



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

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2014**

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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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

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

#### 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, 2014, 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 and budgetary comparison information on pages 2 through 11 and 32 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 20, 2014, 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*

Seber Tans, PLC  
Kalamazoo, Michigan

October 20, 2014

**Climax-Scotts Community Schools  
Kalamazoo and Calhoun Counties Michigan  
For the Year End June 30, 2014  
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-four full and part-time teachers (K-12) seven part-time teachers for Adult & Alternative Education, 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 2014 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, 2014.

**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  
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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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Current assets	\$ 1,810,740	\$ 1,785,672
Capital assets, net book value	3,875,119	4,033,405
<b>TOTAL ASSETS</b>	<u><u>\$ 5,685,859</u></u>	<u><u>\$ 5,819,077</u></u>
<b>LIABILITIES</b>		
Current liabilities	\$ 1,179,408	\$ 1,307,249
Long-term liabilities	3,898,346	4,479,880
<b>TOTAL LIABILITIES</b>	<u>5,077,754</u>	<u>5,787,129</u>
<b>NET POSITION</b>		
Net investment in capital assets	(412,566)	(733,006)
Restricted	215,512	80,691
Unrestricted	805,159	684,263
<b>TOTAL NET POSITION</b>	<u>608,105</u>	<u>31,948</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 5,685,859</u></u>	<u><u>\$ 5,819,077</u></u>

**Climax-Scotts Community Schools  
Kalamazoo and Calhoun Counties Michigan  
For the Year End June 30, 2014  
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, 2014 by \$576,157. In comparison during the fiscal year ended June 30, 2013, the District's net position increased by \$421,327.

<b>REVENUES</b>	<b>2014</b>	<b>2013</b>
Program revenues:		
Charges for services	\$ 153,251	\$ 154,354
Operating grants	944,013	920,754
General revenues:		
Property taxes	1,241,466	1,241,506
State foundation allowance	3,474,588	3,508,085
Interest and investment earnings	1,247	1,280
Other	116,658	103,879
<b>TOTAL REVENUES</b>	<b>5,931,223</b>	<b>5,929,858</b>
<b>EXPENSES</b>		
Instruction and instructional support	2,653,170	2,601,728
Support services	2,075,347	2,246,993
Food services	233,101	241,599
Interest on long-term debt	235,162	230,091
Capital outlay	---	828
Depreciation (unallocated)	158,286	187,292
<b>TOTAL EXPENSES</b>	<b>5,355,066</b>	<b>5,508,531</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 576,157</b>	<b>\$ 421,327</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, 2014  
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 89% 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 September 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, 2014, the allowance was set for \$7,026. This is an increase of \$60 per student over the 2012-13 set foundation, but still \$290 less than 2010-11. Additional funding from the State of Michigan for Foundation Equity 22c yielded another \$50 per student. Reimbursements for Data collections 152a and a Retirement Cost offset 147a, amounting to \$49,023, did not make up for the reduction in foundation, leaving the district less funding per student as has been the continuing trend.

**Student Enrollment**

Climax-Scotts Community Schools' blended membership count of the 2013-2014 school year was 521.91 students, which includes students enrolled in our alternative education program. The following is a breakdown of student FTE for the last five years:

2009-2010	597.00
2010-2011	571.72
2011-2012	566.35
2012-2013	530.08
2013-2014	521.91



**Climax-Scotts Community Schools  
Kalamazoo and Calhoun Counties Michigan  
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Management's Discussion and Analysis**

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Our blended student enrollment for the 2013-2014 school year of 521.91 students was based on 10% of our February 2014 count, and 90% of our October 2013 count. As you can see from the above student enrollment history, our district has experienced declining enrollment for the last five years.

