



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

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2016**

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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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Climax-Scotts Community Schools (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinion

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, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information, as identified in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016, on our consideration of 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* in considering the District's internal control over financial reporting and compliance.



Seber Tans, PLC  
Kalamazoo, Michigan

October 17, 2016

**Climax-Scotts Community Schools  
Kalamazoo and Calhoun Counties Michigan  
For the Year End June 30, 2016  
Management's Discussion and Analysis**

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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-three full and part-time teachers (K-12), one counselor, one contracted speech therapist, one social worker, three administrators, forty-one 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 2016 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, 2016.

**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 major fund. All other funds are presented in one column as non-major funds. The remaining statement, the statement of fiduciary net position, 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 Position and Statement of Activities. The Statement of Net Position 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 position, which are the difference between assets, deferred outflows of resources and liabilities, as reported in the Statement of Activities, 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 position, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. However, you need to consider other non-financial factors such as changes in the District's property tax base and the condition and age of the school buildings and other facilities.

**Climax-Scotts Community Schools  
Kalamazoo and Calhoun Counties Michigan  
For the Year End June 30, 2016  
Management's Discussion and Analysis**

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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 Position 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 Position**

A summary of the School District's net position as of June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets	\$ 1,641,172	\$ 1,625,516
Capital assets, net book value	3,771,504	3,937,961
<b>TOTAL ASSETS</b>	<u>5,412,676</u>	<u>5,563,477</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount on pension	<u>697,825</u>	<u>742,106</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 6,110,501</u>	<u>\$ 6,305,583</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 1,082,305	\$ 1,183,211
Long-term liabilities	9,657,980	9,815,751
<b>TOTAL LIABILITIES</b>	<u>10,740,285</u>	<u>10,998,962</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred amount on pension	<u>107,773</u>	<u>718,848</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF ASSETS</b>	<u>\$ 10,848,058</u>	<u>\$ 11,717,810</u>
<b>NET POSITION</b>		
Net investment in capital assets	724,000	137,350
Restricted	144,178	161,097
Unrestricted	(5,605,735)	(5,710,674)
<b>TOTAL NET POSITION</b>	<u>\$ (4,737,557)</u>	<u>\$ (5,412,227)</u>

**Climax-Scotts Community Schools  
Kalamazoo and Calhoun Counties Michigan  
For the Year End June 30, 2016  
Management's Discussion and Analysis**

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**Statement of Activities**

As detailed in the District-Wide Statement of Activities that follows, the net position of Climax-Scotts Community Schools increased during the fiscal year ended June 30, 2016 by \$674,670. In comparison during the fiscal year ended June 30, 2015, the District's net position increased by \$453,935.

<b>REVENUES</b>	<b>2016</b>	<b>2015</b>
Program revenues:		
Charges for services	\$ 120,201	\$ 130,688
Operating grants	1,190,764	1,002,034
General revenues:		
Property taxes	1,285,980	1,258,408
State foundation allowance	3,390,590	3,311,932
Interest and investment earnings	339	495
Other	110,650	103,779
<b>TOTAL REVENUES</b>	<b>6,098,524</b>	<b>5,807,336</b>
<b>EXPENSES</b>		
Instruction and instructional support	2,659,498	2,514,960
Support services	2,210,069	2,349,714
Food services	224,030	229,799
Interest on long-term debt	157,900	134,142
Depreciation (unallocated)	172,357	124,786
<b>TOTAL EXPENSES</b>	<b>5,423,854</b>	<b>5,353,401</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 674,670</b>	<b>\$ 453,935</b>

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

The School District's fund financial statements provide detailed information about the School District's 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, 2016  
Management's Discussion and Analysis**

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**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 net position. 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 91% 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 90% of the October pupil count, and 10% 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, 2016, the allowance was set for \$7,391. This is an increase of \$265 per student over the 2014-15 set foundation.

**Student Enrollment**

Climax-Scotts Community Schools' blended membership count of the 2015-2016 school year was 504.19 students, which includes students enrolled in our alternative education program. The following is a breakdown of student FTE for the last five years:

2011-2012	566.35
2012-2013	530.08
2013-2014	521.91
2014-2015	484.38
2015-2016	492.18



**Climax-Scotts Community Schools  
Kalamazoo and Calhoun Counties Michigan  
For the Year End June 30, 2016  
Management's Discussion and Analysis**

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Our blended student enrollment for the 2015-2016 school year of 492.18 students was based on 10% of February 2016 count, and 90% of the October 2015 count.

**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 year's CPI increase or five percent, whichever is less. Climax-Scotts Community School levied 18 mills for operations for the 2015-2016 tax year, generating \$279,069 on non-homestead property, and \$4,666 in commercial personal property revenue. This represents a 1% increase in tax revenue. Both Calhoun and Kalamazoo County Treasurers settled their delinquent tax accounts with our school district prior to June 30, 2016.

