



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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2012

TABLE OF CONTENTS

	Page No.
Independent Auditors' Report	1
Management's Discussion and Analysis	2-11
Basic Financial Statements	
District-Wide Financial Statements	
Statement of Net Deficit	12
Statement of Activities	13
Fund Financial Statements	
Combined Balance Sheet – Governmental Funds and the Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Deficit	14
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	16
Fiduciary Funds	
Combining Statement of Fiduciary Net Assets	17
Notes to the Financial Statements	18-29
Required Supplementary Information	
Schedule of Revenues – Budget to Actual – General Fund	30
Schedule of Expenditures and Other Financing Uses – Budget to Actual – General Fund	31-36
Other Supplementary Information	
Combining Balance Sheet – Non-major Governmental Funds	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds	38
Schedule of Changes in Long-term Debt	39
Schedules of Maturities of Bonded Debt	40-42
Schedule of Findings and Responses	43
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	44-45

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, 2012, 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, 2012, 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 15, 2012, 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 and combining and individual nonmajor fund financial statements, 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 section has 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 it.

Seber Tans, PLC

Seber Tans, PLC
Kalamazoo, Michigan

October 15, 2012

555 W. Crosstown Parkway, Suite 304
Kalamazoo, Michigan 49008
www.sebertans.com

Phone (269) 343-8180
Fax (269) 343-5419

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2012
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 2012 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, 2012.

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, 2012
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, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets	\$ 1,754,591	\$ 1,816,084
Capital assets, net book value	4,092,726	4,272,412
TOTAL ASSETS	<u>\$ 5,847,317</u>	<u>\$ 6,088,496</u>
LIABILITIES		
Current liabilities	\$ 1,299,576	\$ 1,299,635
Long-term liabilities	5,007,120	5,560,289
TOTAL LIABILITIES	<u>6,236,696</u>	<u>6,859,924</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	(1,138,685)	(1,383,999)
Restricted	125,712	142,689
Unrestricted and undesignated	623,594	469,882
TOTAL NET DEFICIT	<u>(389,379)</u>	<u>(771,428)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 5,847,317</u>	<u>\$ 6,088,496</u>

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2012
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, 2012 by \$382,049. In comparison, during the fiscal year ended June 30, 2011 the District realized a decrease in net deficit of \$413,661.

REVENUES	2012	2011
Program revenues:		
Charges for services	\$ 166,428	\$ 174,928
Operating grants	788,770	951,576
General revenues:		
Property taxes	1,242,453	1,208,122
State foundation allowance	3,706,105	3,776,150
Interest and investment earnings	2,758	6,996
Other	98,332	122,103
TOTAL REVENUES	6,004,846	6,239,875
EXPENSES		
Instructional and instructional support	2,639,840	2,836,436
Support services	2,283,004	2,294,454
Food services	218,001	208,134
Interest on long-term debt	297,566	290,557
Depreciation (unallocated)	184,386	196,633
TOTAL EXPENSES	5,622,797	5,826,214
DECREASE IN NET DEFICIT	\$ 382,049	\$ 413,661

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, 2012
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 86% 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, 2012, the allowance was set for \$6,846. This is a reduction of \$470 per student over the 2010-11 set foundation. The resulting loss in funding was a reduction of \$266,000. Additional funding from the State of Michigan for Best Practice Incentive 22f, Reimbursements for Data collections 152a and a Retirement Cost offset 147a, amounting to \$123,298, did not make up for the reduction in foundation, leaving the district less funding per student as has been the continuing trend. The loss of state funding had been replaced with Federal funds, but this year there was little remaining. The final \$19,046 of Federal Stabilization Funds was included in this year's funding, along with \$9,974 of Education Jobs Funds.

Student Enrollment

Climax-Scotts Community Schools' blended membership count of the 2011-2012 school year was 566.35 students, which includes students enrolled in our alternative education program. The following is a breakdown of student FTE for the last five years:

2007-2008	662.92
2008-2009	637.43
2009-2010	597.00
2010-2011	571.72
2011-2012	566.35

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2012
Management's Discussion and Analysis**

Our blended student enrollment for the 2011-2012 school year of 566.35 students was based on 10% of our February 2011 count, and 90% of our September 2011 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 2011-2012 tax year, generating \$256,955 on non-homestead property, and \$5,118 in commercial personal property revenue. This represents a 10% increase in tax revenue. Both Calhoun and Kalamazoo County Treasurers settled their delinquent tax accounts with our school district prior to June 30, 2012.

