

**Climax-Scotts Community Schools**

**Financial Statements**

**June 30, 2023**



**YEO & YEO**

**BUSINESS SUCCESS  
PARTNERS**

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**Climax-Scotts Community Schools**  
**Members of the Board of Education and Administration**  
**June 30, 2023**

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**Members of the Board of Education**

Mrs. Sue Reichert – President

Mr. Trent Piper – Vice President

Ms. Terri VandeGiessen – Treasurer/Secretary

Mr. Matt Birkam – Trustee

Mrs. Lori Bagwell – Trustee

Ms. Jackie Longman – Trustee

Mr. Steve Wurtzel – Trustee

**Administration**

Mr. Doug Newington – Superintendent

Mr. Phillip Heasley – Business Manager

## Independent Auditors' Report

Management and the Board of Education  
Climax-Scotts Community Schools  
Climax, Michigan

### Report on the Audit of the Financial Statements

#### Opinions

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 as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Climax-Scotts Community Schools' basic financial statements as listed in the table of contents.

In our opinion, based on our audit, 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, 2023, 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.

#### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Climax-Scotts Community Schools and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Climax-Scotts Community Schools' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter

## **Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Climax-Scotts Community Schools’ internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Climax-Scotts Community Schools’ ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information, schedule of the school district’s proportionate share of the net pension liability, and schedule of the school district’s pension contributions, schedule of the school district’s proportionate share of the net OPEB liability, and schedule of the school district’s OPEB contributions identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Climax-Scotts Community Schools' basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplementary information, as identified in the table of contents, 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, as identified in the table of contents, 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 10, 2023, on our consideration of Climax-Scotts Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of Climax-Scotts Community Schools' 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 Climax-Scotts Community Schools' internal control over financial reporting and compliance.

*Yeo & Yeo, P.C.*

Kalamazoo, Michigan  
October 10, 2023

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**Climax-Scotts Community Schools**  
**Management’s Discussion and Analysis**  
**June 30, 2023**

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This section of Climax-Scotts Community Schools’ (the “School District”) annual financial report presents our discussion and analysis of the School District’s financial performance during the year ended June 30, 2023. It is to be read in conjunction with the School District’s financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments* and is intended to provide the financial results for the fiscal year ending June 30, 2023.

Climax-Scotts Community Schools (the District) is a PreK-12 school district covering areas throughout Kalamazoo and Calhoun Counties, Michigan. The School District encompasses an area of approximately 61 square miles, and is located in the southwestern portion of Michigan’s Lower Peninsula. The District currently operates one Elementary School (PreK-5), one Jr./Sr. High School (Grades 6-12), and an Online Alternative Education Program. Employed by the District are thirty five full and part-time teachers (PreK-12), one counselor, one contracted speech therapist, two social workers, three administrators, fifty full and part-time support staff personnel, which includes classroom aides, office personnel, maintenance/custodial, food service, pre-school, latch key, and transportation.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Climax-Scotts Community Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District’s finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial 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 most significant fund – the General Fund, with all other funds presented in one column as non-major funds. The annual report is arranged as follows:

***Management’s Discussion and Analysis (MD&A)***  
***(Required Supplemental Information)***

***Basic Financial Statements***

***District-wide Financial Statements***

***Fund Financial Statements***

***Notes to the Basic Financial Statements***

***(Required Supplemental Information)***  
***Budgetary Information for Major Funds***

***Other Supplemental Information***

**Climax-Scotts Community Schools**  
**Management's Discussion and Analysis**  
**June 30, 2023**

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**Reporting the School District as a Whole – District-wide Financial Statements**

One of the most important questions asked about the School District is, “As a whole, what is the School District’s financial condition as a result of the year’s activities?” The statement of net position and the statement of activities, which appear first in the School District’s financial statements, report information about the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. 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 School District’s net position – the difference between assets and liabilities, as reported in the statement of net position – is 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 indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the School District.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

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

The School District’s fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service Fund is an example) or to show that it’s meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District’s services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District’s programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliation.

The basic financial statements also include the notes to the financial statements that explain the information in the basic financial statements and provide more detailed data. Supplementary information follows and includes combining and individual fund statements as well as a budgetary comparison schedule for the general fund.

**Climax-Scotts Community Schools**  
**Management's Discussion and Analysis**  
**June 30, 2023**

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**The School District as a Whole**

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2023 and 2022.

Table 1	Governmental Activities	
	June 30	
	2023	2022
<b>Assets</b>		
Current and other assets	\$ 3,849,275	\$ 3,849,232
Property and equipment	13,504,611	13,771,437
Deferred outflows of resources	4,761,507	1,952,547
Totals assets	22,115,393	19,573,216
<b>Liabilities</b>		
Current liabilities	1,003,907	1,014,442
Noncurrent liabilities	23,561,726	19,040,520
Deferred inflows of resources	2,087,498	4,345,072
Total liabilities	26,653,131	24,400,034
<b>Net Position</b>		
Net investment in capital assets	2,742,135	2,528,904
Restricted	702,202	752,507
Unrestricted (deficit)	(7,982,075)	(8,108,229)
Total net position	\$ (4,537,738)	\$ (4,826,818)

The preceding analysis focuses on the net position. The change in net position (see Table 2) of the School District's governmental activities is discussed below. The net position was \$(4,537,738) at June 30, 2023. Capital assets, net of related debt totaling \$2,742,135 compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Net position that was restricted for debt service was \$538,960 and restricted for food service fund totaled \$163,242. The remaining amount of net position of \$(7,982,075) was unrestricted.

**Climax-Scotts Community Schools**  
**Management's Discussion and Analysis**  
**June 30, 2023**

Approximately \$(7,982,075) in unrestricted net position of governmental activities represents the *accumulated* results of all past year's operations. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year. The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years 2023 and 2022.

Table 2

	Governmental Activities	
	June 30	
	2023	2022
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 325,886	\$ 71,730
Operating grants and contributions	3,186,156	3,262,878
General Revenue:		
Property taxes	1,431,035	1,543,139
State foundation allowance	4,946,442	4,595,357
Other	57,817	224,940
Total revenue	<u>9,947,336</u>	<u>9,698,044</u>
<b>Functions/Program Expenses</b>		
Instruction	4,462,946	3,449,044
Support services	3,561,983	3,527,571
Food services	402,420	379,227
Community services	154,745	-
Depreciation (unallocated)	606,366	588,477
Interest and other charges on long-term debt	469,796	414,106
Total functions/program expenses	<u>9,658,256</u>	<u>8,358,425</u>
<b>Change in Net Position</b>	289,080	1,339,619

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$9,658,256. Certain activities were partially funded from charges for services of \$325,886 from those who benefited from the programs or by other governments and organizations that subsidized certain

**Climax-Scotts Community Schools**  
**Management's Discussion and Analysis**  
**June 30, 2023**

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programs with grants and contributions of \$3,186,156. We paid for the remaining "public benefit" portion of our governmental activities with \$1,431,035 in taxes, \$4,946,442 in State foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The School District experienced an increase in net position of \$289,080. A key reason for the change in net position is additional State foundation allowance revenues due to an increase in pupil enrollment and an increase in the per-pupil revenue amount.