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

2010-2011	\$234,400	Decrease of 7%
2011-2012	\$256,955	Increase of 10%
2012-2013	\$259,505	Increase of 1%
2013-2014	\$270,187	Increase of 4%
2014-2015	\$276,400	Increase of 2%
2015-2016	\$279,069	Increase of 1%

**Climax-Scotts Community Schools  
Kalamazoo and Calhoun Counties Michigan  
For the Year End June 30, 2016  
Management's Discussion and Analysis**

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**Capital Assets**

Deyo & Associates of Kalamazoo, Michigan completed the District's most recent asset appraisal for the fiscal year end June 30, 2016. 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, 2016, the School District had capital assets net of accumulated depreciation, totaling \$3,771,504, which includes land, buildings, furniture and equipment, fleet of buses, and athletic facilities including an all-weather track. This represents a net increase (including additions, deductions, and depreciation) of approximately \$5,900 from fiscal year end June 30, 2015. A summary of capital assets is as follows:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 6,843,107	\$ 6,843,107
Outdoor equipment	666,183	666,183
Equipment	587,429	587,429
Vehicles and tractors	706,069	700,169
	<b>8,802,788</b>	<b>8,796,888</b>
Less: accumulated depreciation	(5,301,824)	(4,858,927)
<b>NET CAPITAL ASSETS</b>	<b><u>\$ 3,771,504</u></b>	<b><u>\$ 3,937,961</u></b>

**Climax-Scotts Community Schools  
Kalamazoo and Calhoun Counties Michigan  
For the Year End June 30, 2016  
Management's Discussion and Analysis**

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**Long-Term Obligations**

At the end of fiscal year ended June 30, 2016, the School District had a balance of \$3,406,414 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, 2015 of \$4,290,233, this represents a net decrease in long-term obligations of \$883,819. Reference page 43 for activity in long-term obligations, which consist of the following:

	<b>Balance at July 1, 2015</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at June 30, 2016</b>
2008 Refunding	\$ 2,205,000	\$ -	\$ (290,000)	\$ 1,915,000
Interest related to 2008 current refunding bond issue	421,350	-	(99,500)	321,850
2011 Refunding	600,000	-	(155,000)	445,000
Interest related to 2011 current refunding bond issue	39,486	-	(15,900)	23,586
Bus note payables	184,634	-	(42,037)	142,597
Interest related to buses	20,716	-	(7,495)	13,221
Vehicle note payables	39,726	-	(9,474)	30,252
Interest related to vehicles	4,172	-	(1,567)	2,605
School bond loan fund	771,251	-	(261,558)	509,693
Interest related to school bond loan fund	3,898	25,155	(26,443)	2,610
<b>Total</b>	<b>\$ 4,290,233</b>	<b>\$ 25,155</b>	<b>\$ (908,974)</b>	<b>\$ 3,406,414</b>

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.

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.

**Climax-Scotts Community Schools  
Kalamazoo and Calhoun Counties Michigan  
For the Year End June 30, 2016  
Management's Discussion and Analysis**

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The following chart represents the account activity from July 1, 2015 to June 30, 2016 in both the School Bond Loan Fund & School Loan Revolving Fund:

**Climax-Scotts Community Schools  
School District: 39-020  
Statement Date: July 1, 2016  
Millage Levied: 7.20 Mills**

	SBLF	SBLF	SLRF	SLRF	
	Principal Outstanding	Interest Outstanding	Principal Outstanding	Interest Outstanding	Total Loans Outstanding
Beginning Balance:	\$ 771,251	\$ 3,898	\$ ---	\$ ---	\$ 775,149
New Loans & Loan Repayments	(261,558)	(26,443)	---	---	(288,001)
Interest Accrued in Current Period:	---	25,155	---	---	25,155
Ending Balance:	\$ 509,693	\$ 2,610	\$ ---	\$ ---	\$ 512,303

Current SLRF Interest Rate: 3.34041  
Current SBLF Interest Rate: 3.34041

**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 1<sup>st</sup>, the start of the fiscal year. The budget for 2015-2016 was approved on June 29, 2015, and the Board approved a final amendment to that budget on June 27, 2016.

**General Fund Revenues**

Total Revenues – Revised Budget	June 27, 2016	\$5,106,306
Total Revenues – Original Budget	June 29, 2015	\$4,868,779

The District's actual General Fund revenues were less than the amended budget by \$64,868. Original and revised budget amounts include an operating transfer in of \$15,000. The amended budget did not include and loan proceeds.

**General Fund Expenditures**

Total Expenditures/Other Financing Uses – Revised Budget	\$5,085,828
Total Expenditures/Other Financing Uses – Original Budget	\$4,933,822

The District's actual General Fund expenditures and other financing uses were less than the amended budget by \$179,941.

**Climax-Scotts Community Schools  
Kalamazoo and Calhoun Counties Michigan  
For the Year End June 30, 2016  
Management's Discussion and Analysis**

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**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, 2016 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 2015-2016 school year is based in 10% of the February 2016 and 90% of the October 2015 student counts. The 2015-2016 budget was amended in June 2016 based on a blended student membership count of 492.18 students. Approximately 65% 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 2015-2016 school year the reader should note the following: The foundation allowance per pupil was \$7,391. A portion was made up by additional categorical, but per student was only up \$75 more than the 2010-11 year.