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

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%
2011-2012	\$256,955	Increase of 10%

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2012
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, 2012. 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, 2012, the School District had capital assets net of accumulated depreciation, totaling \$4,092,726, 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 \$179,686 or 4.2% from fiscal year end June 30, 2011. A summary of capital assets is as follows:

	<u>2012</u>	<u>2011</u>
Buildings and improvements	\$ 6,843,107	\$ 6,843,107
Outdoor equipment	666,183	664,183
Equipment	526,191	523,491
Vehicles and tractors	445,808	445,808
	<u>8,481,289</u>	<u>8,476,589</u>
Less accumulated depreciation	(4,388,563)	(4,204,177)
NET CAPITAL ASSETS	<u>\$ 4,092,726</u>	<u>\$ 4,272,412</u>

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2012
Management's Discussion and Analysis**

Long-Term Obligations

At the end of fiscal year ended June 30, 2012, the School District had a balance of \$6,400,015 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, 2011 of \$7,207,986, this represents a net decrease in long-term obligations of \$807,971. Reference page 39 for Activity in long-term obligations, which consist of the following:

	Balance at July 1, 2011	Additions	Deductions	Balance at June 30, 2012
2001 bond issue (refinanced with 2011 bond) \$	1,175,000	\$ -	\$ (1,175,000)	\$ -
Interest related to 2001 bond issue	261,625	-	(261,625)	-
2008 Refunding	3,425,000	-	(315,000)	3,110,000
Interest related to 2008 current refunding bond issue	924,088	-	(141,413)	782,675
2011 Refunding	-	1,210,000	(145,000)	1,065,000
Interest related to 2011 current refunding bond issue	-	133,832	(22,000)	111,832
1998 School Improvement (Durant)	30,498	-	(4,125)	26,373
Interest related to 1998 school improvement bond issue (Durant)	7,859	-	(844)	7,015
School bond loan fund	1,056,411	-	-	1,056,411
Interest related to school bond loan fund	327,505	66,204	(153,000)	240,709
Total	\$ 7,207,986	\$ 1,410,036	\$ (2,218,007)	\$ 6,400,015

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 2008 and 2011 Debt Retirement Funds.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2012
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, 2011 to June 30, 2012 in both the School bond Loan Fund & School Loan Revolving Fund:

**Climax-Scotts Community Schools
School District: 39-020
Statement Date: July 1, 2012
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	\$327,687.53	\$0.00	\$0.00	\$1,384,098.53
New Loans & Loan Repayments	\$0.00	-\$153,000.00	\$0.00	\$0.00	-\$153,000.00
Interest Accrued in Current Period:	\$0.00	\$66,021.66	\$0.00	\$0.00	\$66,021.66
Ending Balance:	\$1,056,411.00	\$240,709.19	\$0.00	\$0.00	\$1,297,120.19

Current SLRF Interest Rate: 3.0000
Current SBLF Interest Rate: 4.6250

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 2011-2012 was approved on June 27, 2011, and the Board approved a final amendment to that budget on June 25, 2012.

General Fund Revenues

Total Revenues – Revised Budget	June 25, 2012	\$4,989,396
Total Revenues – Original Budget	June 27, 2011	\$4,807,311

The District's actual General Fund revenues were less than the amended budget by a difference of \$10,251.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2012
Management's Discussion and Analysis**

General Fund Expenditures

Total Expenditures/Other Financing Uses – Revised Budget	\$5,023,129
Total Expenditures/Other Financing Uses – Original Budget	\$4,905,162

The District's actual General Fund expenditures and other financing uses were less than the amended budget by \$98,572.

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, 2012 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 2011-2012 school year is based in 10% of the February 2011 and 90% of the September 2011 student counts. The 2011-2012 budget was amended in June 2012 based on a blended student membership count of 566.35 students. Approximately 81% 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 2011-2012 school year the reader should note the following: The foundation allowance per pupil was \$6,846. A portion was made up by additional categorical, along with a small amount of Federal Stabilization fund, but per student was less than the previous year.

Budget Update: 2012-2013

Based on budget projections approved by the Board of Education of Climax-Scotts Community Schools on June 25, 2012, it is anticipated that the school district will have to use approximately \$150,000 of its fund equity to balance the budget for FYE June 30, 2013. Revenues were set at \$4,854,913. Expenditures were set at \$5,004,559. The retirement rate effective October 1, 2012 through September 30, 2012 is set at 25.36%. This is a 3.68% increase over the 2011-2012 MPSERS rate.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2012
Management's Discussion and Analysis**

Climax-Scotts Community School's fund balance at the end of the fiscal year end June 30, 2012 is \$782,087 or approximately 16% of its operating budget. The increase in fund equity comparing fiscal year end June 30, 2011 to fiscal year end June 30, 2012 is an amount of \$48,565. 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, 2012**

ASSETS

Current Assets	
Cash	\$ 966,140
Due from other governments	780,756
Inventory	7,695
Total Current Assets	<u>1,754,591</u>
Property and Equipment	
Capital assets	8,481,289
Less accumulated depreciation	<u>(4,388,563)</u>
Net Property and Equipment	<u>4,092,726</u>
Total Assets	<u>\$ 5,847,317</u>