**Property Taxes Levied for General Operations**

Climax-Scotts Community Schools levies 18 mills on non-homestead property, which generates revenue for General Fund operations. Under Michigan law, the taxable levy is based on the taxable valuation of properties within each School District. Annually the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five percent, whichever is less. Climax-Scotts Community School levied 18 mills for operations for the 2013-2014 tax year, generating \$270,187 on non-homestead property, and \$4,144 in commercial personal property revenue. This represents a 4% increase in tax revenue. Both Calhoun and Kalamazoo County Treasurers settled their delinquent tax accounts with our school district prior to June 30, 2014.

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

2008-2009	\$236,842	Decrease of 2%
2009-2010	\$251,695	Increase of 6%
2010-2011	\$234,400	Decrease of 7%
2011-2012	\$256,955	Increase of 10%
2012-2013	\$259,505	Increase of 1%
2013-2014	\$270,187	Increase of 4%

**Climax-Scotts Community Schools  
Kalamazoo and Calhoun Counties Michigan  
For the Year End June 30, 2014  
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, 2014. 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, 2014, the School District had capital assets net of accumulated depreciation, totaling \$3,875,119, which includes land, buildings, furniture and equipment, fleet of buses, and athletic facilities including an all weather track. This represents a net decrease (including additions, deductions, and depreciation) of approximately \$158,286 or 3.9% from fiscal year end June 30, 2013. A summary of capital assets is as follows:

	<u>2014</u>	<u>2013</u>
Buildings and improvements	\$ 6,843,107	\$ 6,843,107
Outdoor equipment	666,183	666,183
Equipment	543,948	543,948
Vehicles and tractors	556,022	556,022
	<u>8,609,260</u>	<u>8,609,206</u>
Less: accumulated depreciation	(4,734,141)	(4,575,855)
<b>NET CAPITAL ASSETS</b>	<u><b>\$ 3,875,119</b></u>	<u><b>\$ 4,033,405</b></u>

**Climax-Scotts Community Schools  
Kalamazoo and Calhoun Counties Michigan  
For the Year End June 30, 2014  
Management's Discussion and Analysis**

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**Long-Term Obligations**

At the end of fiscal year ended June 30, 2014, the School District had a balance of \$4,927,107 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, 2013 of \$5,704,318, this represents a net decrease in long-term obligations of \$777,211. Reference page 35 for Activity in long-term obligations, which consist of the following:

	<b>Balance at July 1, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at June 30, 2014</b>
2008 Refunding	\$ 2,800,000	\$ -	\$ (300,000)	\$ 2,500,000
Interest related to 2008 current refunding bond issue	651,500	-	(120,325)	531,175
2011 Refunding	910,000	-	(155,000)	755,000
Interest related to 2011 current refunding bond issue	83,609	-	(24,115)	59,494
2013 bus note payable	89,390	-	(17,878)	71,512
Interest related to 2013 bus	10,882	-	(3,626)	7,256
2013 van note payable	18,264	-	(3,781)	14,483
Interest related to 2013 van	1,788	-	(675)	1,113
School bond loan fund	1,056,411	-	(74,455)	981,956
Interest related to school bond loan fund	82,474	39,189	(116,545)	5,118
<b>Total</b>	<b>\$ 5,704,318</b>	<b>\$ 39,189</b>	<b>\$ (816,400)</b>	<b>\$ 4,927,107</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, 2014  
Management's Discussion and Analysis**

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The following chart represents the account activity from July 1, 2013 to June 30, 2014 in both the School bond Loan Fund & School Loan Revolving Fund:

**Climax-Scotts Community Schools  
School District: 39-020  
Statement Date: July 1, 2014  
Millage Levied: 7.20 Mills**

	<b>SBLF</b>	<b>SBLF</b>	<b>SLRF</b>	<b>SLRF</b>	
	<b>Principal Outstanding</b>	<b>Interest Outstanding</b>	<b>Principal Outstanding</b>	<b>Interest Outstanding</b>	<b>Total Loans Outstanding</b>
Beginning Balance:	\$ 1,056,411	\$ 82,474	\$ ---	\$ ---	\$ 1,138,885
New Loans & Loan Repayments	(74,455)	(116,545)	---	---	(191,000)
Interest Accrued in Current Period:	---	39,189	---	---	39,189
Ending Balance:	\$ 981,956	\$ 5,118	\$ ---	\$ ---	\$ 987,074

Current SLRF Interest Rate: 3.53368  
Current SBLF Interest Rate: 3.53368

**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 2013-2014 was approved on June 24, 2013, and the Board approved a final amendment to that budget on June 30, 2014.