Budget Update: 2016-2017

Based on budget projections approved by the Board of Education of Climax-Scotts Community Schools on June 29, 2016, it is anticipated that the school district will add approximately \$1,000 to its fund equity for FYE June 30, 2017. Revenues were set at \$5,182,111. Expenditures were set at \$5,181,074. The retirement rate effective October 1, 2016 through September 30, 2017 is set at approximately 24.94%. This is a 3% decrease over the 2015-2016 MPSERS rate. This is calculated on net of the Section 147c estimated allotment to be provided by the State.

Climax-Scotts Community School's general fund balance at the end of the fiscal year end June 30, 2016 is \$903,043 or approximately 17% of its operating budget. The increase in fund equity comparing fiscal year end June 30, 2015 to fiscal year end June 30, 2016 is an amount of \$135,551. The recommended percent of fund equity for school districts is 15%.

**Climax-Scotts Community Schools  
Kalamazoo and Calhoun Counties Michigan  
For the Year End June 30, 2016  
Management's Discussion and Analysis**

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**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.cssschools.net](http://www.cssschools.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  
Statement of Net Position  
June 30, 2016**

**ASSETS**

Current Assets	
Cash	\$ 846,189
Due from other governments	752,367
Inventory	2,324
Prepaid expenses	40,292
Total Current Assets	1,641,172
Property and Equipment	
Capital assets, net of accumulated depreciation	3,771,504
Total Assets	5,412,676

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred amount related to pensions	697,825
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 6,110,501</b>

**LIABILITIES**

Current Liabilities	
Accounts payable	\$ 61,180
Unearned revenue	37,824
Accrued payroll and related withholdings	350,352
State aid note payable	88,768
Due to other governmental units	51,268
Current maturities of long-term debt	52,913
Current maturities of bonds payable	440,000
Total Current Liabilities	1,082,305
Long-term Debt, net of current maturities	119,898
Bonds Payable, net of current maturities	2,434,693
Net Pension Liability	7,096,220
Accrued Interest	7,169
Total Liabilities	10,740,285

**DEFERRED INFLOWS OF RESOURCES**

Deferred amount related to pensions	107,773
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>10,848,058</b>

**NET POSITION**

Net investment in capital assets	724,000
Restricted for:	
Debt	87,329
Food service	56,849
Unrestricted	(5,605,735)
<b>Total Net Position</b>	<b>\$ (4,737,557)</b>

The Accompanying Notes are an Integral Part of These Financial Statements.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Statement of Activities  
For the Year Ended June 30, 2016**

	<u>Program Revenue</u>			<b>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</b>
	<u>Expenses</u>	<u>Charges for Service</u>	<u>Operating Grants/ Contributions</u>	
Functions/Programs				
Governmental activities:				
Instruction & instructional support	\$ (2,659,498)	\$ 29,229	\$ 1,048,114	\$ (1,582,155)
Support services	(2,210,069)	-	-	(2,210,069)
Food services	(224,030)	90,972	142,650	9,592
Interest on long-term debt	(157,900)	-	-	(157,900)
Depreciation (unallocated)	(172,357)	-	-	(172,357)
<b>Total Governmental Activity</b>	<b><u>\$ (5,423,854)</u></b>	<b><u>\$ 120,201</u></b>	<b><u>\$ 1,190,764</u></b>	<b><u>\$ (4,112,889)</u></b>
General Revenues:				
Taxes:				
Property taxes, levied for general obligations				447,530
Property taxes, levied for debt service				838,450
State of Michigan aid, unrestricted				3,390,590
Interest and investment earnings				339
Miscellaneous revenue				110,650
<b>Total General Revenues</b>				<b><u>4,787,559</u></b>
<b>Change in Net Position</b>				<b>674,670</b>
Net Position, Beginning of Year				<u>(5,412,227)</u>
<b>Net Position, End of Year</b>				<b><u>\$ (4,737,557)</u></b>

The Accompanying Notes are an Integral Part of These Financial Statements.



**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Balance Sheet - Governmental Funds and the Reconciliation of the  
Balance Sheet of Governmental Funds to the Statement of Net Position  
June 30, 2016**