**Fund Financial Statements**

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

The School District utilizes *Governmental funds* within this report. Most of the School District's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can readily be converted to cash flow in and out and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Since the district-wide financial statements and the fund financial statements use different methods of accounting to report the School District's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

**The School District's Funds**

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$2,916,782, which is an increase of \$81,992 from last year.

In the General Fund, our principal operating fund, the fund balance increased from \$2,082,283 to \$2,175,401 primarily as a result of an increase in pupil enrollment.

The Food Service Fund is a special revenue fund and was established to account for all revenue and expenses of the food service program of the District. The Food Service fund balance decreased \$57,759 from June 30, 2022 to June 30, 2023 due mainly to the replacement of equipment.

The Student and School Activity Fund is a special revenue fund established to account for all revenue and expenses associated with the various clubs, booster groups, class funds, etc. of the District.

**Climax-Scotts Community Schools**  
**Management's Discussion and Analysis**  
**June 30, 2023**

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Combined, the Debt Service Funds showed a fund balance increase of \$69,596. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds balances are reserved since they can only be used to pay debt service obligations.

Fund balance that was restricted for debt service totaled \$467,546, committed for Student and School Activities totaled \$110,593, and restricted for the food service fund totaled \$160,303. Fund balance of \$217,300 was assigned to fund 2023-2024 budget appropriations. Fund balance of \$17,773 is non-spendable. Fund balance of \$200,000 is committed for future strategic initiatives. The remaining amount of fund balance of \$1,740,328 was unassigned.

**General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted just before year-end. A schedule showing the School District's original and final budget amounts, compared with amounts actually paid and received, is provided in required supplementary information of these financial statements.

There were revisions made to the 2022-23 General Fund original budget. Budgeted revenues were increased \$782,066 to reflect additional State revenues and actual student count. Budgeted expenditures were increased \$837,993 reflecting increases related to staffing additions/changes and additional capital expenditures. Actual expenditure variances were relatively consistent with the budget as noted on page 5-1 of the financial statements.

**Unrestricted State Aid and Property Tax on Non-Homestead Taxable Value**

Approximately 63% of the School District's general fund revenues are received from unrestricted state sources and local tax. This unrestricted aid from the State of Michigan is based on three variables:

- The District's 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 the School District receives is established by the State of Michigan annually. For the fiscal year ended June 30, 2023, the allowance was \$9,150 per student FTE. This is an increase of \$450 compared to the 2020-2021 foundation allowance.

**Climax-Scotts Community Schools**  
**Management's Discussion and Analysis**  
**June 30, 2023**

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**Student Enrollment**

Climax-Scotts Community Schools' blended membership count for the 2022-2023 school year was 580.52 students, which includes students enrolled in our online alternative education program. The student FTE for the previous five years was as follows:

2017-2018	488.82
2018-2019	529.87
2019-2020	553.01
2020-2021	573.68
2021-2022	564.58
2022-2023	580.52

Our blended student enrollment for the 2022-2023 school year of 580.52 students was based on 90% of the October 2022 count and 10% of the February 2022 count.

**Capital Asset and Debt Administration**

**Capital Assets**

At June 30, 2023, the School District had \$13,504,611 invested in net capital assets. This included a net decrease during the past fiscal year of \$266,826 consisting of depreciation charges of \$606,366, capital asset purchases of \$347,727, and net capital asset disposals of \$8,187. More detailed information about the School District's capital assets can be found in the notes to the financial statements section of this document.

**Long-term Debt**

At year end, the School District had total long-term debt of \$10,762,476. The School District continued to pay down its debt, retiring \$535,000 of outstanding bonds during the year. In addition, \$60,707 was amortized for bond premium. \$30,221 was paid on long-term lease obligations. The School District borrowed \$178,580 through an installment purchase agreement for the purchase of two replacement school buses.

The School District's general obligation bond long term rating is AA and its underlying rating is A+. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. We present more detailed information about our long-term liabilities in the notes to the financial statements.

**Economic Factors and Next Year's Budget and Rates**

Many factors were considered when setting the School District's 2023-2024 fiscal year budget. Since much of our revenue is calculated on a per pupil basis, the district's financial health is impacted in large part by the number of pupils enrolled. Between 2021-2022 and 2022-2023, the blended pupil count increased by 2.8%. The state of Michigan budget for the 2023-2024 fiscal year increased per-pupil funding \$458, from \$9,150 to \$9,608.

Once the final student count and related per pupil funding is verified, State law requires the District to amend the budget if actual District resources are insufficient to fund original appropriations.

**Climax-Scotts Community Schools**  
**Management's Discussion and Analysis**  
**June 30, 2023**

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Climax-Scotts Community School's general fund balance at fiscal year end June 30, 2023, is \$2,175,401 (a \$93,118 increase from June 30, 2022) or approximately 25.5% of its operating expenditures. The recommended fund equity for school districts is at least 15% of operating expenditures.

**Requests for Information**

Climax-Scotts Community Schools makes this financial report available via the District's website at [www.csschools.net](http://www.csschools.net). Questions concerning the content of this report, as well as requests for additional information should be addressed to Climax-Scotts Community Schools, 372 South Main Street, Climax, MI 49034.