**General Fund Revenues**

Total Revenues – Revised Budget	June 30, 2014	\$4,891,387
Total Revenues – Original Budget	June 24, 2013	\$4,806,980

The District's actual General Fund revenues were greater than the amended budget by \$2,195. Original and revised budget amounts include an operating transfer in of \$15,000.

**General Fund Expenditures**

Total Expenditures/Other Financing Uses – Revised Budget	\$4,925,602
Total Expenditures/Other Financing Uses – Original Budget	\$4,978,265

The District's actual General Fund expenditures and other financing uses were less than the amended budget by \$167,513.

**Climax-Scotts Community Schools  
Kalamazoo and Calhoun Counties Michigan  
For the Year End June 30, 2014  
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, 2014 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 2013-2014 school year is based in 10% of the February 2014 and 90% of the September 2013 student counts. The 2013-2014 budget was amended in June 2014 based on a blended student membership count of 521.91 students. Approximately 70% 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 2013-2014 school year the reader should note the following: The foundation allowance per pupil was \$7,026. A portion was made up by additional categorical, but per student was less than the 2010-11 year.

Budget Update: 2014-2015

Based on budget projections approved by the Board of Education of Climax-Scotts Community Schools on June 30, 2014, it is anticipated that the school district will have to use approximately \$192,000 of its fund equity to balance the budget for FYE June 30, 2015. Revenues were set at \$4,818,955. Expenditures were set at \$5,011,092. The retirement rate effective October 1, 2014 through September 30, 2015 is set at 25.78%. This is a 4% increase over the 2013-2014 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, 2014 is \$924,974 or approximately 18% of its operating budget. The increase in fund equity comparing fiscal year end June 30, 2013 to fiscal year end June 30, 2014 is an amount of \$135,493. 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, 2014  
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, 2014**

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**ASSETS**

Current Assets	
Cash	\$ 988,289
Accounts receivable	229
Due from other governments	780,382
Inventory	4,499
Prepaid expenses	37,341
Total Current Assets	<u>1,810,740</u>
Property and Equipment	
Capital assets	8,609,260
Less: accumulated depreciation	<u>(4,734,141)</u>
Net Property and Equipment	<u>3,875,119</u>
<b>Total Assets</b>	<b><u>\$ 5,685,859</u></b>

**LIABILITIES AND NET POSITION**

Current Liabilities	
Accounts payable	\$ 32,293
Unearned revenue	28,684
Accrued payroll and related withholdings	359,326
State aid note payable	262,989
Due to other governmental units	24,303
Current maturities of long-term debt	21,813
Current maturities of bonds payable	450,000
Total Current Liabilities	<u>1,179,408</u>
Long-term Debt, net of current maturities	64,182
Bonds Payable, net of current maturities	3,786,956
Accrued Interest on School Bond Loan Fund	<u>47,208</u>
<b>Total Liabilities</b>	<b><u>5,077,754</u></b>
Net Position	
Net investment in capital assets	(447,832)
Restricted for:	
Debt	102,539
Food service	112,973
Unrestricted	840,425
<b>Total Net Position</b>	<b><u>\$ 608,105</u></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, 2014**