	General Fund	Other Non-Major Governmental	Total Governmental
<b>ASSETS</b>			
Cash	\$ 713,181	\$ 133,008	\$ 846,189
Due from other funds	1,207	-	1,207
Due from other governments	739,546	12,821	752,367
Prepaid expenses	40,292	-	40,292
Inventory	-	2,324	2,324
<b>Total Assets</b>	<b>\$ 1,494,226</b>	<b>\$ 148,153</b>	<b>\$ 1,642,379</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 61,006	\$ 174	\$ 61,180
Due to other funds	-	1,207	1,207
Due to other governmental units	51,268	-	51,268
Salaries payable and related withholdings	350,352	-	350,352
Accrued interest	4,559	-	4,559
State aid note payable	88,768	-	88,768
Total Liabilities	555,953	1,381	557,334
<b>Deferred Inflows of Resources</b>			
Unearned revenue	35,230	2,594	37,824
Total Liabilities and Deferred Inflows of Resources	591,183	3,975	595,158
<b>Fund Balances</b>			
Nonspendable	40,292	2,324	42,616
Restricted for:			
Debt	-	87,329	87,329
Food service	-	54,525	54,525
Unassigned	862,751	-	862,751
Total Fund Balances	903,043	144,178	1,047,221
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 1,494,226</b>	<b>\$ 148,153</b>	<b>\$ 1,642,379</b>
Reconciliation of the balance sheet - governmental funds to the statement of net position:			
Total governmental fund balances			\$ 1,047,221
Amounts reported for governmental activities in the statement of net position 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		8,802,788	
Accumulated depreciation is		(5,031,284)	
			3,771,504
Deferred inflows related to pensions			(107,773)
Deferred outflows related to pensions			697,825
Long term liabilities that are not due and payable in the current period and are not reported in the funds:			
Net pension liability			(7,096,220)
Bonds payable			(2,874,693)
Long-term debt			(172,811)
Accrued interest is not included as a liability in governmental funds			(2,610)
<b>Net Position of Governmental Activities</b>			<b>\$ (4,737,557)</b>

The Accompanying Notes are an Integral Part of These Financial Statements.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Other Non-Major Governmental</u>	<u>Total Governmental</u>
Revenues			
Local sources	\$ 423,998	\$ 929,436	\$ 1,353,434
Intermediate sources	507,188	-	507,188
State sources	4,007,099	9,549	4,016,648
Federal sources	88,153	133,100	221,253
Total Revenues	<u>5,026,438</u>	<u>1,072,085</u>	<u>6,098,523</u>
Expenditures			
Education			
Instruction	2,633,497	-	2,633,497
Support services	2,208,840	-	2,208,840
Food service	-	224,030	224,030
Capital outlay	-	520	520
Debt service	62,841	849,454	912,295
Total Expenditures	<u>4,905,178</u>	<u>1,074,004</u>	<u>5,979,182</u>
<b>Deficiency of Revenues Over Expenditures</b>	<b>121,260</b>	<b>(1,919)</b>	<b>119,341</b>
<b>Other Financing Sources (Uses)</b>			
Operating transfers in	15,000	-	15,000
Operating transfers out	-	(15,000)	(15,000)
Other transactions	(709)	-	(709)
Total Other Financing Sources (Uses)	<u>14,291</u>	<u>(15,000)</u>	<u>(709)</u>
<b>Net Change in Fund Balances</b>	<b><u>135,551</u></b>	<b><u>(16,919)</u></b>	<b><u>118,632</u></b>
Fund Balances, Beginning of Year	<u>767,492</u>	<u>161,097</u>	<u>928,589</u>
<b>Fund Balances, End of Year</b>	<b><u>\$ 903,043</u></b>	<b><u>\$ 144,178</u></b>	<b><u>\$ 1,047,221</u></b>

The Accompanying Notes are an Integral Part of These Financial Statements.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balances - Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2016**

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Net change in fund balances - total governmental funds		\$ 118,632
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	(172,357)	
Capital outlay	<u>5,900</u>	(166,457)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.		1,288
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).		701,558
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).		51,549
Repayment of net pension liability is an expenditure in the governmental funds, but not in the statement of activities (where it reduces net pension liability).		<u>(31,900)</u>
<b>Change in Net Position of Governmental Activities</b>		<b><u>\$ 674,670</u></b>

The Accompanying Notes are an Integral Part of These Financial Statements.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Statement of Fiduciary Net Position  
For the Year Ended June 30, 2016**

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	<u>Student Activities</u>
Assets	
Cash	\$ 76,318
	<u>                    </u>
Liabilities	
Due to Student Groups	\$ 76,318
	<u>                    </u>

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**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 Financial 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.

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. 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 is 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 properly included among program revenue are reported instead 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, 2016**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

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

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the District's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the District's policy to spend funds in this order: committed, assigned, and unassigned.

Fund Financial 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.

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 2008 Debt Service Fund and 2011 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.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary fund net position 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 fund maintained by the District is the Student Activities Fund.

Assets, Liabilities, and Net Position or Equity

*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 “due to/from other funds.”

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. 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 as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

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.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

*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

*Compensated Absences (Vacation and Sick Leave)*

The District does not record a liability for compensated absences in the district-wide statements because this benefit is not paid upon termination of employment with the District.

*Deferred Outflows/Inflows of Resources*

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period and will not be recognized as an outflow of resources until then.

The District has several items that qualify for reporting in these categories and are reported in the district-wide financial statement of net position. These items correspond to the District's net pension liability and are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings, and contributions made subsequent to the measurement date. These amounts are deferred and recognized as an outflow or inflow of resources in the period to which they apply.



**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

*Long-Term Obligations*

In the district-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.

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.

*Pension*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*Fund Balance*

In the fund financial statements, governmental funds report the following components of fund balance:

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. A fund balance commitment may be established, modified, or rescinded by the District's Board.

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, 2016**

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**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.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The District's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a functional basis. The approved budgets of the District for these budgeted funds were adopted on the function level.