## BASIC FINANCIAL STATEMENTS

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**Climax-Scotts Community Schools**  
**Statement of Net Position**  
**June 30, 2023**

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	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$ 2,434,741
Accounts receivable	16,122
Due from other governmental units	1,377,700
Inventory	2,939
Prepaid items	17,773
Right to use assets - net of amortization	30,221
Capital assets – net of accumulated depreciation	<u>13,474,390</u>
Total assets	<u>17,353,886</u>
<b>Deferred Outflows of Resources</b>	
Deferred amount relating to the net pension liability	3,751,272
Deferred amount relating to the net OPEB liability	<u>1,010,235</u>
Total deferred outflows of resources	<u>4,761,507</u>

See Accompanying Notes to the Financial Statements

**Climax-Scotts Community Schools**  
**Statement of Net Position**  
**June 30, 2023**

	Governmental Activities
<b>Liabilities</b>	
Accounts payable	224,417
State aid anticipation note payable	61,429
Due to other governmental units	166,619
Accrued expenditures	72,517
Accrued salaries payable	434,194
Unearned revenue	44,731
Long-term liabilities	
Due within one year	542,311
Due in more than one year	10,220,165
Net pension liability	12,103,287
Net OPEB liability	695,963
Total liabilities	24,565,633
<b>Deferred Inflows of Resources</b>	
Deferred amount relating to the net pension liability	655,587
Deferred amount relating to the net OPEB liability	1,431,911
Total deferred inflows of resources	2,087,498
<b>Net Position</b>	
Net investment in capital assets	2,742,135
Restricted for:	
Food service	163,242
Debt service	538,960
Unrestricted (deficit)	(7,982,075)
Total net position	\$ (4,537,738)

See Accompanying Notes to the Financial Statements

**Climax-Scotts Community Schools**  
**Statement of Activities**  
**For the Year Ended June 30, 2023**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<b>Functions/Programs</b>				
Governmental activities				
Instruction	\$ 4,462,946	\$ 19,755	\$ 2,404,498	\$ (2,038,693)
Supporting services	3,561,983	168,265	522,480	(2,871,238)
Food services	402,420	115,585	254,980	(31,855)
Community services	154,745	22,281	4,198	(128,266)
Interest and fiscal charges on long-term debt	469,796	-	-	(469,796)
Depreciation and amortization (unallocated)	606,366	-	-	(606,366)
	<u>\$ 9,658,256</u>	<u>\$ 325,886</u>	<u>\$ 3,186,156</u>	<u>(6,146,214)</u>
Total governmental activities				
General revenues				
				380,117
				1,050,918
				4,946,442
				12,834
				5,313
				<u>39,670</u>
				6,435,294
				289,080
				<u>(4,826,818)</u>
				<u>\$ (4,537,738)</u>

See Accompanying Notes to the Financial Statements

**Climax-Scotts Community Schools**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2023**

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash	\$ 1,671,799	\$ 467,546	\$ 295,396	\$ 2,434,741
Accounts receivable	16,122	-	-	16,122
Due from other funds	25,468	-	-	25,468
Due from other governmental units	1,369,808	-	7,892	1,377,700
Inventory	-	-	2,939	2,939
Prepaid items	17,773	-	-	17,773
Total assets	<u>\$ 3,100,970</u>	<u>\$ 467,546</u>	<u>\$ 306,227</u>	<u>\$ 3,874,743</u>
<b>Liabilities</b>				
Accounts payable	\$ 217,493	\$ -	\$ 6,924	\$ 224,417
State aid anticipation note payable	61,429	-	-	61,429
Due to other funds	-	-	25,468	25,468
Due to other governmental units	166,619	-	-	166,619
Accrued expenditures	1,103	-	-	1,103
Accrued salaries payable	434,194	-	-	434,194
Unearned revenue	44,731	-	-	44,731
Total liabilities	<u>925,569</u>	<u>-</u>	<u>32,392</u>	<u>957,961</u>
<b>Fund Balances</b>				
Non-spendable				
Inventory	-	-	2,939	2,939
Prepaid items	17,773	-	-	17,773
Restricted for				
Food service	-	-	160,303	160,303
Debt service	-	467,546	-	467,546
Committed for				
Student/school activities	-	-	110,593	110,593
Strategic initiatives	200,000	-	-	200,000
Assigned for 2023-2024 budget appropriations	217,300	-	-	217,300
Unassigned	1,740,328	-	-	1,740,328
Total fund balances	<u>2,175,401</u>	<u>467,546</u>	<u>273,835</u>	<u>2,916,782</u>
Total liabilities and fund balances	<u>\$ 3,100,970</u>	<u>\$ 467,546</u>	<u>\$ 306,227</u>	<u>\$ 3,874,743</u>

See Accompanying Notes to the Financial Statements

**Climax-Scotts Community Schools**  
**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position**  
**June 30, 2023**

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<b>Total fund balances for governmental funds</b>	<b>\$ 2,916,782</b>
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets - net of accumulated depreciation	13,504,611
Deferred outflows (inflows) of resources	
Deferred outflows of resources resulting from the net pension liability	3,751,272
Deferred outflows of resources resulting from the net OPEB liability	1,010,235
Deferred inflows of resources resulting from the net pension liability	(655,587)
Deferred inflows of resources resulting from the net OPEB liability	(1,431,911)
Certain liabilities are not due and payable in the current period and are not reported in the funds	
Accrued interest	(71,414)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities	
Net pension liability	(12,103,287)
Net OPEB liability	(695,963)
Bonds payable	(10,529,315)
Other loans payable and liabilities	<u>(233,161)</u>
<b>Net position of governmental activities</b>	<b><u>\$ (4,537,738)</u></b>

**Climax-Scotts Community Schools**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2023**

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 535,401	\$ 1,053,637	\$ 228,661	\$ 1,817,699
State sources	6,719,558	-	13,199	6,732,757
Federal sources	379,048	-	241,781	620,829
Interdistrict sources	784,238	-	-	784,238
Total revenues	<u>8,418,245</u>	<u>1,053,637</u>	<u>483,641</u>	<u>9,955,523</u>
<b>Expenditures</b>				
Current				
Education				
Instruction	4,475,445	-	-	4,475,445
Supporting services	3,455,243	-	116,716	3,571,959
Food services	-	-	403,547	403,547
Community services	154,745	-	-	154,745
Capital outlay	370,764	-	18,632	389,396
Debt service				
Principal	62,930	535,000	-	597,930
Interest and other expenditures	10,048	449,041	-	459,089
Total expenditures	<u>8,529,175</u>	<u>984,041</u>	<u>538,895</u>	<u>10,052,111</u>
Excess (deficiency) of revenues over expenditures	<u>(110,930)</u>	<u>69,596</u>	<u>(55,254)</u>	<u>(96,588)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from notes and loans	178,580	-	-	178,580
Transfers in	25,726	-	258	25,984
Transfers out	(258)	-	(25,726)	(25,984)
Total other financing sources (uses)	<u>204,048</u>	<u>-</u>	<u>(25,468)</u>	<u>178,580</u>
Net change in fund balances	93,118	69,596	(80,722)	81,992
Fund balances – beginning	<u>2,082,283</u>	<u>397,950</u>	<u>354,557</u>	<u>2,834,790</u>
Fund balances – ending	<u>\$ 2,175,401</u>	<u>\$ 467,546</u>	<u>\$ 273,835</u>	<u>\$ 2,916,782</u>

