues are less than their estimates, reduction to the per-pupil funding allowance may be necessary.

Once the final student count and related per pupil funding is verified, State law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

To recap revenue generated through State Aid for the 2010-2011 school year the reader should note the following: The foundation allowance per pupil was \$7,316. Cuts in categorical between 22.b and 11.d totaled \$166,528. The District received \$178,742 in FY 2010 ARRA Education Stabilization Funding, as well as \$132,031 in Education Job Funds received for the school year 2010-2011. These funds were made available by the Federal Government.

Budget Update: 2011-2012

Based on budget projections approved by the Board of Education of Climax-Scotts Community Schools on June 28, 2011, it is anticipated that the school district will have to use approximately \$98,000 of its fund equity to balance the budget for FYE June 30, 2011. Revenues were set at \$4,807,311. Expenditures were set at \$4,905,162. State Aid revenues budgeted included a one-time \$100 per pupil MPERS categorical based on September 2011 payroll numbers. There is

Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2011
Management's Discussion and Analysis

also another incentive of \$100 available to schools who met four of five "Best Practices" criteria set by the State. The retirement rate effective October 1, 2011 through September 30, 2012 is set at 24.46%. This is a 15.54% increase over the 2010-2011 MPSERS rate.

In an effort to reduce expenses Climax-Scotts Community Schools entered into a Shared Services Agreement with their Intermediate School District (K/RESA), effective July 1, 2011, for them to provide Accounts Payable and Business Manager Services. This will also assist in segregating duties of the Superintendent's office.

Climax-Scotts Community School's fund balance at the end of the fiscal year end June 30, 2011 is \$733,522 or approximately 14% of its operating budget. The increase in fund equity comparing fiscal year end June 30, 2010 to fiscal year end June 30, 2011 is an amount of \$91,642. The recommended percent of fund equity for school districts is 15%.

Request for Information

It is the effort of Climax-Scotts Community Schools to make this financial report available to our citizens, taxpayers, parents, student, investors, and creditors to that they have a general overview of the District's finances, and to demonstrate the District's accountability for the money within it budget.

This report is available on the District's website at www.csschools.net. Questions concerning the content of this report, as well as requests for additional information should be addressed to Climax-Scotts Community Schools, 372 South Main Street, Climax, MI 49034.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
District-Wide Statement of Net Deficit
June 30, 2011**

ASSETS

Current Assets	
Cash	\$ 1,006,158
Due from other governments	793,507
Inventory	5,169
Prepaid expenses	11,250
Total Current Assets	<u>1,816,084</u>
Property and Equipment	
Capital assets	8,476,589
Less accumulated depreciation	<u>(4,204,177)</u>
Net Property and Equipment	<u>4,272,412</u>
Total Assets	<u><u>\$ 6,088,496</u></u>

LIABILITIES AND NET DEFICIT

Current Liabilities	
Accounts payable	\$ 25,562
Deferred revenue	40,926
Accrued payroll and related withholdings	380,879
State aid note payable	398,143
Current maturities of bonds payable	454,125
Total Current Liabilities	<u>1,299,635</u>
Bonds Payable, net of current maturities	5,232,784
Accrued Interest on School Bond Loan Fund	327,505
Net Assets (Deficit)	
Invested in capital assets, net of related debt	(1,383,999)
Restricted for debt service	142,689
Unrestricted and undesignated	469,882
Total Net Deficit	<u>(771,428)</u>
Total Liabilities and Net Deficit	<u><u>\$ 6,088,496</u></u>

See Notes to Financial Statements

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
District-Wide Statement of Activities
For the Year Ended June 30, 2011**

	<u>Program Revenue</u>			Governmental Activities Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Service</u>	<u>Operating Grants/ Contributions</u>	
Functions/Programs				
Governmental activities:				
Instruction & instructional support	\$ (2,836,436)	\$ 51,441	\$ 837,696	\$ (1,947,299)
Support services	(2,294,454)	-	-	(2,294,454)
Food services	(208,134)	123,487	113,880	29,233
Interest on long-term debt	(290,557)	-	-	(290,557)
Depreciation (unallocated)	(196,633)	-	-	(196,633)
Total Governmental Activity	<u>\$ (5,826,214)</u>	<u>\$ 174,928</u>	<u>\$ 951,576</u>	<u>\$ (4,699,710)</u>
General Revenues:				
Taxes:				
Property taxes, levied for general obligations				429,398
Property taxes, levied for debt service				778,724
State of Michigan aid, unrestricted				3,776,150
Interest and investment earnings				6,996
Miscellaneous revenue				122,103
Total General Revenues				<u>5,113,371</u>
Decrease in Net Deficit				413,661
Net Deficit, Beginning of Year				<u>(1,185,089)</u>
Net Deficit, End of Year				<u>\$ (771,428)</u>

See Notes to Financial Statements

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Combined Balance Sheet - Governmental Funds and the Reconciliation of the
Balance Sheet of Governmental Funds to the Statement of Net Deficit
June 30, 2011**