The District did not have any significant budget expenditure variances.

**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, 2016**

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**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:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	<u>\$ 846,189</u>	<u>\$ 76,318</u>	<u>\$ 922,507</u>

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

Deposits (checking, savings accounts, money markets, certificates of deposits)	<u>\$ 922,507</u>
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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, 2016, \$671,409 of the District’s bank balance of \$926,409 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Foreign Currency Risk*

Foreign currency risk is the risk that an investment denominated in the currency of a foreign county could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the District’s policy prohibit investment in foreign currency.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

**NOTE D – Receivables and Unearned Revenue**

At June 30, 2016, the District's receivables were reported in the basic financial statements as follows:

<u>Type</u>	<u>General Fund</u>	<u>Food Service Fund</u>
Due from other governments	\$ 739,546	\$ 12,821

Governmental funds report deferred inflows of resources recognized as unearned revenue in connection with resources that have been received but not yet earned. At June 30, 2016, grant and categorical aid payments received prior to meeting all eligibility requirements were \$37,824.

**NOTE E – Capital Assets**

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

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2016</u>
Cost				
Buildings and improvements	\$ 6,843,107	\$ ---	\$ ---	\$ 6,843,107
Outdoor equipment	666,183	---	---	666,183
Equipment	587,429	---	---	587,429
Vehicles and tractors	700,169	5,900	---	706,069
	<u>8,796,888</u>	<u>5,900</u>	<u>---</u>	<u>8,802,788</u>
Accumulated Depreciation				
Buildings and improvements	3,426,095	107,009	---	3,533,104
Outdoor equipment	527,509	20,167	---	547,676
Equipment	462,382	9,620	---	472,002
Vehicles and tractors	442,941	35,561	---	478,502
	<u>4,858,927</u>	<u>172,357</u>	<u>---</u>	<u>5,031,284</u>
Net capital assets	<u>\$ 3,937,961</u>	<u>\$ (166,457)</u>	<u>\$ ---</u>	<u>\$ 3,771,504</u>

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

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE F – Interfund Receivables, Payables and Transfers**

The composition of interfund balances is as follows:

<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
Food Service Fund	General Fund	\$ 1,207

The outstanding balances between funds result mainly from the time lag between dates that 1) interfund goods and services are provided or reimbursed expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

An interfund reimbursement transfer was made from the Food Service Fund to the General Fund in the amount of \$15,000 to reimburse the General Fund for indirect costs related to food service activities.

**NOTE G – 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 30<sup>th</sup>.

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

	<u>Balance July 1, 2015</u>	<u>Proceeds</u>	<u>Accrued Interest</u>	<u>Repayments</u>	<u>Balance June 30, 2016</u>
State Aid Anticipation Note	\$ 262,429	\$ 621,000	\$ 2,993	\$ (797,654)	\$ 88,768

**NOTE H – 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.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

**NOTE H – Long-Term Debt (Continued)**

Long-term obligation activity is summarized as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amount due within one year
Government obligation bonds	\$ 2,805,000	\$ ---	\$ (445,000)	\$ 2,360,000	\$ 440,000
School bond loan fund	771,251	---	(261,558)	509,693	---
Bus and vehicle notes payable	224,360	---	(51,511)	172,849	52,913
	<u>\$ 3,800,611</u>	<u>\$ ---</u>	<u>\$ (758,069)</u>	<u>\$ 3,042,542</u>	<u>\$ 492,913</u>

Long-term debt consisted of the following at June 30, 2016:

Refunding Bond issue of 2008 with annual payments ranging from \$260,000 to \$335,000 plus interest of 3.59%	\$ 1,915,000
2011 School building and site bond issue with annual payments ranging from \$145,000 to \$155,000 plus interest of 2.65%	445,000
Bus note payables with one yearly payment ranging from \$17,878 to \$28,323 plus interest at 4%.	142,597
Vehicle note payable with quarterly payments ranging from \$900 to \$1,100 plus interest at 4.0048% and a vehicle note payable with an annual payment ranging from \$4,000 to \$4,700 plus interest at 4%.	30,252
School bond fund loan payable with no fixed payment schedule. Interest accrues at a rate of 4.41183%	509,693
Total principal payable	3,042,542
Interest payable	363,872
Total long-term debt payable	<u>\$ 3,406,414</u>

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

	Principal	Interest	Total
2017	\$ 492,913	\$ 103,866	\$ 596,779
2018	477,091	83,156	560,247
2019	463,315	63,160	526,475
2020	304,530	46,530	351,060
2021	270,000	33,150	303,150
2022-2023	1,034,693	34,010	1,068,703
	<u>\$ 3,042,542</u>	<u>\$ 363,872</u>	<u>\$ 3,406,414</u>

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE H – Long-Term Debt (Continued)**

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, 2016. 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 I – 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.