LIABILITIES AND NET DEFICIT

Current Liabilities	
Accounts payable	\$ 45,076
Deferred revenue	28,824
Accrued payroll and related withholdings	288,000
State aid note payable	376,303
Current maturities of bonds payable	<u>491,373</u>
Total Current Liabilities	<u>1,229,576</u>
Bonds Payable, net of current maturities	4,766,411
Accrued Interest on School Bond Loan Fund	240,709
Net Assets (Deficit)	
Invested in capital assets, net of related debt	(1,138,685)
Restricted for debt service	125,712
Unrestricted and undesignated	<u>623,594</u>
Total Net Deficit	<u>(389,379)</u>
Total Liabilities and Net Deficit	<u>\$ 5,847,317</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
District-Wide Statement of Activities
For the Year Ended June 30, 2012**

	<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	\$ (2,639,840)	\$ 39,919	\$ 664,149	\$ (1,935,772)
Support services	(2,283,004)	-	-	(2,283,004)
Food services	(218,001)	126,509	124,621	33,129
Interest on long-term debt	(297,566)	-	-	(297,566)
Depreciation (unallocated)	(184,386)	-	-	(184,386)
Total Governmental Activity	<u>\$ (5,622,797)</u>	<u>\$ 166,428</u>	<u>\$ 788,770</u>	<u>\$ (4,667,599)</u>

General Revenues:

Taxes:

Property taxes, levied for general obligations	453,948
Property taxes, levied for debt service	788,505
State of Michigan aid, unrestricted	3,706,105
Interest and investment earnings	2,758
Miscellaneous revenue	98,332
Total General Revenues	<u>5,049,648</u>

Decrease in Net Deficit	382,049
Net Deficit, Beginning of Year	<u>(771,428)</u>
Net Deficit, End of Year	<u>\$ (389,379)</u>

**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, 2012**

	<u>General Fund</u>	<u>Other Non-Major Governmental</u>	<u>Total Governmental</u>
ASSETS			
Cash	\$ 766,614	\$ 199,526	\$ 966,140
Due from other funds	-	2,985	2,985
Due from other governments	754,383	-	754,383
Inventory	-	7,695	7,695
Total Assets	<u>\$ 1,520,997</u>	<u>\$ 210,206</u>	<u>\$ 1,731,203</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 45,076	\$ -	\$ 45,076
Due to other funds	2,985	-	2,985
Deferred revenue	26,546	2,278	28,824
Salaries payable and related withholdings	288,000	-	288,000
State aid note payable	376,303	-	376,303
Total Liabilities	<u>738,910</u>	<u>2,278</u>	<u>741,188</u>
Fund Balances			
Nonspendable	-	7,695	7,695
Restricted for debt service	-	125,712	125,712
Restricted for food service	-	74,521	74,521
Unassigned	782,087	-	782,087
Total Fund Balances	<u>782,087</u>	<u>207,928</u>	<u>990,015</u>
Total Liabilities and Fund Balances	<u>\$ 1,520,997</u>	<u>\$ 210,206</u>	<u>\$ 1,731,203</u>
Reconciliation of the combined balance sheet - governmental funds to the statement of net deficit:			
Total governmental fund balances			\$ 990,015
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		8,481,289	
Accumulated depreciation is		<u>(4,388,563)</u>	
			4,092,726
Certain receivables are not available to pay for current year expenditures and therefore, are deferred in the funds.			
			26,373
Long term liabilities that are not due and payable in the current period and are not reported in the funds:			
Bonds payable			(5,257,784)
Accrued interest is not included as a liability in governmental funds			<u>(240,709)</u>
Net Deficit of Governmental Activities			<u>\$ (389,379)</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, 2012**

	<u>General Fund</u>	<u>Other Non-Major Governmental</u>	<u>Total Governmental</u>
Revenues			
Local sources	\$ 406,711	\$ 915,236	\$ 1,321,947
Intermediate sources	384,989	-	384,989
State sources	4,049,965	9,536	4,059,501
Federal sources	122,480	120,054	242,534
Total Revenues	<u>4,964,145</u>	<u>1,044,826</u>	<u>6,008,971</u>
Other Financing Sources			
Operating transfers in	<u>15,000</u>	<u>12,621</u>	<u>27,621</u>
Total Revenues and Other Financing Sources	<u>4,979,145</u>	<u>1,057,447</u>	<u>6,036,592</u>
Expenditures			
Education			
Instruction	2,644,540	-	2,644,540
Support services	2,283,004	218,001	2,501,005
Debt service	3,036	810,451	813,487
Total Expenditures	<u>4,930,580</u>	<u>1,028,452</u>	<u>5,959,032</u>
Other Financing Uses			
Operating transfers out	<u>-</u>	<u>27,621</u>	<u>27,621</u>
Total Expenditures and Other Financing Uses	<u>4,930,580</u>	<u>1,056,073</u>	<u>5,986,653</u>
Excess of Revenues Over Expenditures	48,565	1,374	49,939
Fund Balances, Beginning of Year	<u>733,522</u>	<u>206,554</u>	<u>940,076</u>
Fund Balances, End of Year	<u>\$ 782,087</u>	<u>\$ 207,928</u>	<u>\$ 990,015</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, 2012**