	<u>General Fund</u>	<u>Other Non-Major Governmental</u>	<u>Total Governmental</u>
ASSETS			
Cash	\$ 803,071	\$ 203,087	\$ 1,006,158
Receivables	-	633	633
Due from other governments	762,376	-	762,376
Prepaid expenses	11,250	-	11,250
Inventory	-	5,169	5,169
Total Assets	<u>\$ 1,576,697</u>	<u>\$ 208,889</u>	<u>\$ 1,785,586</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 25,562	\$ -	\$ 25,562
Deferred revenue	38,591	2,335	40,926
Salaries payable and related withholdings	380,879	-	380,879
State aid note payable	398,143	-	398,143
Total Liabilities	<u>843,175</u>	<u>2,335</u>	<u>845,510</u>
Fund Balances			
Nonspendable	11,250	5,802	17,052
Restricted for debt service	-	142,689	142,689
Restricted for food service	-	58,063	58,063
Unassigned	722,272	-	722,272
Total Fund Balances	<u>733,522</u>	<u>206,554</u>	<u>940,076</u>
Total Liabilities and Fund Balances	<u>\$ 1,576,697</u>	<u>\$ 208,889</u>	<u>\$ 1,785,586</u>
Reconciliation of the combined balance sheet - governmental funds to the statement of net deficit:			
Total governmental fund balances			\$ 940,076
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:			
The cost of the capital assets is		8,476,589	
Accumulated depreciation is		<u>(4,204,177)</u>	4,272,412
Certain receivables are not available to pay for current year expenditures and therefore, are deferred in the funds.			
			30,498
Long term liabilities that are not due and payable in the current period and are not reported in the funds:			
Bonds payable			(5,686,909)
Accrued interest is not included as a liability in governmental funds			<u>(327,505)</u>
Net Deficit of Governmental Activities			<u>\$ (771,428)</u>

See Notes to Financial Statements

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2011**

	<u>General Fund</u>	<u>Other Non-Major Governmental</u>	<u>Total Governmental</u>
Revenues			
Local sources	\$ 608,450	\$ 902,669	\$ 1,511,119
Intermediate sources	228,400	-	228,400
State sources	4,039,210	15,725	4,054,935
Federal sources	346,235	103,124	449,359
Total Revenues	<u>5,222,295</u>	<u>1,021,518</u>	<u>6,243,813</u>
Expenditures			
Education			
Instruction	2,836,436	-	2,836,436
Support services	2,294,454	208,134	2,502,588
Debt service	4,253	799,554	803,807
Total Expenditures	<u>5,135,143</u>	<u>1,007,688</u>	<u>6,142,831</u>
Excess of Revenues Over Expenditures	87,152	13,830	100,982
Fund Balances, Beginning of Year	<u>646,370</u>	<u>192,724</u>	<u>839,094</u>
Fund Balances, End of Year	<u>\$ 733,522</u>	<u>\$ 206,554</u>	<u>\$ 940,076</u>

See Notes to Financial Statements

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Reconciliation of the Combined Statement of Revenues, Expenditures and Changes in
Balances - Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2011**

Net change in fund balance - total governmental funds	\$	100,982
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	(196,633)	
Capital outlay	<u>-</u>	(196,633)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.		56,852
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term bonds payable).		453,938
Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt payable).		2,460
Other long-term assets are not available to pay future years long-term liabilities (where it reduces due from other governments).		<u>(3,938)</u>
Change in Net Assets of Governmental Activities	\$	<u><u>413,661</u></u>

See Notes to Financial Statements

**Climax-Scotts Community Schools
 Kalamazoo County, Michigan
 Combining Statement of Fiduciary Net Assets
 For the Year Ended June 30, 2011**

	<u>Student Activities</u>	<u>Dependent Care</u>	<u>Unreimbursed Medical</u>	<u>Total</u>
Assets				
Cash	<u>\$ 55,716</u>	<u>\$ 16</u>	<u>\$ 1,916</u>	<u>\$ 57,648</u>
Liabilities				
Due to student groups and teachers	<u>\$ 55,716</u>	<u>\$ 16</u>	<u>\$ 1,916</u>	<u>\$ 57,648</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2011**

NOTE A - Summary of Significant Accounting Policies

The accounting policies of Climax-Scotts Community Schools (the District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the District:

Reporting Entity

The District was organized in 1954 and covers an area of approximately 61 square miles. The District operates under an elected school board of seven members and provides service to its residents in the areas of basic, added needs, adult, and community education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the District's reporting entity, and which organizations are legally separate component units of the District. The District has no component units.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net deficit and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2011**

NOTE A - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Statements

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Fund Based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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 severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statements are reported using the economic resources measurement focus and the cash basis of accounting.

The District reports the following major governmental fund:

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. Effective July 1, 2010, the District adopted GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions. In accordance with GASB 54 the District included its athletic department operations in its general fund activities rather than a separate Athletic Fund that had been utilized in prior years. The athletic department operations are primarily supported by General Fund resources rather than special revenues. Therefore, the activities of the athletic department are most appropriately shown in the General Fund. The Athletics Fund had a fund balance of \$4,490 as of June 30, 2010. The General Fund beginning balance on July 1, 2010 has been restated to include the Athletics Fund.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2011**

NOTE A - Summary of Significant Accounting Policies (Continued)

Additionally, the District reports the following fund types:

Debt service funds are governmental funds used to record tax, interest and other revenue for payment of principal, and other expenditures on the District's various bond issues. The debt service funds maintained by the District are the 2001 Debt Service Fund, the 2008 Debt Service Fund and the Durant Debt Service Fund.

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The school service funds are special revenue funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The District maintains full control of these funds. The school service fund maintained by the District is the Food Service Fund.

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary fund net assets and results of operations are not included in the government-wide statements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These funds are used to record the transactions of student, teacher, and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students, teachers, and parents. The agency funds maintained by the District are the Student Activities Fund, Dependent Care Fund, and Unreimbursed Medical Fund.