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 J – Michigan Public School Employees' Retirement System (MPERS) Pension Plan**

**Plan Description**

The District participates in the Michigan Public School Employees' Retirement System (MPERS or the "System"), a state-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan (the "State") originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE J – Michigan Public School Employees' Retirement System (MPERS) Pension Plan  
(Continued)**

**Benefits Provided**

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

**Contributions and Funded Status**

The District is required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

District contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

**Pension Contribution Rates**

Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	22.52 - 23.07%
Member Investment Plan	3.0 - 7.0	22.52 -23.07
Pension Plus	3.0 - 6.4	21.99
Defined Contribution	0.0	17.72 - 18.76

Required contributions to the pension plan from the District were \$560,471 for the year ended September 30, 2015.



**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE J – Michigan Public School Employees' Retirement System (MPSERS) Pension Plan  
(Continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and  
Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the District reported a liability of \$7,096,220 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was .03 percent, which is the same as its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$577,071. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	_____	_____
Differences between actual and expected experience	\$ ---	\$ 23,505
Changes of Assumptions	174,724	---
Net difference between projected and actual earnings on pension plan investments	36,220	---
Changes in proportion and differences between Employer contributions and proportionate share of contributions	---	84,268
District contributions subsequent to the measurement date	486,881	---
	_____	_____
Total	<u>\$ 697,825</u>	<u>\$ 107,773</u>

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE J – Michigan Public School Employees' Retirement System (MPERS) Pension Plan  
(Continued)**

\$486,881 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future Pension Expenses)	
<u>Plan Year Ending September, 30</u>	<u>Amount</u>
2016	\$ (2,799)
2017	(2,799)
2018	(12,249)
2019	121,018
	<u>\$ 103,171</u>

**Actuarial Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE J – Michigan Public School Employees' Retirement System (MPERS) Pension Plan  
(Continued)**

Additional information as of the latest actuarial valuation follows:

**Summary of Actuarial Assumptions**

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

**Notes:**

- *Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.*
- *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.7158*
- *Recognition period for assets in years is 5.0000*
- *Full actuarial assumptions are available in the 2015 MPERS Comprehensive Annual Financial Report ([www.michigan.gov/mpers-cafr](http://www.michigan.gov/mpers-cafr)).*

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

**NOTE J – Michigan Public School Employees' Retirement System (MPERS) Pension Plan  
(Continued)**

**Long-Term Expected Return on Plan Assets**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.9%
Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	---
<b>TOTAL</b>	<b>100.0%</b>	

*\*Long term rate of return does not include 2.1% inflation*

**Discount Rate**

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE J – Michigan Public School Employees' Retirement System (MPSERS) Pension Plan  
(Continued)**

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$9,148,847	\$7,096,220	\$5,365,772

**Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR. See the [2015 MPSERS CAFR \(www.michigan.gov/documents/orsschools/MPSERS\\_CAFR\\_2015\\_Final\\_510211\\_7.pdf\)](http://www.michigan.gov/documents/orsschools/MPSERS_CAFR_2015_Final_510211_7.pdf)

**Payable to the Michigan Public School Employees' Retirement System (MPSERS)**

At June 30, 2016, there were reported payables to MPSERS of \$55,189.

**NOTE K – Other Post-Employment Benefits**

The Michigan Public School Employees' Retirement System (MPSERS) is a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan originally created under Public Act 136 of 1945, re-codified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The 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](http://www.michigan.gov/orsschools) or may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees having this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10%, or 20% for those not Medicare eligible, 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.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE K – Other Post-Employment Benefits (Continued)**

Contribution rates for the year ended June 30, 2016, were as follows:

	<u>Health Contribution Rate</u>	
	<u>Basic/MIP</u>	<u>Pension Plus</u>
July 1, 2015 – September 30, 2015	2.20 – 2.71%	2.20 – 2.71%
October 1, 2015 – June 30, 2016	6.40 – 6.83%	6.40 – 6.83%

The District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2016, 2015 and 2014 were approximately \$174,000, \$75,000 and \$170,000, 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 L – Commitments and Contingencies**

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, 2016, 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, 2016, 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.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE M – Upcoming Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The District is currently evaluating the impact this standard will have on the financial statement when adopted during the District's 2017-2018 fiscal year.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public at present. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the District's 2016-2017 fiscal year.

**NOTE N – Subsequent Events**

Management has evaluated subsequent events through October 17, 2016, the date on which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**



**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Budget Comparison Schedule - General Fund  
For the Year Ended June 30, 2016**