	<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	\$ (2,653,170)	\$ 45,256	\$ 800,673	\$ (1,807,241)
Support services	(2,075,347)	-	4,545	(2,070,802)
Food services	(233,101)	107,995	138,795	13,689
Interest on long-term debt	(235,162)	-	-	(235,162)
Depreciation (unallocated)	(158,286)	-	-	(158,286)
<b>Total Governmental Activity</b>	<b><u>\$ (5,355,066)</u></b>	<b><u>\$ 153,251</u></b>	<b><u>\$ 944,013</u></b>	<b><u>\$ (4,257,802)</u></b>
General Revenues:				
Taxes:				
Property taxes, levied for general obligations				435,685
Property taxes, levied for debt service				805,781
State of Michigan aid, unrestricted				3,474,588
Interest and investment earnings				1,247
Miscellaneous revenue				116,658
<b>Total General Revenues</b>				<b><u>4,833,959</u></b>
<b>Change in Net Position</b>				<b>576,157</b>
Net Position, Beginning of Year				<u>31,948</u>
<b>Net Position, End of Year</b>				<b><u>\$ 608,105</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, 2014**

	<u>General Fund</u>	<u>Other Non-Major Governmental</u>	<u>Total Governmental</u>
<b>ASSETS</b>			
Cash	\$ 814,732	\$ 173,557	\$ 988,289
Accounts receivable	-	229	229
Due from other funds	-	2,300	2,300
Due from other governments	780,382	-	780,382
Prepaid expenses	37,341	-	37,341
Inventory	-	4,499	4,499
<b>Total Assets</b>	<b><u>\$ 1,632,455</u></b>	<b><u>\$ 180,585</u></b>	<b><u>\$ 1,813,040</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 32,232	\$ 61	\$ 32,293
Due to other funds	2,300	-	2,300
Due to other governmental units	24,303	-	24,303
Salaries payable and related withholdings	359,326	-	359,326
State aid note payable	262,989	-	262,989
Total Liabilities	<u>681,150</u>	<u>61</u>	<u>681,211</u>
<b>Deferred Inflows of Resources</b>			
Unearned revenue	<u>26,331</u>	<u>2,353</u>	<u>28,684</u>
Total Liabilities and Deferred Inflows of Resources	<u>707,481</u>	<u>2,414</u>	<u>709,895</u>
<b>Fund Balances</b>			
Nonspendable	37,341	4,499	41,840
Restricted for:			
Debt	-	102,539	102,539
Food service	-	71,133	71,133
Unassigned	<u>887,633</u>	<u>-</u>	<u>887,633</u>
Total Fund Balances	<u>924,974</u>	<u>178,171</u>	<u>1,103,145</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b><u>\$ 1,632,455</u></b>	<b><u>\$ 180,585</u></b>	<b><u>\$ 1,813,040</u></b>
Reconciliation of the balance sheet - governmental funds to the statement of net position:			
Total governmental fund balances			\$ 1,103,145
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		8,609,260	
Accumulated depreciation is		<u>(4,734,141)</u>	3,875,119
Long term liabilities that are not due and payable in the current period and are not reported in the funds:			
Bonds payable			(4,236,956)
Long-term debt			(85,995)
Accrued interest is not included as a liability in governmental funds			<u>(47,208)</u>
<b>Net Position of Governmental Activities</b>			<b><u>\$ 608,105</u></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, 2014**

	<u>General Fund</u>	<u>Other Non-Major Governmental</u>	<u>Total Governmental</u>
Revenues			
Local sources	\$ 435,920	\$ 913,846	\$ 1,349,766
Intermediate sources	391,070	-	391,070
State sources	3,935,154	9,968	3,945,122
Federal sources	116,438	128,827	245,265
Total Revenues	<u>4,878,582</u>	<u>1,052,641</u>	<u>5,931,223</u>
Expenditures			
Education			
Instruction	2,653,170	-	2,653,170
Support services	2,075,347	-	2,075,347
Food service	-	233,101	233,101
Debt service	29,572	791,970	821,542
Total Expenditures	<u>4,758,089</u>	<u>1,025,071</u>	<u>5,783,160</u>
<b>Excess of Revenues Over Expenditures</b>	<b>120,493</b>	<b>27,570</b>	<b>148,063</b>
<b>Other Financing Sources (Uses)</b>			
Operating transfers in	15,000	-	15,000
Operating transfers out	-	(15,000)	(15,000)
Total Other Financing Sources (Uses)	<u>15,000</u>	<u>(15,000)</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	<b><u>135,493</u></b>	<b><u>12,570</u></b>	<b><u>148,063</u></b>
Fund Balances, Beginning of Year	<u>789,481</u>	<u>165,601</u>	<u>955,082</u>
<b>Fund Balances, End of Year</b>	<b><u>\$ 924,974</u></b>	<b><u>\$ 178,171</u></b>	<b><u>\$ 1,103,145</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, 2014**