Assets, Liabilities, and Net Deficit

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Taxes are levied on December 1 and are collected through February 28 by various local units for the District. The local units then remit to the District any delinquent real property taxes by June 30.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2011**

NOTE A - Summary of Significant Accounting Policies (Continued)

as revenue in accordance with state law and accounting principles generally accepted in the United States of America. For 2011, the state utilized \$201,367 of federal funds provided by the American Recovery and Reinvestment Act (ARRA), along with the state and local sources previously described, to meet the foundation allowance total. The ARRA funds are subject to the earmark and accounting provision described in the immediately following paragraph.

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 categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Costs

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory and deferred revenue until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The District does not have infrastructure type assets.

Building, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net deficit. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2011**

NOTE A - Summary of Significant Accounting Policies (Continued)

In the fund financial statements governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity and Adoption of GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions

Effective July 1, 2010, the District adopted GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions. GASB 54 eliminates the use of the terms "reserved" and "designated" in the reporting of fund balance, and replaces those terms with five new categories for segregating fund balance: non-spendable, restricted, committed, assigned, and unassigned. Adoption of GASB 54 changed the presentation of fund balance in the fund financial statements but did not change the recording of total fund balance, assets, liabilities, revenues, other financing sources, other financing uses, or expenditures. Expenditures that meet the purpose for which a reserve committed or assigned fund balance has been established are considered as use to satisfy the reserve, committed, or assigned purpose. In other words, expenditures are applied first to the restricted purpose.

Non-spendable fund balance includes amounts either not in a spendable form or legally or contractually required to be maintained intact. The District has categorized prepaid expenses and inventories as non-spendable fund balance.

Restricted fund balance includes amounts that are restricted by externally imposed restrictions of creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The District has categorized assets held for debt service (\$142,689) and food service (\$58,063) as restricted fund balance.

Committed fund balance includes amounts that are committed for specific purposes by formal action of the District's Board. The District does not have any assets encumbered by Board commitments.

Assigned fund balance includes amounts that are intended by the District to be used for specific purposes, but are neither restricted nor committed. Amounts may be assigned by formal action of the District's Board or a Board Committees, or by the Superintendent providing written notice to the Board or a Board Committee during a public meeting. The District has assigned food service balances for capital equipment replacements.

Unassigned fund balance includes the remaining fund balance after applying the above criteria.

Comparative Data/Reclassifications

Comparative data is not included in the District's financial statements.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2011**

NOTE A - Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE B - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the District to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. During the year, the budgets were amended in a legally permissible manner.

NOTE C - Deposits and Investments

State statutes and the District's investment policy authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; the District is allowed to invest in U.S. Treasury or Agency obligations, U.S. Government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase which mature not more than 270 days after the date of purchase, and mutual funds in investments pools that are composed of authorized investment vehicles. The District's deposits are in accordance with statutory authority.

The District has designated one bank for the deposit of its funds.

The investment policy adopted by the board in accordance with state statutes has authorized investment in bonds and securities of the United States government, bank accounts and CD's, and the remainder of state statutory authority as listed above.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2011**

NOTE C - Deposits and Investments (Continued)

At year-end, the District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash, and cash equivalents	<u>\$ 1,006,158</u>	<u>\$ 1,932</u>	<u>\$ 1,008,090</u>

The breakdown between deposits and investments for the District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposits)	<u>\$ 1,008,090</u>
--	---------------------

The District's investments are subject to several types of risk, which are discussed below:

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit Risk

State statutes authorize the District to make deposits in the accounts of federally insured banks, credit unions and savings and loan associations that have an office in Michigan; the District is allowed to invest in obligations of the U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds and investment pools that are comprised of authorized investment vehicles. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

The District has no policy that would limit the amount that may be invested with any one issuer.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2011, \$770,169 of the District's bank balance of \$1,128,693 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2011**

NOTE D - Capital Assets

Capital asset activity of the District's governmental activities was as follows:

	Balance June 30, 2010	Additions	Disposals and Adjustments	Balance June 30, 2011
Cost				
Buildings and improvements	\$ 6,843,107	\$ ---	\$ ---	\$ 6,843,107
Outdoor equipment	664,183	---	---	664,183
Equipment	523,491	---	---	523,491
Vehicles and tractors	445,808	---	---	445,808
	<u>8,476,589</u>	<u>---</u>	<u>---</u>	<u>8,476,589</u>
Accumulated Depreciation				
Buildings and improvements	2,891,050	107,009	---	2,998,059
Outdoor equipment	421,730	29,822	---	451,552
Equipment	375,694	19,293	---	394,987
Vehicles and tractors	319,070	40,509	---	359,579
	<u>4,007,544</u>	<u>196,633</u>	<u>---</u>	<u>4,204,177</u>
Net capital assets	<u>\$ 4,469,045</u>	<u>\$ (196,633)</u>	<u>\$ ---</u>	<u>\$ 4,272,412</u>

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE E - Deferred Revenue

The District has deferred the recognition of revenue in connection with resources that have been received but not yet earned. At June 30, 2011 the District has a total of \$40,926 in deferred revenue.