	Budgeted Amounts			Variance with Final Budget Fav (Unfav)
	Original	Final	Actual	
<b>REVENUES</b>				
Local sources				
Property taxes	\$ 275,428	\$ 277,498	\$ 283,796	\$ 6,298
Earnings on investments	1,000	135	325	190
Other local revenue	134,915	137,183	139,877	2,694
Intermediate sources	485,778	508,606	507,188	(1,418)
State sources				
Unrestricted school aid	3,312,678	3,365,112	3,335,231	(29,881)
Restricted school aid	535,554	690,174	671,868	(18,306)
Federal sources	108,426	112,598	88,153	(24,445)
Total Revenues	4,853,779	5,091,306	5,026,438	(64,868)
<b>EXPENDITURES</b>				
Instruction				
Basic programs	2,212,884	2,101,512	2,097,879	3,633
Added needs	447,373	568,256	534,634	33,622
Adult & continuing education	4,173	2,250	984	1,266
Total Instruction	2,664,430	2,672,018	2,633,497	38,521
Support services				
Pupil services	232,499	273,690	232,680	41,010
Instructional	140,410	212,006	199,983	12,023
General administration	238,950	219,124	210,423	8,701
Schools administration	313,659	343,595	339,674	3,921
Business services	85,007	93,832	92,602	1,230
Operations/maintenance	549,897	539,975	513,420	26,555
Transportation	419,516	427,397	396,413	30,984
Other support services	189,536	208,508	202,787	5,721
Community services	36,917	30,644	20,858	9,786
Total Support Services	2,206,391	2,348,771	2,208,840	139,931
Debt service	63,001	64,330	62,841	1,489
Total Expenditures	4,933,822	5,085,119	4,905,178	179,941
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(80,043)</b>	<b>6,187</b>	<b>121,260</b>	<b>115,073</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Other transactions	-	(709)	(709)	-
Operating transfers in	15,000	15,000	15,000	-
Total Other Financing Sources	15,000	14,291	14,291	-
<b>Net Change in Fund Balance</b>	<b>\$ (65,043)</b>	<b>\$ 20,478</b>	<b>\$ 135,551</b>	<b>\$ 115,073</b>

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Schedule of the Reporting Unit's Proportionate  
Share of the Net Pension Liability  
Michigan Public School Employees Retirement Plan  
Last Two Years (ultimately ten fiscal years will be displayed)  
(Amounts were determined as of 9/30 of each fiscal year)**

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	<u>2015</u>	<u>2014</u>
A. Reporting unit's proportion of net pension liability (%)	0.02905%	0.02950%
B. Reporting unit's proportionate share of net pension liability	\$ 7,096,220	\$ 6,497,525
C. Reporting unit's covered - employee payroll	\$ 2,481,895	\$ 2,533,142
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	285.92%	256.50%
E. Plan fiduciary net position as a percentage of total pension liabilit	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years which information is available.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Schedule of the Reporting Unit's Contributions  
Michigan Public School Employees Retirement Plan  
Last Two Years (ultimately ten fiscal years will be displayed)  
(Amounts were determined as of 6/30 of each fiscal year)**

	<u>2015</u>	<u>2014</u>
A. Statutorily required contributions	\$ 560,471	\$ 458,132
B. Contributions in relation to statutorily required contributions*	<u>560,471</u>	<u>458,132</u>
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
D. Reporting unit's covered-employee payroll	\$ 2,408,531	\$ 2,487,437
E. Contributions as a percentage of covered-employee payroll	23.27%	18.42%

\* Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to MPSERS, which may differ from the statutorily required contributions.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years which information is available.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to Required Supplementary Information – GASB 68  
For the Year Ended June 30, 2016**

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**Changes of benefit terms:** There were no changes of benefit terms in 2015.

**Changes of assumptions:** There were no changes of benefit assumptions in 2015.

## **OTHER SUPPLEMENTARY INFORMATION**

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Balance Sheet - Non-Major Governmental Funds  
June 30, 2016**

	<u>Food Service Fund</u>	<u>2008 Debt Service</u>	<u>2011 Debt Service</u>	<u>Total</u>
<b>ASSETS</b>				
Cash	\$ 45,679	\$ 69,448	\$ 17,881	\$ 133,008
Due from other governments	12,821	-	-	12,821
Inventory	2,324	-	-	2,324
<b>Total Assets</b>	<b><u>\$ 60,824</u></b>	<b><u>\$ 69,448</u></b>	<b><u>\$ 17,881</u></b>	<b><u>\$ 148,153</u></b>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Accounts payable	\$ 174	\$ -	\$ -	\$ 174
Due to other funds	1,207	-	-	1,207
Due to students	2,594	-	-	2,594
	<u>3,975</u>	<u>-</u>	<u>-</u>	<u>3,975</u>
<b>Fund Balances</b>				
Nonspendable	2,324	-	-	2,324
Restricted for:				
Food service	54,525	-	-	54,525
Debt	-	69,448	17,881	87,329
<b>Total Fund Balances</b>	<u>56,849</u>	<u>69,448</u>	<u>17,881</u>	<u>144,178</u>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 60,824</u></b>	<b><u>\$ 69,448</u></b>	<b><u>\$ 17,881</u></b>	<b><u>\$ 148,153</u></b>

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Statement of Revenues, Expenditures and Changes in Fund  
Balances - Non-Major Governmental Funds  
For the Year Ended June 30, 2016**