Net change in fund balance - total governmental funds		\$ 49,939
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	(184,386)	
Capital outlay	<u>4,700</u>	(179,686)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.		86,796
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).		429,125
Other long-term assets are not available to pay future years long-term liabilities (where it reduces due from other governments).		<u>(4,125)</u>
Change in Net Assets of Governmental Activities		<u>\$ 382,049</u>

See Notes to Financial Statements

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Statement of Fiduciary Net Assets
For the Year Ended June 30, 2012**

	<u>Student Activities</u>
Assets	
Cash	\$ <u>65,556</u>
Liabilities	
Due to Student Groups and Teachers	\$ <u>65,556</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2012**

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, 2012**

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.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2012**

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, 2008 Debt Service Fund, 2011 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, 2012**

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 2012, the state utilized \$9,974 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, 2012**

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 reports restricted funds in the debt and lunch funds.

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 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.

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, 2012**

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 two banks 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, 2012**

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	\$ 966,140	\$ 65,556	\$ 1,031,696

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

Deposits (checking, savings accounts, money markets, certificates of deposits)	<u>\$ 1,031,696</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, 2012, \$778,224 of the District's bank balance of \$1,065,874 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, 2012**

NOTE D – Capital Assets

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

	Balance June 30, 2011	Additions	Disposals and Adjustments	Balance June 30, 2012
Cost				
Buildings and improvements	\$ 6,843,107	\$ ---	\$ ---	\$ 6,843,107
Outdoor equipment	664,183	2,000	---	666,183
Equipment	523,491	2,700	---	526,191
Vehicles and tractors	445,808	---	---	445,808
	<u>8,476,589</u>	<u>4,700</u>	<u>---</u>	<u>8,481,289</u>
Accumulated Depreciation				
Buildings and improvements	2,998,059	107,009	---	3,105,068
Outdoor equipment	451,552	14,410	---	465,962
Equipment	394,987	22,843	---	417,829
Vehicles and tractors	359,579	40,124	---	399,704
	<u>4,204,177</u>	<u>184,386</u>	<u>---</u>	<u>4,388,563</u>
Net capital assets	<u>\$ 4,272,412</u>	<u>\$ (179,686)</u>	<u>\$ ---</u>	<u>\$ 4,092,726</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, 2012 the District has a total of \$28,824 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, 2011	Proceeds	Accrued Interest	Repayments	Balance June 30, 2012
State Aid Anticipation Note	\$ 398,143	\$ 675,000	\$ 3,093	\$ (699,933)	\$ 376,303

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2012**

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, 2011	Additions	Reductions	Balance June 30, 2012	Amount due within one year
Government obligation bonds	\$ 4,600,000	\$ 1,210,000	\$(1,635,000)	\$ 4,175,000	\$ 465,000
Durant resolution package bond	30,498	---	(4,125)	26,373	26,373
School bond loan fund	1,056,411	---	---	1,056,411	---
	<u>\$ 5,686,909</u>	<u>\$ 1,210,000</u>	<u>\$(1,639,125)</u>	<u>\$ 5,257,784</u>	<u>\$ 454,125</u>

Long-term debt consisted of the following at June 30, 2012:

Refunding Bond issue of 2008 with annual payments ranging from \$260,000 to \$335,000 plus interest of 3.59%.	\$ 3,110,000
2011 School building and site bond issue with annual payments ranging from \$145,000 to \$155,000 plus interest of 2.65%.	1,065,000
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.	26,373
School bond fund loan payable with no fixed payment schedule. Interest accrues at a 4.75%	<u>1,056,411</u>
Total principal payable	5,257,784
Interest payable	<u>1,142,231</u>
Total long-term debt payable	<u>\$ 6,400,015</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2012**

NOTE G – Long-Term Debt (Continued)

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

	Principal	Interest	Total
2013	\$ 491,373	\$ 166,413	\$ 657,786
2014	455,000	144,440	599,440
2015	450,000	129,833	579,833
2016	445,000	115,400	560,400
2017	440,000	96,793	525,000
2018-2022	1,660,000	238,243	1,898,243
Thereafter	1,316,411	251,109	1,567,520
	<u>\$ 5,257,784</u>	<u>\$ 1,142,231</u>	<u>\$ 6,400,015</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, 2012. 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, 2012**

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 (MPSERS), 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 12.16% for the period July 1, 2011 through September 30, 2011 and 15.96% for the period October 1, 2011 through June 30, 2012 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 MPSERS plan totaled approximately \$426,500, \$332,000 and \$302,200 for the years ended June 30, 2012, 2011, and 2010, respectively.