See Accompanying Notes to the Financial Statements

**Climax-Scotts Community Schools**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2023**

<b>Net change in fund balances - Total governmental funds</b>	\$ 81,992
Total change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation and amortization expense	(606,366)
Capital outlay	347,727
Sale of capital assets (net book value)	(8,187)
Expenses are recorded when incurred in the statement of activities.	
Interest	(71,414)
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in the net pension liability	(4,798,620)
Net change in the deferrals of resources related to the net pension liability	4,348,409
The statement of net position reports the net OPEB liability and deferred outflows of resources and deferred inflows related to the net OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual OPEB contributions.	
Net change in the net OPEB liability	(202,643)
Net change in the deferrals of resources related to the net OPEB liability	718,125
Bond and note proceeds and leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	(178,580)
Repayments of long-term debt	597,930
Amortization of premiums	60,707
<b>Change in net position of governmental activities</b>	<b>\$ 289,080</b>

See Accompanying Notes to the Financial Statements



**Climax-Scotts Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of the Climax-Scotts Community Schools (School 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 School District’s significant accounting policies:

**Reporting Entity**

The School District is governed by an elected seven-member Board of 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 School District’s reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

**District-wide Financial Statements**

The School District’s basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District’s major funds). The district-wide financial statements categorize all non-fiduciary activities as either governmental or business type. All of the School District’s activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District’s net position is reported in three parts (1) net Investment in capital assets, (2) restricted net position, and (3) unrestricted net assts. The School District first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the School District’s functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District’s net position resulting from current year activities.

**Fund Financial Statements**

Major individual governmental funds are reported as separate columns in the 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 available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District 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 claims and judgments, are recorded only when payment is due.

**Climax-Scotts Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Debt Service Fund – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Additionally, the School District reports the following nonmajor funds:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District’s Special Revenue Funds include the Food Service Fund and the Student/School Activity Fund.

2018 Capital Projects Fund – The 2018 Capital Projects Fund is used to record bond and other revenues and the payments for related expenditures by the School District.

**Assets, Liabilities and Equity**

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property taxes and other receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts

receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2023, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non-principal residence exemption	17.38590
Commercial personal property	5.38590
Debt Service Funds	7.30000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District’s boundaries.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by Kalamazoo County and remitted to the School District by May 15.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in the governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000 and an estimated useful life of five years or greater.

**Climax-Scotts Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets.

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

Buildings and improvements	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and equipment	5 – 20 years

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions and experience differences relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. The School District also reported deferred outflows of resources for pension and OPEB contributions made after the measurement date. This amount will reduce the net pension and OPEB liabilities in the following year.

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 position. Bond premiums and discounts 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. In the fund financial statements, governmental fund types recognize bond premiums and discounts.

In the School District’s fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums

received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

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.

Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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.

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government 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. Deferred inflows for leases are related to leases receivable and are being amortized to recognize lease revenue in a systematic and rational manner over the term of the lease. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be

**Climax-Scotts Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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amortized over the next four years and included in pension and OPEB expense. Changes in assumptions and experience differences relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. Deferred inflows of resources also include revenue received relating to the amounts included in the deferred outflows for payments related to MPERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

**Fund Balance** – In the fund financial statements, governmental funds report fund balance in the following categories:

**Non-spendable** – amounts that are not available in a spendable form.

**Restricted** – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

**Committed** – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

**Assigned** – amounts intended to be used for specific purposes, as determined by the Board of Education. The board of education has granted the finance committee and Superintendent the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

**Unassigned** – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

**Eliminations and Reclassifications**

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

**Adoption of New Accounting Standards**

During the year ended June 30, 2023 the School District adopted new accounting guidance, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs). Our opinions are not modified with respect to this matter. The School District has determined that the effects of this standard are immaterial to the financial statements; and therefore, no SBITAs are recorded or disclosed.

**Upcoming Accounting and Reporting Changes**

Statement No. 100, *Accounting Changes and Error Corrections*, improves the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. More understandable, reliable, relevant, consistent and comparable

**Climax-Scotts Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

information will be provided to financial statement users for making decisions or assessing accountability. Additionally, the display and note disclosure requirements will result in more consistent, decision useful, understandable and comprehensive information for users about accounting changes and error corrections. This statement is effective for the year ending June 30, 2024.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This statement is effective for the year ending June 30, 2025.

The School District is evaluating the impact that the above pronouncements will have on its financial reporting.

**Note 2 – Stewardship, Compliance, 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 yearend, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education. Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year.

**Excess of Expenditures over Appropriations**

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
General administration	\$ 331,333	\$ 340,998	\$ 9,665
Community services	113,996	154,745	40,749
Debt - principal	39,516	62,930	23,414

**Note 3 – Deposits and Investments**

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 2,434,316
Petty cash and cash on hand	<u>425</u>
Total	<u><u>\$ 2,434,741</u></u>

Interest rate risk – The School District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

**Climax-Scotts Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

Credit risk – State statutes and the School District’s investment policy authorize the School 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 School 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 that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, \$2,510,002 of the School District’s bank balance of \$2,260,002 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Note 4 – Capital Assets**

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets being depreciated				
Buildings and improvements	\$ 17,600,845	\$ 23,562	\$ -	\$ 17,624,407
Outdoor equipment	1,015,674	-	-	1,015,674
Equipment	645,560	112,665	-	758,225
Vehicles and tractors	845,534	211,500	65,500	991,534
Right to use assets	113,163	-	-	113,163
<b>Total capital assets being depreciated</b>	<b>20,220,776</b>	<b>347,727</b>	<b>65,500</b>	<b>20,503,003</b>
Less accumulated depreciation for				
Buildings and improvements	4,863,506	475,414	-	5,338,920
Outdoor equipment	445,639	32,791	-	478,430
Equipment	527,955	9,679	-	537,634
Vehicles and tractors	552,711	65,068	57,313	560,466
Right to use assets	59,528	23,414	-	82,942
<b>Total accumulated depreciation</b>	<b>6,449,339</b>	<b>606,366</b>	<b>57,313</b>	<b>6,998,392</b>
<b>Net capital assets being depreciated</b>	<b>13,771,437</b>	<b>(258,639)</b>	<b>8,187</b>	<b>13,504,611</b>
<b>Net capital assets</b>	<b>\$ 13,771,437</b>	<b>\$ (258,639)</b>	<b>\$ 8,187</b>	<b>\$ 13,504,611</b>
Right to use assets				
Right to use assets - net of amortization	\$ 53,635	\$ (23,414)	\$ -	\$ 30,221
Capital assets				
Other capital assets, net of depreciation	13,717,802	(235,225)	8,187	13,474,390
<b>Net capital assets</b>	<b>\$ 13,771,437</b>	<b>\$ (258,639)</b>	<b>\$ 8,187</b>	<b>\$ 13,504,611</b>

Depreciation and amortization expense amounted to \$582,952 and was not allocated to the various governmental activities, since capital assets benefit multiple activities and allocation is impractical.