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Net change in fund balances - total governmental funds	\$ 148,063
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	(158,286)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.	35,266
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).	529,455
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).	<u>21,659</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u><u>\$ 576,157</u></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, 2014**

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	<u>Student Activities</u>
Assets	
Cash	\$ 73,543
Liabilities	
Due to Student Groups	\$ 73,543

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2014**

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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, 2014**

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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, 2011 Debt Service Fund and the Durant Debt Service Fund.

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

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2014**

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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, 2014**

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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 Inflows of Resources*

Deferred inflow of resources – A deferred inflow of resources is an acquisition of net assets 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.



**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2014**

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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.

*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.

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.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2014**

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**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.

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, and cash equivalents	<u>\$ 988,289</u>	<u>\$ 73,543</u>	<u>\$ 1,061,832</u>

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

Deposits (checking, savings accounts, money markets, certificates of deposits)	<u>\$ 1,061,832</u>
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**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2014**

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**NOTE C – Deposits and Investments (Continued)**

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, 2014, \$797,933 of the District's bank balance of \$1,163,157 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**NOTE D – Receivables and Unearned Revenue**

At June 30, 2014, the District's receivables were reported in the basic financial statements as follows:

<u>Type</u>	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Due from other governments	\$ 780,382	\$ ---	\$ 780,382
Interfund	---	2,300	2,300
Totals	<u>\$ 780,382</u>	<u>\$ 2,300</u>	<u>\$ 782,682</u>

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, 2014, grant and categorical aid payments received prior to meeting all eligibility requirements were \$28,684.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2014**

**NOTE E – Capital Assets**

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

	Balance June 30, 2013	Additions	Disposals and Adjustments	Balance June 30, 2014
<b>Cost</b>				
Buildings and improvements	\$ 6,843,107	\$ ---	\$ ---	\$ 6,843,107
Outdoor equipment	666,183	---	---	666,183
Equipment	543,948	---	---	543,948
Vehicles and tractors	556,022	---	---	556,022
	<u>8,609,260</u>	<u>---</u>	<u>---</u>	<u>8,609,260</u>
<b>Accumulated Depreciation</b>				
Buildings and improvements	3,212,077	107,009		3,319,086
Outdoor equipment	486,653	20,692	---	507,345
Equipment	437,475	14,126	---	451,601
Vehicles and tractors	439,650	16,459	---	456,109
	<u>4,575,855</u>	<u>158,286</u>	<u>---</u>	<u>4,734,141</u>
Net capital assets	<u>\$ 4,033,405</u>	<u>\$ 158,286</u>	<u>\$ ---</u>	<u>\$ 3,875,119</u>

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

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

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Food Service Fund	General Fund	\$ 2,300

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.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2014**

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**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:

	Balance July 1, 2013	Proceeds	Accrued Interest	Repayments	Balance June 30, 2014
State Aid Anticipation Note	\$ 349,031	\$ 624,000	\$ 2,418	\$ (712,460)	\$ 262,989

**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.

Long-term obligation activity is summarized as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amount due within one year
Government obligation bonds	\$ 3,710,000	\$ ---	\$ (455,000)	\$ 3,255,000	\$ 450,000
School bond loan fund	1,056,411	---	(74,455)	981,956	---
Bus and vehicle notes payable	107,654	---	(21,659)	85,995	21,813
	<u>\$ 4,874,065</u>	<u>\$ ---</u>	<u>\$ (551,114)</u>	<u>\$ 4,322,951</u>	<u>\$ 471,813</u>