Post Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS 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 MPSERS 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 8.5% for the period July 1, 2011 through June 30, 2012.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2012**

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, 2012, 2011 and 2010 were approximately \$228,000, \$227,000 and \$202,400, 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, 2012, 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, 2012, 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 15, 2012, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Revenues - Budget to Actual - General Fund
For the Year Ended June 30, 2012**

	Original	Final	Actual	Variance with final budget fav/(unfav)
Revenues				
Revenue from local sources				
Property taxes	\$ 256,395	\$ 271,805	\$ 266,779	\$ (5,026)
Earnings on investments	10,000	2,400	2,525	125
Other local revenue	64,185	135,956	137,407	1,451
Total revenue from local sources	<u>330,580</u>	<u>410,161</u>	<u>406,711</u>	<u>(3,450)</u>
Revenue from intermediate school district	355,483	387,460	384,989	(2,471)
Revenue from State sources				
Unrestricted				
State aid membership	3,681,737	3,699,803	3,706,105	6,302
Restricted				
Special education	174,201	215,655	215,655	-
At risk	78,886	58,195	58,095	(100)
Adult education	24,951	28,983	31,519	2,536
Other restricted State revenue	50,895	38,591	38,591	-
Total restricted	<u>328,933</u>	<u>341,424</u>	<u>343,860</u>	<u>2,436</u>
Total revenue from State sources	4,010,670	4,041,227	4,049,965	8,738
Revenue from federal sources				
American Recovery and Reinvestment Act	-	9,974	9,974	-
Title I	52,000	74,138	69,136	(5,002)
Title II	33,000	32,670	24,604	(8,066)
Other federal programs	15,578	18,766	18,766	-
Total revenue from federal sources	<u>100,578</u>	<u>135,548</u>	<u>122,480</u>	<u>(13,068)</u>
Other Financing Sources				
Operating transfers in	<u>10,000</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
Total Revenues	<u>\$ 4,807,311</u>	<u>\$ 4,989,396</u>	<u>\$ 4,979,145</u>	<u>\$ (10,251)</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, 2012**

Expenditures	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with final budget fav/(unfav)</u>
Instruction				
Elementary				
Salaries	\$ 568,405	\$ 566,999	\$ 561,839	\$ 5,160
Benefits	278,416	270,526	266,015	4,511
Purchased services	17,478	18,158	17,379	779
Supplies and materials	23,400	25,610	25,609	1
Other fees and dues	250	250	190	60
Total elementary	<u>887,949</u>	<u>881,543</u>	<u>871,032</u>	<u>10,511</u>
High school				
Salaries	758,472	767,697	766,077	1,620
Benefits	409,986	410,403	398,072	12,331
Purchased services	33,378	32,814	29,034	3,780
Supplies and materials	24,050	14,152	11,470	2,682
Other fees and dues	9,409	14,925	13,134	1,791
Equipment	5,325	4,500	4,480	20
Total high school	<u>1,240,620</u>	<u>1,244,491</u>	<u>1,222,267</u>	<u>22,224</u>
Preschool				
Salaries	17,559	14,191	14,323	(132)
Benefits	5,647	4,442	4,530	(88)
Purchased services	605	605	511	94
Supplies and materials	250	250	201	49
Total preschool	<u>24,061</u>	<u>19,488</u>	<u>19,565</u>	<u>(77)</u>
Special education				
Salaries	146,026	158,473	153,616	4,857
Benefits	50,916	62,542	61,204	1,338
Purchased services	1,430	3,100	1,904	1,196
Supplies and materials	1,635	2,531	3,714	(1,183)
Total special education	<u>200,007</u>	<u>226,646</u>	<u>220,438</u>	<u>6,208</u>
Compensatory education				
Salaries	127,361	120,960	113,567	7,393
Benefits	53,686	51,869	54,563	(2,694)
Purchased services	2,600	600	585	15
Supplies and materials	1,564	300	309	(9)
Other fees and dues	150	-	-	-
Total compensatory education	<u>185,361</u>	<u>173,729</u>	<u>169,024</u>	<u>4,705</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, 2012**