**Climax-Scotts Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

**Note 5 – Leases**

**Lease Liabilities**

The School District has financing lease arrangements for office equipment. Future payments are due through 2025-2026 and range from \$51 to \$2,008 per month. Expenditures related to leasing this equipment were approximately \$23,000 for the year ended June 30, 2023.

Future minimum lease payments are as follows:

Year ending June 30,	Principal	Interest	Total
2024	\$ 24,127	\$ 577	\$ 24,704
2025	6,094	30	6,124
Subtotal	<u>\$ 30,221</u>	<u>\$ 607</u>	<u>\$ 30,828</u>

Right of use assets recognized on the district-wide financial statements are as follows:

Right of use asset	\$ 113,163
Less accumulated amortization	<u>(82,942)</u>
Total	<u>\$ 30,221</u>

**Note 6 – Unearned Revenue**

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

Grant and categorical aid payments received prior to meeting all eligibility requirements	<u>\$ 44,731</u>
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**Note 7 – Interfund Receivables, Payables, Transfers**

At June 30, 2023, the School District had the following interfund receivables and payables:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Funds	<u>\$ 25,468</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made. Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers consist of the following:

		Transfers Out		
		General Fund	Nonmajor Funds	Total
<b>Transfers in</b>				
General Fund	\$ -	\$ 25,726		\$ 25,726
Nonmajor Funds	258	-		258
	<u>\$ 258</u>	<u>\$ 25,726</u>		<u>\$ 25,984</u>

Transfers of \$25,726 were made to reimburse indirect costs incurred in the General Fund on behalf of the Food Service Fund. Transfers of \$258 were made from the General Fund to the Food Service Fund.

**Climax-Scotts Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

**Note 8 – State Aid Anticipation Note**

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30<sup>th</sup>. The School District is required to pledge 100% of their state school aid, October through August, or until the note is repaid, whichever is longer. The State has discretion to accelerate repayment terms if they have cause for concern. If the note is in default status, there is a penalty interest rate that may apply.

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

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	\$ 92,951	\$ 430,000	\$ 461,522	\$ 61,429

**Note 9 – Long-Term Debt**

The School 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 School District. The State can withhold state aid if it has to make a bond payment on behalf of the School District related to qualified bonds. Other long-term obligations include compensated absences.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds payable					
General obligation bonds	\$ 10,395,000	\$ -	\$ 535,000	\$ 9,860,000	\$ 480,000
Bond premiums	730,022	-	60,707	669,315	-
Total bonds payable	11,125,022	-	595,707	10,529,315	480,000
Notes from direct borrowings and direct placements					
Buses and vehicle notes	63,876	178,580	39,516	202,940	38,184
Other liabilities					
Leases	53,635	-	23,414	30,221	24,127
<b>Total</b>	<b>\$ 11,242,533</b>	<b>\$ 178,580</b>	<b>\$ 658,637</b>	<b>\$ 10,762,476</b>	<b>\$ 542,311</b>

General obligation bonds payable at year-end, consists of the following:

2018 Building & Site Bonds due in annual installments of \$480,000 to \$850,000 through May 1, 2038, interest at 4.00-5.00%.	<u>\$ 9,860,000</u>
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Future principal and interest requirements for bonded debt are as follows:

	Principal	Interest	Total
<b>Year Ending June 30,</b>			
2024	\$ 480,000	\$ 420,750	\$ 900,750
2025	500,000	396,750	896,750
2026	525,000	371,750	896,750
2027	550,000	345,500	895,500
2028	580,000	318,000	898,000
2029-2033	3,275,000	1,193,000	4,468,000
2034-2038	3,950,000	486,000	4,436,000
<b>Total</b>	<b>\$ 9,860,000</b>	<b>\$ 3,531,750</b>	<b>\$ 13,391,750</b>

For governmental activities, leases are primarily liquidated by the General Fund.



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The general obligation bonds are payable from the Debt Service Funds. As of year-end, the fund had a balance of \$467,546 to pay this debt. Future debt and interest will be payable from future tax levies.

Interest and related expenditures for the fiscal year in the Debt Service Fund was \$449,041.

**Note 10 – Risk Management**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. No provision has been made for possible future claims.

**Note 11 – Pension Plan**

**Plan Description**

The Michigan Public School Employees' Retirement System (System or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (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's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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 on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools)

**Benefits Provided**

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits 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 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.

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**Contributions**

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

Employer 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, 2021 valuation will be amortized over a 17-year period beginning October 1, 2021 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for plan year ended September 30, 2022.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	20.14%
Member Investment Plan	3.0 - 7.0%	20.14%
Pension Plus	3.0 - 6.4%	17.22%
Pension Plus 2	6.2%	19.93%
Defined Contribution	0.0%	13.73%

Required contributions to the pension plan from the School District were \$1,095,347 for the year ending September 30, 2022.

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

At June 30, 2023, the School District reported a liability of \$12,103,287 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2021. The School 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, 2022, the School District's proportion was .0322 percent, which was an increase of .0013 percent from its proportion measured as of September 30, 2021.

For the plan year ending September 30, 2022, the School District recognized pension expense of \$1,604,707 for the measurement period. For the reporting period ending June 30, 2023, the School District recognized total pension contribution expense of \$1,141,271.

Section 147c of the State School Aid Act (MCL 388.1747c) was amended to include a one-time distribution to districts, intermediate districts, and other participating entities of MPSERS, which is referred to as Section 147c(2). Section 147c(2) is required to be forwarded to the state's ORS as additional assets being contributed to the retirement system. This funding is a one-time, state payment toward the MPSERS unfunded liability and not part of the actuarially determined contributions and therefore not included in the above pension expense, pension contributions or related deferred inflows/outflows of resources. For the period ending June 30, 2023, the School District recognized in their financial statements an additional amount related to Section 147c(2) of \$337,124 in total pension expense and offset in state revenues.