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2014**

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

Long-term debt consisted of the following at June 30, 2014:

Refunding Bond issue of 2008 with annual payments ranging from \$260,000 to \$335,000 plus interest of 3.59%	\$ 2,500,000
2011 School building and site bond issue with annual payments ranging from \$145,000 to \$155,000 plus interest of 2.65%	755,000
2013 bus note payable with one yearly payment of \$17,878 plus interest at 4%	71,512
2013 van note payable with quarterly payments ranging from \$900 to \$1,100 plus interest at 4.0048%	14,483
School bond fund loan payable with no fixed payment schedule. Interest accrues at a 4.75%	981,956
Total principal payable	<u>4,322,951</u>
Interest payable	<u>604,156</u>
Total long-term debt payable	<u><u>\$ 4,927,107</u></u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 471,813	\$ 133,255	\$ 605,068
2016	466,972	117,944	584,916
2017	462,139	98,438	560,577
2018	445,071	79,076	524,147
2019	430,000	60,475	490,475
2020-2023	2,046,956	114,968	2,161,924
	<u>\$ 4,322,951</u>	<u>\$ 604,156</u>	<u>\$ 4,927,107</u>

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, 2014. 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.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2014**

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**NOTE J – Defined Benefit Pension Plan and Post Retirement Benefits**

Plan Description

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

Pension Benefits

Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. During the fiscal year ending June 30, 2014 employees were able to transition to a defined contribution (DC) and could elect out of the healthcare premium subsidy into a Personal Healthcare Fund (PHF), depending upon their date of hire and their elected retirement plan.

For the period from July 1, 2013 through September 30, 2013, employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP	Pension Plus	Pension Plus PHF*	Pension DC with PHF*	Basic MIP Plus to DB to DC Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension contributions	15.21%	15.02%	15.02%	12.78%	12.78%	12.78%	15.21%
Health contributions	9.11%	9.11%	8.18%	8.18%	9.11%	8.18%	8.18%
Defined contribution plan employer contributions:							
DC employer contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal healthcare fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2014**

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**NOTE J – Defined Benefit Pension Plan and Post Retirement Benefits (Continued)**

For the period from October 1, 2013 through June 30, 2014, employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP	Pension Plus	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension contributions	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health contributions	6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
Defined contribution plan employer contributions:							
DC employer contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal healthcare fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

\*First worked September 4, 2012 or later

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The District's contributions to the MPSERS plan totaled approximately \$636,000, \$650,500 and \$654,500 for the years ended June 30, 2014, 2013, and 2012, respectively.

Post Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental, and vision coverage 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. The employer contribution rate of covered payroll ranged from 8.18% to 9.11% for the period July 1, 2013 through September 30, 2013, and from 5.52% to 6.45% for the period October 1, 2013 through June 30, 2014, dependent upon the employee's hire date and plan elections as noted above. Members can choose to contribute 3% of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3% contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2% employee contribution into their 457 account as of their transition date and create a 2% employer match into the employee's 401(k) account.



**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2014**

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**NOTE J – Defined Benefit Pension Plan and Post Retirement Benefits (Continued)**

The District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2014, 2013 and 2012 were approximately \$170,000, \$241,000 and \$228,000, 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.

Unfunded Accrued Actuarial Liability

During the year ended June 30, 2014, the District had contributions in the amount of \$133,604 to MPSERS. This represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 4.56% for the year. These contributions are not included in the above tables.