NOTE F - State Aid Anticipation Note

The District issues state aid anticipation notes in advance of state aid collections, depositing proceeds in the General Fund. These notes are necessary because the District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	Balance July 1, 2010	Proceeds	Accrued Interest	Repayments	Balance June 30, 2011
State Aid Anticipation Note	\$ 423,788	\$ 700,000	\$ 4,143	\$ (729,788)	\$ 398,143

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2011**

NOTE G - Long-Term Debt

The District issues bonds, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Other long-term obligations may include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amount due within one year
Government obligation bonds	\$ 5,050,000	\$ ---	\$ (450,000)	\$ 4,600,000	\$ 450,000
Durant resolution package bond	34,436	---	(3,938)	30,498	4,125
School bond loan fund	1,056,411	---	---	1,056,411	---
Bus and vehicle notes payable	2,460	---	(2,460)	---	---
	<u>\$ 6,143,307</u>	<u>\$ ---</u>	<u>\$ (456,398)</u>	<u>\$ 5,686,909</u>	<u>\$ 454,125</u>

Long-term debt consisted of the following at June 30, 2011:

Refunding Bond issue of 2008 with annual payments ranging from \$260,000 to \$335,000 plus interest of 3.59%.	\$ 3,425,000
2001 School building and site bond issue with annual payments ranging from \$60,000 to \$155,000 plus interest ranging from 3.1% to 5.00%.	1,175,000
1998 School Improvement Bond issue (Durant) with annual payments ranging from \$3,587 to \$26,373 plus interest at 4.76% paid directly by the State of Michigan.	30,498
School bond fund loan payable with no fixed payment schedule. Interest accrues at a 4.75%	1,056,411
Total principal payable	<u>5,686,909</u>
Interest payable	<u>1,521,077</u>
Total long-term debt payable	<u>\$ 7,207,986</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2011**

NOTE G - Long-Term Debt (Continued)

Future minimum payments of long-term debt for years ended June 30 are as follows:

	Principal	Interest	Total
2012	\$ 454,125	\$ 198,227	\$ 652,352
2013	476,373	188,152	664,525
2014	445,000	163,916	608,916
2015	445,000	146,675	591,675
2016	440,000	129,226	569,226
2017-2021	1,845,000	335,976	2,180,976
Thereafter	1,581,411	358,905	1,940,316
	<u>\$ 5,686,909</u>	<u>\$ 1,521,077</u>	<u>\$ 7,207,986</u>

Durant Non-Plaintiff Bond

The District was part of the Durant vs. State of Michigan lawsuit regarding under funding of state mandated programs, as a “non-plaintiff.” The case was settled in July 1997 in favor of the plaintiffs and non-plaintiffs. The District accepted an offer of \$140,000 in March 1998. The State of Michigan will pay one-half of the sum over ten years, which began in November 1998, and the remaining one-half was provided through a bonding program during fiscal 1999. The lump-sum payment and related expenditures were recorded by the District in the capital projects funds during fiscal 1999. The ten installments and related expenditures have been and will continue to be recorded by the District in the general fund. The State of Michigan has extended its payment schedule through 2013.

The bonds will be repaid directly by the State of Michigan and are recorded by the District in the debt service funds. Proceeds from the bond were used for purposes as specified in the Michigan Revised School Code.

School Bond Fund Loan

The School Bond Loan Fund payable represents notes payable to the State of Michigan for loans made to the District, as authorized by the 1963 State of Michigan Constitution, as amended by Public Act 92 of 2005, for the purpose of paying principal and interest on general obligation bonds of the District issued for capital expenditures. Interest rates are determined annually by the State Administrative Board. Interest ranging from 3.0 % to 5.0% has been assessed for the year ended June 30, 2011. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 7 mills. The District is required to levy mills and repay to the State any excess of the amount levied over the bonded debt service requirements.

NOTE H - Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injury, as well as medical, life, and workers compensation benefits provided to employees. School Board liability, errors and omissions, student accident, and all health and life insurances have been purchased through commercial insurance companies.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2011**

NOTE H - Risk Management (Continued)

Settled claims for the insurances have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through insurances during the past year.

NOTE I - Defined Benefit Pension Plan and Post Retirement Benefits

Plan Description

The District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The system also provides post-employment healthcare benefits to retirees and beneficiaries who elect to receive those benefits. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report is available on the web at www.michigan.gov/orsschools or may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Funding Policy

Employer contributions to the system result from implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totaled 16.94% for the period July 1, 2010 through September 30, 2010, 19.41% for October 2010 and 20.66% for the period November 1, 2010 through June 30, 2011 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3.0% to 6.4% of gross wages depending on the plan. The District's contributions to the MPERS plan totaled approximately \$332,000, \$302,200 and \$306,000 for the years ended June 30, 2011, 2010, and 2009, respectively.

Post Employment Benefits

Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate of covered payroll totaled 6.81% for the period July 1, 2010 through September 30, 2010, 7.25% for October 2010 and 8.5% for the period November 1, 2010 through June 30, 2011.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2011**

NOTE I - Defined Benefit Pension Plan and Post Retirement Benefits (Continued)

The District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2011, 2010 and 2009 were approximately \$227,000, \$202,400 and \$210,000, respectively. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

NOTE J - Commitments and Contingencies

Environmental Remediation Liability

The District is monitoring a site on its property where petroleum products were leaked causing water and soil contamination. During the year ended June 30, 2008 the District completed the clean up of the site and is now required to monitor and test for contaminants periodically. If the monitoring shows any additional clean-up is required, the District will be liable for further remediation of the site. The District has not accrued any liability associated with the potential for future environmental remediation costs.