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At June 30, 2023, the School 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	Total
Difference between expected and actual experience	\$ 121,075	\$ (27,062)	\$ 94,013
Changes of assumptions	2,079,778	-	2,079,778
Net difference between projected and actual earnings on pension plan investments	28,382	-	28,382
Changes in proportion and differences between the School District contributions and proportionate share of contributions	<u>437,188</u>	<u>(49,660)</u>	<u>387,528</u>
Total to be recognized in future	2,666,423	(76,722)	2,589,701
School District contributions subsequent to the measurement date	<u>1,084,849</u>	<u>(578,865)</u>	<u>505,984</u>
Total	<u>\$ 3,751,272</u>	<u>\$ (655,587)</u>	<u>\$ 3,095,685</u>

Contributions subsequent to the measurement date 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 ending June 30, 2024. The District will offset the contribution expense in the year ended June 30, 2024 with the 147c supplemental income received subsequent to the measurement date which is included in the deferred inflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be

recognized in pension expense as follows during the following plan years:

<u>Deferred (Inflow) and Deferred Outflow of Resources by Year</u> <u>(To Be Recognized in Future Pension Expenses)</u>	
2023	\$ 747,762
2024	597,401
2025	514,306
2026	<u>730,232</u>
	<u>\$ 2,589,701</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.

Additional information as of the latest actuarial valuation follows:

*Summary of Actuarial Assumptions:*

- Valuation Date: September 30, 2021
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return:
  - MIP and Basic Plans: 6.00% net of investment expenses
  - Pension Plus Plan: 6.00% net of investment expenses
  - Pension Plus 2 Plan: 6.00% net of investment expenses
- Projected Salary Increases: 2.75 - 11.55%, including wage inflation at 2.75%

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- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Mortality:
  - Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
  - Active: RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2018 valuation. The total pension liability as of September 30, 2022, is based on the results of an actuarial valuation date of September 30, 2021, and rolled forward using generally accepted actuarial procedures, including the experience study.

The recognition period for liabilities is the average of the expected remaining service lives of all employees is 4.3922 years.

The recognition period for assets is 5 years.

Full actuarial assumptions are available in the 2022 MPSERS Annual Comprehensive Financial Report found on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

**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, 2022, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.1%
Private Equity Pools	16.0	8.7
International Equity	15.0	6.7
Fixed Income Pools	13.0	(0.2)
Real Estate and Infrastructure Pools	10.0	5.3
Absolute Return Pools	9.0	2.7
Real Return/Opportunistic Pools	10.0	5.8
Short Term Investment Pools	2.0	(0.5)
	100.0%	

*\*Long-term rates of return are net of administrative expenses and 2.2% inflation.*

**Rate of Return**

For the plan year ended September 30, 2022, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was (4.18)%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Discount Rate**

A discount rate of 6.00% was used to measure the total pension liability (6.00% for the Pension Plus plan, 6.00% for the Pension Plus 2, hybrid plans provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.00% (6.00% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan). The projection of cash flows used to

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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 School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 6.00% (6.00% for the Pension plus plan, 6.00% for the Pension Plus 2 plan), as well as what the School 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:

1% Decrease *	Current Single Discount Rate Assumption *	1% Increase *
5.00%	6.00%	7.00%
\$ 15,971,842	\$ 12,103,287	\$ 8,915,423

*\*Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2.*

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS Annual Comprehensive Financial Report, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

**Payables to the Michigan Public School Employees' Retirement System (MPERS)**

There were no significant payables to the pension plan that are not ordinary accruals to the School District.

**Note 12 –Postemployment Benefits Other Than Pensions (OPEB)**

**Plan Description**

The Michigan Public School Employees' Retirement System (System or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (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's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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 on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

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**Benefits Provided**

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning with fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and

becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

**Contributions**

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

Employer OPEB 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, 2021 valuation will be amortized over a 17-year period beginning October 1, 2021 and ending September 30, 2038.

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The schedule below summarizes OPEB contribution rates in effect for plan year 2022.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0%	8.09%
Personal Healthcare Fund (PHF)	0.0%	7.23%

Required contributions to the OPEB plan from the School District were \$250,294 for the year ended September 30, 2022.

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

At June 30, 2023, the School District reported a liability of \$695,963 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2021. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2022, the School District's proportion was .0329 percent, which was an increase of .0005 percent from its proportion measured as of September 30, 2021.

For the plan year ending September 30, 2022, the School District recognized OPEB expense of \$(238,262) for the measurement period. For the reporting period ending June 30, 2023, the School District recognized total OPEB contribution expense of \$247,044.

At June 30, 2023, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Difference between expected and actual experience	\$ -	\$(1,363,125)	\$(1,363,125)
Changes of assumptions	620,334	(50,511)	569,823
Net difference between projected and actual earnings on OPEB plan investments	54,395	-	54,395
Changes in proportion and differences between the School District contributions and proportionate share of contributions	115,896	(18,275)	97,621
Total to be recognized in future	790,625	(1,431,911)	(641,286)
School District contributions subsequent to the measurement date	219,610	-	219,610
Total	\$ 1,010,235	\$(1,431,911)	\$ (421,676)

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024.

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows during the following plan years:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future OPEB Expenses)	
2023	\$ (236,989)
2024	(216,800)
2025	(188,641)
2026	5,201
2027	(5,342)
Thereafter	1,285
	\$ (641,286)

**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.

Additional information as of the latest actuarial valuation follows:

*Summary of Actuarial Assumptions:*

- Valuation Date: September 30, 2021
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return: 6.00% net of investment expenses
- Projected Salary Increases: 2.75 – 11.55%, including wage inflation of 2.75%

- Healthcare Cost Trend Rate: Pre-65: 7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120 Post-65: 5.25% Year 1 graded to 3.5% Year 15; 3.0% Year 120
- Mortality:
  - Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
  - Active: RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

*Other Assumptions:*

- Opt Out Assumption: 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
- Survivor Coverage: 80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
- Coverage Election at Retirement: 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2018 valuation. The total OPEB liability as of September 30, 2022, is based on the results of an actuarial valuation date of September 30, 2021, and rolled forward using generally accepted actuarial procedures, including the experience study.

The recognition period for liabilities is the average of the expected remaining service lives of all employees in years is 6.2250.

The recognition period for assets in years is 5.0000.



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Full actuarial assumptions are available in the 2022 MPSERS Annual Comprehensive Financial Report found on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

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

The long-term expected rate of return on OPEB 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 OPEB 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 OPEB plan's target asset allocation as of September 30, 2022, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.1%
Private Equity Pools	16.0	8.7
International Equity	15.0	6.7
Fixed Income Pools	13.0	(0.2)
Real Estate and Infrastructure Pools	10.0	5.3
Absolute Return Pools	9.0	2.7
Real Return/Oppportunistic Pools	10.0	5.8
Short Term Investment Pools	2.0	(0.5)
	<u>100.0%</u>	

\*Long-term rates of return are net of administrative expenses and 2.2% inflation.