**NOTE K – 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, 2014, 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, 2014, 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, 2014**

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**NOTE L – Pending Accounting Pronouncements**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The net pension liability that will be recorded on the district-wide statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances the accountability and transparency through revised note disclosures and required supplemental information. The District is currently evaluating the impact of the standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

**NOTE M – Subsequent Events**

Management has evaluated subsequent events through October 20, 2014, 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, 2014**

	<u>Budgeted Amounts</u>			Variance with Final Budget Fav (Unfav)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Local sources				
Property taxes	\$ 262,251	\$ 272,720	\$ 268,293	\$ (4,427)
Earnings on investments	1,000	1,000	1,168	168
Other local revenue	148,340	164,188	166,459	2,271
Intermediate sources	369,793	397,994	391,070	(6,924)
State sources				
Unrestricted school aid	3,341,323	3,412,767	3,419,309	6,542
Restricted school aid	569,590	511,280	515,845	4,565
Federal sources	99,683	116,438	116,438	-
Total Revenues	<u>4,791,980</u>	<u>4,876,387</u>	<u>4,878,582</u>	<u>2,195</u>
<b>EXPENDITURES</b>				
Instruction				
Basic programs	2,205,206	2,236,811	2,170,891	65,920
Added needs	560,259	486,933	450,156	36,777
Adult & continuing education	30,826	33,701	32,123	1,578
Total Instruction	<u>2,796,291</u>	<u>2,757,445</u>	<u>2,653,170</u>	<u>104,275</u>
Support services				
Pupil services	194,669	226,973	218,791	8,182
Instructional	236,767	139,045	133,980	5,065
General administration	194,259	206,724	200,807	5,917
Schools administration	298,429	296,602	294,208	2,394
Business services	85,788	81,677	80,946	731
Operations/maintenance	518,762	531,593	511,395	20,198
Transportation	403,828	407,183	393,771	13,412
Other support services	200,246	205,837	200,537	5,300
Community services	19,124	42,421	40,912	1,509
Total Support Services	<u>2,151,872</u>	<u>2,138,055</u>	<u>2,075,347</u>	<u>62,708</u>
Debt service	30,102	30,102	29,572	530
Total Expenditures	<u>4,978,265</u>	<u>4,925,602</u>	<u>4,758,089</u>	<u>167,513</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b><u>(186,285)</u></b>	<b><u>(49,215)</u></b>	<b><u>120,493</u></b>	<b><u>169,708</u></b>
<b>OTHER FINANCING SOURCES</b>				
Operating transfers in	15,000	15,000	15,000	-
<b>Net Change in Fund Balance</b>	<b><u>\$ (171,285)</u></b>	<b><u>\$ (34,215)</u></b>	<b><u>\$ 135,493</u></b>	<b><u>\$ 169,708</u></b>

**OTHER SUPPLEMENTARY INFORMATION**

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Balance Sheet - Non-Major Governmental Funds  
June 30, 2014**

	<u>Food Service Fund</u>	<u>2008 Debt Service</u>	<u>2011 Debt Service</u>	<u>Total</u>
<b>ASSETS</b>				
Cash	\$ 71,018	\$ 80,923	\$ 21,616	\$ 173,557
Accounts receivable	229	-	-	229
Due from other funds	2,300	-	-	2,300
Inventory	4,499	-	-	4,499
<b>Total Assets</b>	<b><u>\$ 78,046</u></b>	<b><u>\$ 80,923</u></b>	<b><u>\$ 21,616</u></b>	<b><u>\$ 180,585</u></b>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Accounts payable	\$ 61	\$ -	\$ -	\$ 61
Due to students	2,353	-	-	2,353
	<u>2,414</u>	<u>-</u>	<u>-</u>	<u>2,414</u>
<b>Fund Balances</b>				
Nonspendable	4,499	-	-	4,499
Restricted for:				
Food service	71,133	-	-	71,133
Debt	-	80,923	21,616	102,539
<b>Total Fund Balances</b>	<b><u>75,632</u></b>	<b><u>80,923</u></b>	<b><u>21,616</u></b>	<b><u>178,171</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 78,046</u></b>	<b><u>\$ 80,923</u></b>	<b><u>\$ 21,616</u></b>	<b><u>\$ 180,585</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, 2014**