	<u>Food Service Fund</u>	<u>2008 Debt Service</u>	<u>2011 Debt Service</u>	<u>Total</u>
Revenues				
Local Sources	\$ 90,986	\$ 582,222	\$ 256,228	\$ 929,436
State Sources	9,549	-	-	9,549
Federal Sources	133,100	-	-	133,100
Total Revenues	<u>233,635</u>	<u>582,222</u>	<u>256,228</u>	<u>1,072,085</u>
Expenditures				
Food service	224,030	-	-	224,030
Capital outlay	520	-	-	520
Debt service	-	591,000	258,454	849,454
Total Expenditures	<u>224,550</u>	<u>591,000</u>	<u>258,454</u>	<u>1,074,004</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>9,085</b>	<b>(8,778)</b>	<b>(2,226)</b>	<b>(1,919)</b>
Other Financing Uses				
Transfers to other funds	15,000	-	-	15,000
<b>Net Change in Fund Balances</b>	<b><u>(5,915)</u></b>	<b><u>(8,778)</u></b>	<b><u>(2,226)</u></b>	<b><u>(16,919)</u></b>
Fund Balances, Beginning of Year	<u>62,764</u>	<u>78,226</u>	<u>20,107</u>	<u>161,097</u>
<b>Fund Balances, End of Year</b>	<b><u>\$ 56,849</u></b>	<b><u>\$ 69,448</u></b>	<b><u>\$ 17,881</u></b>	<b><u>\$ 144,178</u></b>

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Schedule of Changes in Long-Term Debt  
For the Year Ended June 30, 2016**

	<b>Balance at July 1, 2015</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at June 30, 2016</b>
2008 Refunding	\$ 2,205,000	\$ -	\$ (290,000)	\$ 1,915,000
Interest related to 2008 current refunding bond issue	421,350	-	(99,500)	321,850
2011 Refunding	600,000	-	(155,000)	445,000
Interest related to 2011 current refunding bond issue	39,486	-	(15,900)	23,586
Bus note payables	184,634	-	(42,037)	142,597
Interest related to buses	20,716	-	(7,495)	13,221
Vehicle note payables	39,726	-	(9,474)	30,252
Interest related to vehicles	4,172	-	(1,567)	2,605
School bond loan fund	771,251	-	(261,558)	509,693
Interest related to school bond loan fund	3,898	25,155	(26,443)	2,610
<b>Total</b>	<b>\$ 4,290,233</b>	<b>\$ 25,155</b>	<b>\$ (908,974)</b>	<b>\$ 3,406,414</b>



**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Schedules of Maturities of Bonded Debt  
June 30, 2016**

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		<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:				
2017		\$ 150,000	\$ 11,793	\$ 161,793
2018		145,000	7,818	152,818
2019		150,000	3,975	153,975
<b>TOTALS</b>		<u><b>\$ 445,000</b></u>	<u><b>\$ 23,586</b></u>	<u><b>\$ 468,586</b></u>

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Schedules of Maturities of Bonded Debt  
June 30, 2016**

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	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008 Current Refunding Bond Issue			
Principal payment due			
Interest payments due			
Interest rates			
Original issue			
Payments due for years ending June 30:			
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
<b>TOTALS</b>	<b><u>\$ 1,915,000</u></b>	<b><u>\$ 321,850</u></b>	<b><u>\$ 2,236,850</u></b>

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Schedule of Findings and Responses  
June 30, 2016**

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**FINDINGS AND RESPONSES**

No matters were reported.

# SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' 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  
State of Michigan, County of Kalamazoo

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Climax-Scotts Community Schools (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 17, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Seber Tans, PLC  
Kalamazoo, Michigan

October 17, 2016

# SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

October 17, 2016

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

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) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

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

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

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of District's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note A to the financial statements. The District adopted Governmental Accounting Standards Board Statements No. 72 and 79 during the year ended June 30, 2016. The adoption of these standards did not have a significant impact on the amounts or disclosures reported in the financial statements.

To the Finance Committee of the Board of Education  
Climax-Scotts Community Schools, State of Michigan, County of Kalamazoo  
October 17, 2016

We noted no transaction entered into by the District during the year for which there is a lack of authoritative guidance or consensus.

All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of capital asset useful lives and depreciation is based on an appraisal and analysis of the District's fixed assets by a third party. We evaluated the key factors and assumptions used by the third party to develop their estimates of useful lives and depreciation and determined that it is reasonable in relation to the financial statements taken as a whole.
- The District's estimated share of the MPERS pension plan net pension liability recorded in the government-wide financial statements. The District's estimate is based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop this estimate and believe it is reasonable in relation to the financial statements as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

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

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements as a result of the audit.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 17, 2016.

#### *Management Consultations with Other Independent Accountants*

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

To the Finance Committee of the Board of Education  
Climax-Scotts Community Schools, State of Michigan, County of Kalamazoo  
October 17, 2016

*Other Audit Findings or Issues*

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

Other Matters

We applied certain limited procedures to management's discussion and analysis, the budget comparison schedule – general fund, schedule of the reporting unit's proportionate share of net pension liability and the schedule of the reporting unit's contributions as listed in the table of contents, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on Balance Sheet – Non-Major Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds, Schedule of Changes in Long-Term Debt, and Schedule of Maturities of Bonded Debt, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

As part of our audit, we assisted management in the preparation of the financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for those financial statements prior to their issuance. We considered management's and the Board of Directors' competency to evaluate the completeness of financial statement disclosures.

Restriction on Use

This information is intended solely for the use of the Finance Committee of the Board of Education and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very Truly Yours,

  
Seber Tans, PLC