Grant Programs

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2011, may be impaired. In the opinion of the District's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Unemployment

The District is a reimbursing employer to the Michigan Employment Security Agency (MESA) and as such is responsible to pay the MESA for those benefits charged to its account. As of June 30, 2011, appropriate liabilities have been recorded for all claims paid or chargeable by the MESA. However, no provision has been made for future payments that might result from claims in process or unfilled claims.

Other Contingencies

Kalamazoo and Calhoun Counties have purchased the District's delinquent real property taxes. If any of the delinquent taxes become uncollectible, the District will reimburse the appropriate County for the total uncollectible amount plus interest from the date the County purchased the taxes to the date the District reimburses the County.

NOTE K - Subsequent Events

Management has evaluated subsequent events through October 18, 2011, the date on which the financial statements were available to be issued. On August 24, 2011, the District issued bonds to refund the outstanding 2001 School Building and Site Bonds. The 2011 Refunding Bonds are composed of principal in the aggregate amount of \$1,210,000 maturing on May 1, 2019, bearing interest at the rate per annum of 2.65%.

REQUIRED SUPPLEMENTARY INFORMATION

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Revenues - Budget to Actual - General Fund
For the Year Ended June 30, 2011**

	Original	Final	Actual	Variance with final budget fav/(unfav)
Revenues				
Revenue from local sources				
Property taxes	\$ 449,981	\$ 445,217	\$ 429,406	\$ (15,811)
Earnings on investments	10,000	6,370	6,359	(11)
Other local revenue	305,809	289,741	172,685	(117,056)
Total revenue from local sources	<u>765,790</u>	<u>741,328</u>	<u>608,450</u>	<u>(132,878)</u>
Revenue from intermediate school district	228,321	227,821	228,400	579
Revenue from State sources				
Unrestricted				
State aid membership	3,757,950	3,770,421	3,776,150	5,729
Restricted				
Special education	185,942	185,942	185,942	-
At risk	78,886	40,200	39,922	(278)
Adult education	26,578	26,578	30,254	3,676
Other restricted State revenue	6,542	6,942	6,942	-
Total restricted	<u>297,948</u>	<u>259,662</u>	<u>263,060</u>	<u>3,398</u>
Total revenue from State sources	4,055,898	4,030,083	4,039,210	9,127
Revenue from federal sources				
American Recovery and Reinvestment Act	201,367	201,367	201,367	-
Title I	72,739	60,865	59,248	(1,617)
Title II	35,763	25,446	25,446	-
Other federal programs	77,895	60,174	60,174	-
Total revenue from federal sources	<u>387,764</u>	<u>347,852</u>	<u>346,235</u>	<u>(1,617)</u>
Total Revenues	<u>\$ 5,437,773</u>	<u>\$ 5,347,084</u>	<u>\$ 5,222,295</u>	<u>\$ (124,789)</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Expenditures and Other Financing Uses - Budget to Actual - General Fund
For the Year Ended June 30, 2011**

	Original	Final	Actual	Variance with final budget fav/(unfav)
Expenditures				
Instruction				
Elementary				
Salaries	\$ 597,319	\$ 595,674	\$ 595,674	\$ -
Benefits	263,419	257,983	256,567	1,416
Purchased services	23,005	31,507	32,063	(556)
Supplies and materials	31,400	27,276	27,280	(4)
Other fees and dues	250	85	85	-
Total elementary	915,393	912,525	911,669	856
High school				
Salaries	793,475	787,952	787,952	-
Benefits	397,465	378,120	375,332	2,788
Purchased services	33,378	26,133	26,303	(170)
Supplies and materials	24,050	18,949	19,983	(1,034)
Other fees and dues	7,102	7,965	7,965	-
Equipment	5,325	4,325	4,325	-
Total high school	1,260,795	1,223,444	1,221,860	1,584
Preschool				
Salaries	17,559	17,605	17,604	1
Benefits	4,966	4,857	4,857	-
Purchased services	605	452	451	1
Supplies and materials	250	-	-	-
Total preschool	23,380	22,914	22,912	2
Summer school				
Salaries	4,506	3,448	3,447	1
Benefits	1,251	648	646	2
Purchased services	2,968	2,790	2,790	-
Other fees and dues	20	-	-	-
Total summer school	8,745	6,886	6,883	3

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Expenditures and Other Financing Uses - Budget to Actual - General Fund
For the Year Ended June 30, 2011**

	Original	Final	Actual	Variance with final budget fav (unfav)
Special education				
Salaries	\$ 242,253	\$ 233,715	\$ 233,714	\$ 1
Benefits	121,630	136,014	136,216	(202)
Purchased services	3,430	1,344	1,342	2
Supplies and materials	44,951	32,956	32,952	4
Total special education	412,264	404,029	404,224	(195)
Compensatory education				
Salaries	83,103	72,506	72,503	3
Benefits	74,175	32,575	32,069	506
Purchased services	2,600	630	630	-
Supplies and materials	1,564	2,062	2,062	-
Other fees and dues	150	527	526	1
Total compensatory education	161,592	108,300	107,790	510
Vocational education				
Salaries	41,493	41,500	41,500	-
Benefits	22,446	23,532	23,530	2
Purchased services	38,525	45,348	45,935	(587)
Supplies and materials	4,402	3,160	2,753	407
Equipment	10,100	10,078	10,100	(22)
Total vocational education	116,966	123,618	123,818	(200)
Adult/continuing education				
Salaries	25,557	25,851	23,931	1,920
Benefits	7,500	8,463	8,627	(164)
Purchased services	256	17	17	-
Supplies and materials	3,750	1,324	1,329	(5)
Other fees and dues	500	1,165	1,214	(49)
Equipment	2,162	2,163	2,162	1
Total adult/continuing education	39,725	38,983	37,280	1,703
Total instruction	2,938,860	2,840,699	2,836,436	4,263
Supporting services				
Guidance services				
Salaries	61,357	61,421	61,421	-
Benefits	29,458	30,416	29,915	501
Purchased services	8,325	9,365	5,362	4,003
Other fees and dues	50	-	-	-
Total guidance services	99,190	101,202	96,698	4,504