**Rate of Return**

For the plan year ended September 30, 2022, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was (4.99)%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Discount Rate**

A discount rate of 6.00% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.00%. 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 OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 6.00%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease 5.00%	Current Discount Rate 6.00%	1% Increase 7.00%
<u>\$ 1,167,411</u>	<u>\$ 695,963</u>	<u>\$ 298,945</u>

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**Sensitivity of the School District’s Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate**

The following presents the School District’s proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the School District’s proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 291,436	\$ 695,963	\$ 1,150,053

**OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued 2022 MPSERS Annual Comprehensive Financial Report, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

**Payables to the OPEB Plan**

There were no significant payables to the OPEB plan that are not ordinary accruals to the School District.

**Note 13 – Contingent Liabilities**

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

**Note 14 – Tax Abatements**

The School District may receive reduced property tax revenues as a result of Industrial Facilities Tax exemptions and Brownfield Redevelopment Agreements granted by various municipalities within the area. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2023, the School District’s property tax revenues were not reduced by a significant amount under these programs.

There are no significant abatements made by the School District.

**Note 15 – Subsequent Events**

On August 18, 2023, the School District finalized the sale of the 2023 Building and Site Bonds. The bonds have a par value of \$16,115,000 with a premium of \$288,698.

## REQUIRED SUPPLEMENTARY INFORMATION

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**Climax-Scotts Community Schools**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2023**

	Budgeted Amounts		Actual	Over
	Original	Final		(Under)
<b>Revenues</b>				
Local sources	\$ 450,089	\$ 518,348	\$ 535,401	\$ 17,053
State sources	5,880,117	6,622,647	6,719,558	96,911
Federal sources	214,689	372,154	379,048	6,894
Interdistrict sources	<u>1,002,443</u>	<u>816,255</u>	<u>784,238</u>	<u>(32,017)</u>
Total revenues	<u>7,547,338</u>	<u>8,329,404</u>	<u>8,418,245</u>	<u>88,841</u>
<b>Expenditures</b>				
Instruction				
Basic programs	3,357,884	3,698,377	3,680,267	(18,110)
Added needs	792,391	859,988	795,178	(64,810)
Supporting services				
Pupil	521,817	451,760	387,217	(64,543)
Instructional staff	307,339	267,109	192,266	(74,843)
General administration	328,357	331,333	340,998	9,665
School administration	549,997	560,417	547,254	(13,163)
Business	205,531	226,397	225,215	(1,182)
Operations and maintenance	665,217	744,859	740,245	(4,614)
Pupil transportation services	684,347	592,985	549,828	(43,157)
Central	461,133	241,467	239,152	(2,315)
Athletic activities	-	236,247	233,068	(3,179)
Community services	34,757	113,996	154,745	40,749
Capital outlay	-	372,264	370,764	(1,500)
Debt service				
Principal	-	39,516	62,930	23,414
Interest and fiscal charges	-	10,048	10,048	-
Total expenditures	<u>7,908,770</u>	<u>8,746,763</u>	<u>8,529,175</u>	<u>(217,588)</u>
Excess (deficiency) of revenues over expenditures	<u>(361,432)</u>	<u>(417,359)</u>	<u>(110,930)</u>	<u>306,429</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from notes and loans	-	178,580	178,580	-
Transfers in	-	17,742	25,726	7,984
Transfers out	<u>(43,321)</u>	<u>(260)</u>	<u>(258)</u>	<u>2</u>
Total other financing sources (uses)	<u>(43,321)</u>	<u>196,062</u>	<u>204,048</u>	<u>7,986</u>
Net change in fund balance	<u>(404,753)</u>	<u>(221,297)</u>	<u>93,118</u>	<u>314,415</u>
Fund balance - beginning	<u>2,082,283</u>	<u>2,082,283</u>	<u>2,082,283</u>	<u>-</u>
Fund balance – ending	<u>\$ 1,677,530</u>	<u>\$ 1,860,986</u>	<u>\$ 2,175,401</u>	<u>\$ 314,415</u>

**Climax-Scotts Community Schools**  
**Required Supplementary Information**  
**Schedule of the School District's Proportionate Share of the Net Pension Liability**  
**Michigan Public School Employees Retirement Plan**  
**Last 10 Fiscal Years (Measurement Date September 30th, of Each June Fiscal Year)**

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A. School district's proportion of the net pension liability (%)	0.03220%	0.03085%	0.03006%	0.03053%	0.03049%	0.03034%	0.02939%	0.02905%	0.02950%	
B. School district's proportionate share of the net pension liability	\$ 12,103,287	\$ 7,304,667	\$ 10,324,243	\$ 10,111,404	\$ 9,166,304	\$ 7,780,404	\$ 7,332,155	\$ 7,096,220	\$ 6,497,525	
C. School district's covered payroll	\$ 3,268,925	\$ 2,988,160	\$ 2,767,027	\$ 2,726,909	\$ 2,694,895	\$ 2,567,051	\$ 2,540,127	\$ 2,481,895	\$ 2,533,142	
D. School district's proportionate share of the net pension liability as a percentage of its covered payroll	370.25%	244.45%	373.12%	370.80%	340.14%	303.09%	288.65%	285.92%	256.50%	
E. Plan fiduciary net position as a percentage of total pension liability	60.77%	72.60%	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%	

**Note Disclosures**

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2022.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2022.

**Climax-Scotts Community Schools**  
**Required Supplementary Information**  
**Schedule of the School District's Pension Contributions**  
**Michigan Public School Employees Retirement Plan**  
**Last 10 Fiscal Years**

	For the Years Ended June 30,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A. Statutorily required contributions	\$ 1,141,271	\$ 926,411	\$ 825,952	\$ 811,113	\$ 830,291	\$ 704,214	\$ 659,931	\$ 560,471	\$ 458,132	
B. Contributions in relation to statutorily required contributions	<u>1,141,271</u>	<u>926,411</u>	<u>825,952</u>	<u>811,113</u>	<u>830,291</u>	<u>704,214</u>	<u>659,931</u>	<u>560,471</u>	<u>458,132</u>	
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
D. School district's covered payroll	\$ 3,319,390	\$ 3,244,298	\$ 2,893,210	\$ 2,781,792	\$ 2,734,873	\$ 2,664,103	\$ 2,537,274	\$ 2,408,532	\$ 2,487,437	
E. Contributions as a percentage of covered payroll	34.38%	28.56%	28.55%	29.16%	30.36%	26.43%	26.01%	23.27%	18.42%	