	Original	Final	Actual	Variance with final budget fav (unfav)
Vocational education				
Salaries	\$ 34,755	\$ 22,019	\$ 22,027	\$ (8)
Benefits	20,628	11,038	11,616	(578)
Purchased services	46,109	66,880	65,131	1,749
Supplies and materials	4,402	6,782	6,128	654
Equipment	1,000	800	604	196
Total vocational education	<u>106,894</u>	<u>107,519</u>	<u>105,506</u>	<u>2,013</u>
Adult/continuing education				
Salaries	25,557	23,363	24,452	(1,089)
Benefits	8,491	7,477	7,791	(314)
Purchased services	256	200	34	166
Supplies and materials	3,750	2,050	870	1,180
Other fees and dues	500	1,300	1,321	(21)
Equipment	2,162	2,250	2,240	10
Total adult/continuing education	<u>40,716</u>	<u>36,640</u>	<u>36,708</u>	<u>(68)</u>
Total instruction	2,685,608	2,690,056	2,644,540	45,516
Supporting services				
Guidance services				
Salaries	61,673	61,673	61,737	(64)
Benefits	32,364	34,050	33,665	385
Purchased services	8,325	825	414	411
Other fees and dues	50	50	-	50
Total guidance services	<u>102,412</u>	<u>96,598</u>	<u>95,816</u>	<u>782</u>
Health services				
Purchased services	630	300	148	152
Supplies and materials	200	100	49	51
Total health services	<u>830</u>	<u>400</u>	<u>197</u>	<u>203</u>
Psychological services				
Salaries	11,572	11,949	12,420	(471)
Benefits	3,627	4,508	4,347	161
Purchased services	1,800	1,325	1,325	-
Supplies and materials	500	385	385	-
Other fees and dues	75	-	-	-
Total psychological services	<u>17,574</u>	<u>18,167</u>	<u>18,477</u>	<u>(310)</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, 2012**

	Original	Final	Actual	Variance with final budget fav (unfav)
Speech and audio services				
Benefits	\$ 44	\$ -	\$ -	\$ -
Purchased services	34,166	23,110	22,602	508
Supplies and materials	250	250	247	3
Other fees and dues	50	50	-	50
Total speech and audio services	34,510	23,410	22,849	561
Social work				
Salaries	36,508	34,103	34,092	11
Benefits	11,489	16,280	16,315	(35)
Purchased services	-	5,575	1,656	3,919
Other fees and dues	-	2,760	2,759	1
Total social work	47,997	58,718	54,822	3,896
Other pupil services				
Salaries	17,739	17,436	15,450	1,986
Benefits	7,089	5,569	4,961	608
Purchased services	4,876	17,186	17,460	(274)
Other fees and dues	1,200	300	217	83
Total other pupil services	30,904	40,491	38,088	2,403
Improvement of instruction				
Salaries	11,000	12,186	9,958	2,228
Benefits	3,428	4,868	3,534	1,334
Purchased services	7,422	6,226	-	6,226
Supplies and materials	300	-	-	-
Other fees and dues	2,850	350	235	115
Total improvement of instruction	25,000	23,630	13,727	9,903
Libraries				
Salaries	8,621	9,500	9,064	436
Benefits	3,180	3,529	2,971	558
Purchased services	690	-	-	-
Supplies and materials	4,800	600	327	273
Equipment	1,500	-	-	-
Total libraries	18,791	13,629	12,362	1,267

**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, 2012**

	Original	Final	Actual	Variance with final budget fav (unfav)
Computer instruction				
Salaries	\$ 36,000	\$ 37,976	\$ 37,964	\$ 12
Benefits	16,260	18,108	17,290	818
Purchased services	12,700	9,950	11,671	(1,721)
Supplies and materials	2,000	4,500	4,352	148
Other fees and dues	150	150	198	(48)
Equipment	25,000	30,000	24,957	5,043
Total computer instruction	92,110	100,684	96,432	4,252
Direction of instruction				
Salaries	53,934	59,618	59,437	181
Benefits	18,320	24,941	23,681	1,260
Purchased services	800	450	450	-
Supplies and materials	-	200	175	25
Other fees and dues	100	-	-	-
Total direction of instruction	73,154	85,209	83,743	1,466
Academic student assessment				
Purchased services	150	-	-	-
Supplies and materials	6,256	4,750	4,883	(133)
Total Academic student assessment	6,406	4,750	4,883	(133)
Board of education				
Salaries	4,663	4,496	4,353	143
Benefits	679	1,236	713	523
Purchased services	29,400	27,988	27,903	85
Supplies and materials	275	275	11	264
Other fees and dues	7,000	6,000	5,403	597
Total board of education	42,017	39,995	38,383	1,612
Executive administration				
Salaries	127,360	121,539	121,588	(49)
Benefits	61,957	60,386	57,494	2,892
Purchased services	12,879	11,379	9,648	1,731
Supplies and materials	4,250	3,250	2,755	495
Other fees and dues	5,000	2,200	1,819	381
Equipment	-	2,250	2,240	10
Total executive administration	211,446	201,004	195,544	5,460