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Expenditures and Other Financing Uses - Budget to Actual - General Fund
For the Year Ended June 30, 2011**

	Original	Final	Actual	Variance with final budget fav (unfav)
Health services				
Purchased services	\$ 630	\$ 280	\$ 280	\$ -
Supplies and materials	200	9	8	1
Total health services	830	289	288	1
Psychological services				
Salaries	11,000	11,000	11,000	-
Benefits	3,175	3,203	3,202	1
Purchased services	1,800	512	561	(49)
Supplies and materials	500	348	347	1
Other fees and dues	75	-	-	-
Total psychological services	16,550	15,063	15,110	(47)
Speech and audio services				
Salaries	39,738	27,365	27,365	-
Benefits	3,084	2,137	2,135	2
Purchased services	950	7,163	7,162	1
Supplies and materials	250	131	130	1
Other fees and dues	50	-	-	-
Total speech and audio services	44,072	36,796	36,792	4
Social work				
Purchased services	10,000	8,170	8,169	1
Other pupil services				
Salaries	20,688	18,792	20,709	(1,917)
Benefits	7,010	5,612	5,615	(3)
Purchased services	4,852	4,852	5,012	(160)
Other fees and dues	1,200	176	176	-
Total other pupil services	33,750	29,432	31,512	(2,080)
Improvement of instruction				
Salaries	13,437	11,000	11,000	-
Benefits	3,001	3,024	3,022	2
Purchased services	8,753	563	562	1
Supplies and materials	18,300	14,291	14,290	1
Other fees and dues	2,850	1,871	1,870	1
Total improvement of instruction	46,341	30,749	30,744	5

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Expenditures and Other Financing Uses - Budget to Actual - General Fund
For the Year Ended June 30, 2011**

	Original	Final	Actual	Variance with final budget fav (unfav)
Libraries				
Salaries	\$ 14,021	\$ 13,785	\$ 13,783	\$ 2
Benefits	4,318	4,296	4,292	4
Purchased services	690	690	690	-
Supplies and materials	4,800	1,246	1,245	1
Equipment	1,500	199	199	-
Total libraries	25,329	20,216	20,209	7
Computer instruction				
Salaries	31,167	31,167	31,167	-
Benefits	14,488	13,544	13,542	2
Purchased services	19,500	15,235	15,234	1
Supplies and materials	2,000	2,461	2,460	1
Other fees and dues	150	-	-	-
Equipment	30,000	27,175	27,175	-
Total computer instruction	97,305	89,582	89,578	4
Direction of instruction				
Salaries	55,804	56,712	56,710	2
Benefits	16,720	15,455	15,452	3
Purchased services	800	1,043	-	1,043
Supplies and materials	-	146	145	1
Other fees and dues	100	80	80	-
Total direction of instruction	73,424	73,436	72,387	1,049
Academic student assessment				
Purchased services	150	10	10	-
Supplies and materials	6,256	1,248	1,247	1
Total Academic student assessment	6,406	1,258	1,257	1
Board of education				
Salaries	4,658	4,666	4,666	-
Benefits	595	587	586	1
Purchased services	34,400	29,673	31,801	(2,128)
Supplies and materials	275	193	201	(8)
Other fees and dues	7,000	5,118	5,603	(485)
Total board of education	46,928	40,237	42,857	(2,620)

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Expenditures and Other Financing Uses - Budget to Actual - General Fund
For the Year Ended June 30, 2011**

	Original	Final	Actual	Variance with final budget fav (unfav)
Executive administration				
Salaries	\$ 149,992	\$ 149,541	\$ 149,540	\$ 1
Benefits	64,521	65,802	69,662	(3,860)
Purchased services	12,279	8,230	8,328	(98)
Supplies and materials	4,250	2,543	2,592	(49)
Other fees and dues	5,000	2,398	2,462	(64)
Equipment	2,162	2,163	2,162	1
Total executive administration	238,204	230,677	234,746	(4,069)
Office of principals				
Salaries	140,149	143,487	143,487	-
Benefits	40,631	40,849	41,252	(403)
Purchased services	91,465	89,219	89,239	(20)
Supplies and materials	2,400	1,840	1,840	-
Other fees and dues	800	544	544	-
Total office of principals	275,445	275,939	276,362	(423)
Other school administration				
Other fees and dues	1,750	995	1,251	(256)
Business office				
Benefits	73	73	72	1
Purchased services	39,350	40,714	39,455	1,259
Other fees and dues	150	129	129	-
Total business office	39,573	40,916	39,656	1,260
Other business services				
Purchased services	36,025	36,037	36,037	-
Other fees and dues	7,121	7,121	7,121	-
Total other business services	43,146	43,158	43,158	-
Operations & maintenance				
Salaries	206,256	205,227	205,225	2
Benefits	85,951	83,238	83,235	3
Purchased services	171,620	172,914	162,604	10,310
Supplies and materials	184,650	167,799	171,234	(3,435)
Other fees and dues	250	495	495	-
Total operations & maintenance	648,727	629,673	622,793	6,880