	<u>Food Service Fund</u>	<u>2008 Debt Service</u>	<u>2011 Debt Service</u>	<u>Total</u>
Revenues				
Local Sources	\$ 108,065	\$ 565,184	\$ 240,597	\$ 913,846
State Sources	9,968	-	-	9,968
Federal Sources	128,827	-	-	128,827
Total Revenues	<u>246,860</u>	<u>565,184</u>	<u>240,597</u>	<u>1,052,641</u>
Expenditures				
Food service	233,101	-	-	233,101
Debt service	-	556,090	235,880	791,970
Total Expenditures	<u>233,101</u>	<u>556,090</u>	<u>235,880</u>	<u>1,025,071</u>
<b>Excess of Revenues over Expenditures</b>	<b>13,759</b>	<b>9,094</b>	<b>4,717</b>	<b>27,570</b>
Other Financing Uses				
Transfers to other funds	15,000	-	-	15,000
<b>Net Change in Fund Balances</b>	<b>(1,241)</b>	<b>9,094</b>	<b>4,717</b>	<b>12,570</b>
Fund Balances, Beginning of Year	<u>76,873</u>	<u>71,829</u>	<u>16,899</u>	<u>165,601</u>
<b>Fund Balances, End of Year</b>	<b><u>\$ 75,632</u></b>	<b><u>\$ 80,923</u></b>	<b><u>\$ 21,616</u></b>	<b><u>\$ 178,171</u></b>

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Schedule of Changes in Long-Term Debt  
For the Year Ended June 30, 2014**

	Balance at July 1, 2013	Additions	Deductions	Balance at June 30, 2014
2008 Refunding	\$ 2,800,000	\$ -	\$ (300,000)	\$ 2,500,000
Interest related to 2008 current refunding bond issue	651,500	-	(120,325)	531,175
2011 Refunding	910,000	-	(155,000)	755,000
Interest related to 2011 current refunding bond issue	83,609	-	(24,115)	59,494
2013 bus note payable	89,390	-	(17,878)	71,512
Interest related to 2013 bus	10,882	-	(3,626)	7,256
2013 van note payable	18,264	-	(3,781)	14,483
Interest related to 2013 van	1,788	-	(675)	1,113
School bond loan fund	1,056,411	-	(74,455)	981,956
Interest related to school bond loan fund	82,474	39,189	(116,545)	5,118
<b>Total</b>	<b>\$ 5,704,318</b>	<b>\$ 39,189</b>	<b>\$ (816,400)</b>	<b>\$ 4,927,107</b>



**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Schedules of Maturities of Bonded Debt  
June 30, 2014**

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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:				
2015		\$ 155,000	\$ 20,008	\$ 175,008
2016		155,000	15,900	170,900
2017		150,000	11,793	161,793
2018		145,000	7,818	152,818
2019		155,000	3,975	153,975
<b>TOTALS</b>		<b><u>\$ 755,000</u></b>	<b><u>\$ 59,494</u></b>	<b><u>\$ 814,494</u></b>

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Schedules of Maturities of Bonded Debt  
June 30, 2014**

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	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008 Current Refunding Bond Issue			
Principal payment due	May 1		
Interest payments due	May 1 and November 1		
Interest rates	3.25% to 4.0%		
Original issue	\$4,410,000		
Payments due for years ending June 30:			
2015	\$ 295,000	\$ 109,825	\$ 404,825
2016	290,000	99,500	389,500
2017	290,000	85,000	375,000
2018	280,000	70,500	350,500
2019	280,000	56,500	336,500
2020	270,000	45,300	315,300
2021	270,000	33,150	303,150
2022	265,000	21,000	286,000
2023	260,000	10,400	270,400
<b>TOTALS</b>	<b><u>\$ 2,500,000</u></b>	<b><u>\$ 531,175</u></b>	<b><u>\$ 3,031,175</u></b>

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Schedule of Findings and Responses  
June 30, 2014**

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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  
Climax, Michigan

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, 2014, 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 20, 2014.

### **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*

Seber Tans, PLC  
Kalamazoo, Michigan

October 20, 2014