**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, 2012**

	Original	Final	Actual	Variance with final budget fav (unfav)
Office of principals				
Salaries	\$ 188,231	\$ 199,664	\$ 200,666	\$ (1,002)
Benefits	60,044	73,101	71,998	1,103
Purchased services	4,585	6,035	4,898	1,137
Supplies and materials	2,400	3,150	3,049	101
Other fees and dues	800	950	950	-
Total office of principals	<u>256,060</u>	<u>282,900</u>	<u>281,561</u>	<u>1,339</u>
Other school administration				
Other fees and dues	1,750	1,800	2,034	(234)
Business office				
Salaries	2,500	-	-	-
Benefits	661	-	-	-
Purchased services	33,322	57,722	57,658	64
Other fees and dues	150	150	129	21
Total business office	<u>36,633</u>	<u>57,872</u>	<u>57,787</u>	<u>85</u>
Other business services				
Purchased services	36,025	35,525	35,500	25
Other fees and dues	7,121	6,200	6,139	61
Total other business services	<u>43,146</u>	<u>41,725</u>	<u>41,639</u>	<u>86</u>
Operations & maintenance				
Salaries	209,144	204,972	208,314	(3,342)
Benefits	89,429	96,390	94,885	1,505
Purchased services	151,620	111,578	108,240	3,338
Supplies and materials	159,650	150,950	145,652	5,298
Other fees and dues	250	400	377	23
Equipment	-	2,000	2,000	-
Total operations & maintenance	<u>610,093</u>	<u>566,290</u>	<u>559,468</u>	<u>6,822</u>
Pupil transportation				
Salaries	178,220	184,336	180,232	4,104
Benefits	74,127	82,984	78,388	4,596
Purchased services	24,574	39,425	37,125	2,300
Supplies and materials	83,550	122,450	129,135	(6,685)
Other fees and dues	700	460	210	250
Equipment	2,553	-	-	-
Total pupil transportation	<u>363,724</u>	<u>429,655</u>	<u>425,090</u>	<u>4,565</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, 2012**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with final budget fav (unfav)</u>
Technology				
Purchased services	\$ 44,731	\$ 19,842	\$ 20,092	\$ (250)
Athletics				
Salaries	-	86,727	86,556	171
Benefits	-	27,052	26,566	486
Purchased services	-	32,170	31,392	778
Supplies and materials	-	4,000	4,306	(306)
Other fees and dues	-	20,502	21,178	(676)
Equipment	-	32,760	31,444	1,316
Total athletics	-	203,211	201,442	1,769
Custody and care				
Salaries	15,500	10,525	10,263	262
Benefits	4,868	3,375	3,278	97
Purchased services	2,600	4,950	4,927	23
Other fees and dues	100	100	100	-
Total custody and care	23,068	18,950	18,568	382
Total supporting services	2,082,356	2,328,930	2,283,004	45,949
Debt service	4,198	4,143	3,036	1,107
Total Expenditures	4,772,162	5,023,129	4,930,580	92,572
Other Financing Uses				
Other transfers to other funds	133,000	-	-	-
Total Expenditures and Other Financing Uses	<u>\$ 4,905,162</u>	<u>\$ 5,023,129</u>	<u>\$ 4,930,580</u>	<u>\$ 92,572</u>

OTHER SUPPLEMENTARY INFORMATION

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Combining Balance Sheet - Non-Major Governmental Funds
June 30, 2012**

	<u>Food Service Fund</u>	<u>2001 Debt Service</u>	<u>2008 Debt Service</u>	<u>2011 Debt Service</u>	<u>Durant Debt Service</u>	<u>Total</u>
ASSETS						
Cash	\$ 73,814	\$ -	\$ 97,990	\$ 27,722	\$ -	\$ 199,526
Receivables	2,985	-	-	-	-	2,985
Inventory	7,695	-	-	-	-	7,695
Total Assets	<u>\$ 84,494</u>	<u>\$ -</u>	<u>\$ 97,990</u>	<u>\$ 27,722</u>	<u>\$ -</u>	<u>\$ 210,206</u>
LIABILITIES AND FUND BALANCE						
Liabilities						
Due to students	\$ 2,278	\$ -	\$ -	\$ -	\$ -	\$ 2,278
Fund Balances						
Nonspendable	7,695	-	-	-	-	7,695
Restricted for food service	74,521	-	-	-	-	74,521
Restricted for debt Service	-	-	97,990	27,722	-	125,712
Total Fund Balances	<u>82,216</u>	<u>-</u>	<u>97,990</u>	<u>27,722</u>	<u>-</u>	<u>207,928</u>
Total Liabilities and Fund Balance	<u>\$ 84,494</u>	<u>\$ -</u>	<u>\$ 97,990</u>	<u>\$ 27,722</u>	<u>\$ -</u>	<u>\$ 210,206</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, 2012**