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Expenditures and Other Financing Uses - Budget to Actual - General Fund
For the Year Ended June 30, 2011**

	Original	Final	Actual	Variance with final budget fav (unfav)
Pupil transportation				
Salaries	\$ 182,061	\$ 182,782	\$ 182,724	\$ 58
Benefits	70,152	69,957	69,926	31
Purchased services	33,074	36,390	38,262	(1,872)
Supplies and materials	70,050	78,864	80,004	(1,140)
Other fees and dues	700	368	368	-
Equipment	2,553	2,459	2,459	-
Total pupil transportation	358,590	370,820	373,743	(2,923)
Technology				
Purchased services	27,167	23,101	24,822	(1,721)
Athletics				
Salaries	76,186	85,609	83,741	1,868
Benefits	20,745	22,832	22,832	-
Purchased services	64,967	48,624	34,869	13,755
Supplies and materials	3,500	3,627	3,655	(28)
Other fees and dues	25,020	31,692	30,184	1,508
Equipment	42,400	18,017	35,548	(17,531)
Total athletics	232,818	210,401	210,829	(428)
Custody and care				
Salaries	17,977	15,065	15,064	1
Benefits	4,942	4,095	4,094	1
Purchased services	2,600	1,392	1,410	(18)
Other fees and dues	100	-	-	-
Total custody and care	25,619	20,552	20,568	(16)
Community services				
Purchased services	-	925	925	-
Total community services	-	925	925	-
Total supporting services	2,391,164	2,293,587	2,294,454	(867)
Debt service	4,198	4,112	4,253	(141)
Total Expenditures	5,334,222	5,138,398	5,135,143	3,255
Other Financing Uses				
Other transfers to other funds	129,151	119,758	-	119,758
Payments to other governments	749	4,788	-	4,788
Total Other Financing Uses	129,900	124,546	-	124,546
Total Expenditures and Other Financing Uses	\$ 5,464,122	\$ 5,262,944	\$ 5,135,143	\$ 127,801

OTHER SUPPLEMENTARY INFORMATION

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Combining Balance Sheet - Non-Major Governmental Funds
June 30, 2011**

	<u>Food Service Fund</u>	<u>2001 Debt Service</u>	<u>2008 Debt Service</u>	<u>Durant Debt Service</u>	<u>Total</u>
ASSETS					
Cash	\$ 60,398	\$ 40,649	\$ 102,040	\$ -	\$ 203,087
Receivables	633	-	-	-	633
Inventory	5,169	-	-	-	5,169
Total Assets	<u>\$ 66,200</u>	<u>\$ 40,649</u>	<u>\$ 102,040</u>	<u>\$ -</u>	<u>\$ 208,889</u>
LIABILITIES AND FUND BALANCE					
Liabilities					
Due to students	\$ 2,335	\$ -	\$ -	\$ -	\$ 2,335
Fund Balances					
Nonspendable	5,802	-	-	-	5,802
Restricted for food service	58,063	-	-	-	58,063
Restricted for debt Service	-	40,649	102,040	-	142,689
Total Fund Balances	<u>63,865</u>	<u>40,649</u>	<u>102,040</u>	<u>-</u>	<u>206,554</u>
Total Liabilities and Fund Balance	<u>\$ 66,200</u>	<u>\$ 40,649</u>	<u>\$ 102,040</u>	<u>\$ -</u>	<u>\$ 208,889</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Combining Statement of Revenues, Expenditures and Changes in Fund
Balances - Non-Major Governmental Funds
For the Year Ended June 30, 2011**

	<u>Food Service Fund</u>	<u>2001 Debt Service</u>	<u>2008 Debt Service</u>	<u>Durant Debt Service</u>	<u>Total</u>
Revenues					
Local Sources	\$ 123,945	\$ 223,876	\$ 554,848	\$ -	\$ 902,669
State Sources	10,756	-	-	4,969	15,725
Federal Sources	103,124	-	-	-	103,124
Total Revenues	<u>237,825</u>	<u>223,876</u>	<u>554,848</u>	<u>4,969</u>	<u>1,021,518</u>
Expenditures					
Food service	208,134	-	-	-	208,134
Debt service	-	228,580	566,005	4,969	799,554
Total Expenditures	<u>208,134</u>	<u>228,580</u>	<u>566,005</u>	<u>4,969</u>	<u>1,007,688</u>
Excess (Deficiency) of Revenues over Expenditures	29,691	(4,704)	(11,157)	-	13,830
Fund Balances, Beginning of Year	<u>34,174</u>	<u>45,353</u>	<u>113,197</u>	<u>-</u>	<u>192,724</u>
Fund Balances, End of Year	<u>\$ 63,865</u>	<u>\$ 40,649</u>	<u>\$ 102,040</u>	<u>\$ -</u>	<u>\$ 206,554</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Changes in Long-Term Debt
For the Year Ended June 30, 2011**

	Balance at July 1, 2010	Additions	Deductions	Balance at June 30, 2011
2001 bond issue	\$ 1,305,000	\$ -	\$ (130,000)	\$ 1,175,000
Interest related to 2001 bond issue	323,185	-	(61,560)	261,625
2008 Refunding	3,745,000	-	(320,000)	3,425,000
Interest related to 2008 current refunding bond issue	1,075,901	-	(151,813)	924,088
1998 School Improvement (Durant)	34,436	-	(3,938)	30,498
Interest related to 1998 school improvement bond issue (Durant)	8,890	-	(1,031)	7,859
School bond loan fund	1,056,411	-	-	1,056,411
Interest related to school bond loan fund	384,357	73,448	(130,300)	327,505
2006 van note payable	2,460	-	(2,460)	-
Interest related to 2006 van note payable	50	-	(50)	-
Total	\$ 7,935,690	\$ 73,448	\$ (801,152)	\$ 7,207,986