	<u>Food Service Fund</u>	<u>2001 Debt Service</u>	<u>2008 Debt Service</u>	<u>2011 Debt Service</u>	<u>Durant Debt Service</u>	<u>Total</u>
Revenues						
Local Sources	\$ 126,731	\$ 95	\$ 556,152	\$ 232,258	\$ -	\$ 915,236
State Sources	4,567	-	-	-	4,969	9,536
Federal Sources	120,054	-	-	-	-	120,054
Total Revenues	<u>251,352</u>	<u>95</u>	<u>556,152</u>	<u>232,258</u>	<u>4,969</u>	<u>1,044,826</u>
Other Financing Sources						
Operating transfers in	-	-	-	12,621	-	12,621
Expenditures						
Food service	218,001	-	-	-	-	218,001
Debt service	-	28,123	560,202	217,157	4,969	810,451
Total Expenditures	<u>218,001</u>	<u>28,123</u>	<u>560,202</u>	<u>217,157</u>	<u>4,969</u>	<u>1,028,452</u>
Other Financing Uses						
Transfers to other funds	15,000	12,621	-	-	-	27,621
Total Expenditures and Other Financing Uses	<u>233,001</u>	<u>40,744</u>	<u>560,202</u>	<u>217,157</u>	<u>4,969</u>	<u>1,056,073</u>
Excess (Deficiency) of Revenues over Expenditures	18,351	(40,649)	(4,050)	27,722	-	1,374
Fund Balances, Beginning of Year	63,865	40,649	102,040	-	-	206,554
Fund Balances, End of Year	<u>\$ 82,216</u>	<u>\$ -</u>	<u>\$ 97,990</u>	<u>\$ 27,722</u>	<u>\$ -</u>	<u>\$ 207,928</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Changes in Long-Term Debt
For the Year Ended June 30, 2012**

	Balance at July 1, 2011	Additions	Deductions	Balance at June 30, 2012
2001 bond issue (refinanced with 2011 bond)	\$ 1,175,000	\$ -	\$ (1,175,000)	\$ -
Interest related to 2001 bond issue	261,625	-	(261,625)	-
2008 Refunding	3,425,000	-	(315,000)	3,110,000
Interest related to 2008 current refunding bond issue	924,088	-	(141,413)	782,675
2011 Refunding	-	1,210,000	(145,000)	1,065,000
Interest related to 2011 current refunding bond issue	-	133,832	(22,000)	111,832
1998 School Improvement (Durant)	30,498	-	(4,125)	26,373
Interest related to 1998 school improvement bond issue (Durant)	7,859	-	(844)	7,015
School bond loan fund	1,056,411	-	-	1,056,411
Interest related to school bond loan fund	327,505	66,204	(153,000)	240,709
Total	\$ 7,207,986	\$ 1,410,036	\$ (2,218,007)	\$ 6,400,015

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedules of Maturities of Bonded Debt
June 30, 2012**

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011 BOND ISSUE				
Principal payment due	May 1			
Interest payments due	May 1 and November 1			
Interest rate	2.65%			
Original issue	\$1,210,000			
Payments due for years ending June 30:				
2013		\$ 155,000	\$ 28,223	\$ 183,223
2014		155,000	24,115	179,115
2015		155,000	20,008	175,008
2016		155,000	15,900	170,900
2017		150,000	11,793	161,793
2018		145,000	7,818	152,818
2019		155,000	3,975	153,975
TOTALS		<u>\$ 1,065,000</u>	<u>\$ 111,832</u>	<u>\$ 1,176,832</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedules of Maturities of Bonded Debt
June 30, 2012**

	<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:			
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>\$ 3,110,000</u>	<u>\$ 782,675</u>	<u>\$ 3,892,675</u>

**Climax-Scotts Community Schools
 Kalamazoo County, Michigan
 Schedules of Maturities of Bonded Debt
 June 30, 2012**

		<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:				
2013		\$ 26,373	\$ 7,015	\$ 33,388

**Climax-Scotts Community Schools
 Kalamazoo County, Michigan
 Schedule of Prior Year Findings and Current Year Status
 For the Year Ended June 30, 2012**

FINDINGS AND RESPONSES

Reference Number	Prior Year Audit Finding	Current Year Status
11-01	The District does not have adequate segregation of duties.	The district appears to have adequate segregation of duties.
11-02	Sporting event receipts are processed under single control.	The district appears to have implemented adequate internal control procedures with regard to sporting event receipts.

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 (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 15, 2012. 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

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Districts' 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*.

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

Seber Tans, PLC
Kalamazoo, Michigan

October 15, 2012