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedules of Maturities of Bonded Debt
June 30, 2011**

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001 BOND ISSUE				
Principal payment due	May 1			
Interest payments due	May 1 and November 1			
Interest rates	3.1% to 5.0%			
Original issue	\$2,090,000			
Payments due for years ending June 30:				
2012		\$ 135,000	\$ 55,970	\$ 190,970
2013		140,000	49,962	189,962
2014		145,000	43,591	188,591
2015		150,000	36,850	186,850
2016		150,000	29,726	179,726
2017		150,000	22,526	172,526
2018		150,000	15,250	165,250
2019		155,000	7,750	162,750
TOTALS		<u>\$ 1,175,000</u>	<u>\$ 261,625</u>	<u>\$ 1,436,625</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedules of Maturities of Bonded Debt
June 30, 2011**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008 Current Refunding Bond			
Issue			
Principal payment due		May 1	
Interest payments due		May 1 and November 1	
Interest rates		3.25% to 4.0%	
Original issue		\$4,410,000	
Payments due for years ending June 30:			
2012	\$ 315,000	\$ 141,413	\$ 456,413
2013	310,000	131,175	441,175
2014	300,000	120,325	420,325
2015	295,000	109,825	404,825
2016	290,000	99,500	389,500
2017	290,000	85,000	375,000
2018	280,000	70,500	350,500
2019	280,000	56,500	336,500
2020	270,000	45,300	315,300
2021	270,000	33,150	303,150
2022	265,000	21,000	286,000
2023	260,000	10,400	270,400
TOTALS	<u>\$ 3,425,000</u>	<u>\$ 924,088</u>	<u>\$ 4,349,088</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedules of Maturities of Bonded Debt
June 30, 2011**

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998 SCHOOL IMPROVEMENT BOND ISSUE (DURANT)				
Principal payment due	May 15			
Interest payments due	May 15			
Interest rates	4.76%			
Original issue	\$70,763			
Payments due for years ending June 30:				
2012		\$ 4,125	\$ 844	\$ 4,969
2013		26,373	7,015	33,388
TOTALS		<u><u>\$ 30,498</u></u>	<u><u>\$ 7,859</u></u>	<u><u>\$ 38,357</u></u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

FINDINGS AND RESPONSES

Reference Number	Audit Finding
11-01	The District does not have adequate segregation of duties. The accounting department consists of two individuals. The small number of personnel involved in recording and reconciling accounting information makes it inherently difficult to maintain adequate segregation of duties.
11-02	Sporting event receipts are processed under single control without an adequate accounting control making these receipts susceptible to misstatement and misappropriation. Handling by multiple individuals under single control makes it difficult to affix responsibility for misappropriations.

Reference Number	Management Responses
11-01	Effective July 1, 2011 Climax-Scotts Community Schools entered into a Shared Services Agreement with Kalamazoo Regional Education Service Agency. Services to be provided to our school district include: payroll, accounts payable services, reconciliations, as well as Business Manager services. We feel that with contracting for these services we have placed our district in a position to have this audit finding removed at fiscal year end June 30, 2012.
11-02	Effective July 1, 2011 the following procedures have been implemented by Climax-Scotts Community Schools to address the above audit finding (11-02).

Athletics – Cash Management (Effective July, 1 2011)

- Assistant to the Athletic Director prepares the cash box for the event and writes down the starting ticket numbers.
- Athletic tickets are in numerical order per event and documented on a tally sheet to show the beginning and ending ticket numbers.
- Ticket Takers are in charge of admission.
- Ticket Takers sell tickets and collect tickets at the gate.
- Ticket Takers stamp hands to verify an admission and record each athletic ticket type sold separately (i.e., all prepaid passes and tickets) on a tally sheet provided for reconciliation.
- Ticket Takers count money after half-time of the athletic event under dual control. (If only one ticket taker is assigned, they along with the Game Manager will count the money). Cash will be reconciled to the beginning and ending ticket numbers.
- Gate receipts are collected by the Game Manager hired for the event under supervision of the Athletic Director, and the cash box is put in a safe.
- Assistant to the Athletic Director is responsible for completing the bank deposit, and taking it to the Superintendent's Office. The Business Manager is responsible for taking deposits to the bank.

The person responsible for monitoring the results is the Athletic Director.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Prior Year Findings and Responses
For the Year Ended June 30, 2010**

Audit Finding	Current Status
The District does not have adequate segregation of duties.	See finding 11-01
Sporting event receipts of the District are processed under single control.	See finding 11-02

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

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
Climax-Scotts Community Schools
Climax, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Climax-Scotts Community Schools, as of and for the year ended June 30, 2011, which collectively comprise Climax-Scotts Community Schools' basic financial statements and have issued our report thereon dated October 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Climax-Scotts Community Schools' internal control over financial reporting 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 Climax-Scotts Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Climax-Scotts Community Schools' internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs (11-01 and 11-02) that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Climax-Scotts Community 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 and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Seber Tans, PLC
Kalamazoo, Michigan

October 18, 2011