**Climax-Scotts Community Schools**  
**Required Supplementary Information**  
**Schedule of the School District's Proportionate Share of the Net OPEB Liability**  
**Michigan Public School Employees Retirement Plan**  
**Last 10 Fiscal Years (Measurement Date September 30th, of Each June Fiscal Year)**

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A. School district's proportion of the net OPEB liability (%)	0.0329%	0.0438%	0.0423%	0.0428%	0.0439%	0.0429%				
B. School district's proportionate share of the net OPEB liability	\$ 695,963	\$ 493,320	\$ 1,653,162	\$ 2,219,378	\$ 2,501,443	\$ 2,686,619				
C. School district's covered payroll	\$ 3,268,925	\$ 2,988,160	\$ 2,767,027	\$ 2,726,909	\$ 2,694,895	\$ 2,567,051				
D. School district's proportionate share of the net OPEB liability as a percentage of its covered payroll	21.29%	16.51%	59.75%	81.39%	92.82%	104.66%				
E. Plan fiduciary net position as a percentage of total OPEB liability	83.09%	87.33%	59.44%	48.46%	42.95%	36.39%				

**Note Disclosures**

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2022.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2022.

**Climax-Scotts Community Schools**  
**Required Supplementary Information**  
**Schedule of the School District's OPEB Contributions**  
**Michigan Public School Employees Retirement Plan**  
**Last 10 Fiscal Years**

	For the Years Ended June 30,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A. Statutorily required contributions	\$ 247,044	\$ 239,923	\$ 218,022	\$ 212,301	\$ 204,263	\$ 236,198				
B. Contributions in relation to statutorily required contributions	<u>247,044</u>	<u>239,923</u>	<u>218,022</u>	<u>212,301</u>	<u>204,263</u>	<u>236,198</u>				
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				
D. School district's covered payroll	\$ 3,319,390	\$ 3,244,298	\$ 2,893,210	\$ 2,781,792	\$ 2,734,873	\$ 2,664,103				
E. Contributions as a percentage of covered payroll	7.44%	7.40%	7.54%	7.63%	7.47%	8.87%				



## OTHER SUPPLEMENTARY INFORMATION

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**Climax-Scotts Community Schools**  
**Other Supplementary Information**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2023**

	<u>Special Revenue Funds</u>			Total Nonmajor Governmental Funds
	<u>Student/School Activity Fund</u>	<u>Food Service Fund</u>	<u>2018 Capital Projects Fund</u>	
<b>Assets</b>				
Cash	\$ 111,197	\$ 184,199	\$ -	\$ 295,396
Due from other governmental units	-	7,892	-	7,892
Inventory	-	2,939	-	2,939
Total assets	<u>\$ 111,197</u>	<u>\$ 195,030</u>	<u>\$ -</u>	<u>\$ 306,227</u>
<b>Liabilities</b>				
Accounts payable	\$ 604	\$ 6,320	\$ -	\$ 6,924
Due to other funds	-	25,468	-	25,468
Total liabilities	<u>604</u>	<u>31,788</u>	<u>-</u>	<u>32,392</u>
<b>Fund Balances</b>				
Non-spendable				
Inventory	-	2,939	-	2,939
Restricted for				
Food service	-	160,303	-	160,303
Committed for student/school activities	110,593	-	-	110,593
Total fund balances	<u>110,593</u>	<u>163,242</u>	<u>-</u>	<u>273,835</u>
Total liabilities and fund balances	<u>\$ 111,197</u>	<u>\$ 195,030</u>	<u>\$ -</u>	<u>\$ 306,227</u>

**Climax-Scotts Community Schools**  
**Other Supplementary Information**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2023**

	<u>Special Revenue Funds</u>			Total Nonmajor Governmental Funds
	<u>Student/School Activity Fund</u>	<u>Food Service Fund</u>	<u>2018 Capital Projects Fund</u>	
<b>Revenues</b>				
Local sources	\$ 112,373	\$ 116,276	\$ 12	\$ 228,661
State sources	-	13,199	-	13,199
Federal sources	-	241,781	-	241,781
	<u>112,373</u>	<u>371,256</u>	<u>12</u>	<u>483,641</u>
Total revenues				
<b>Expenditures</b>				
Current				
Education				
Supporting services	116,716	-	-	116,716
Food services	-	403,547	-	403,547
Capital outlay	-	-	18,632	18,632
	<u>116,716</u>	<u>403,547</u>	<u>18,632</u>	<u>538,895</u>
Total expenditures				
Deficiency of revenues over expenditures	(4,343)	(32,291)	(18,620)	(55,254)
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	258	-	258
Transfers out	-	(25,726)	-	(25,726)
	<u>-</u>	<u>(25,468)</u>	<u>-</u>	<u>(25,468)</u>
Total other financing sources (uses)				
Net change in fund balances	(4,343)	(57,759)	(18,620)	(80,722)
Fund balances – beginning	<u>114,936</u>	<u>221,001</u>	<u>18,620</u>	<u>354,557</u>
Fund balances – ending	<u>\$ 110,593</u>	<u>\$ 163,242</u>	<u>\$ -</u>	<u>\$ 273,835</u>

**Climax-Scotts Community Schools**  
**Other Supplementary Information**  
**Schedule of Outstanding Bonded Indebtedness**  
**June 30, 2023**

Year Ending June 30,	2018 Building & Site
2024	\$ 480,000
2025	500,000
2026	525,000
2027	550,000
2028	580,000
2029	605,000
2030	630,000
2031	655,000
2032	680,000
2033	705,000
2034	730,000
2035	760,000
2036	790,000
2037	820,000
2038	850,000
Total	\$ 9,860,000
Principal payments due the first day of	May
Interest payments due the first day of	May and November
Interest rate	4.00% - 5.00%
Original issue	\$ 10,715,000

## OTHER REPORT

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## 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*

### Independent Auditors' Report

Management and 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, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Climax-Scotts Community Schools' basic financial statements and have issued our report thereon dated October 10, 2023.

#### Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Climax-Scotts Community Schools' internal control over financial reporting (internal control) as a basis for designing 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 Climax-Scotts Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Climax-Scotts Community Schools' internal control.

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

### **Report on Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Yeo & Yeo, P.C.*

Kalamazoo, Michigan  
October 10, 2023



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October 10, 2023

Management and the Board of Education  
Climax-Scotts Community Schools  
Climax, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Climax-Scotts Community Schools (the School District) as of and for the year ended June 30, 2023. We are required to communicate certain matters to you in accordance with generally accepted auditing standards that are related to internal control and the audit.

Our communication includes the following appendices:

- I. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Matters for Management's Consideration

Matters for management's consideration are not required to be communicated but we believe are valuable for management.

We discussed these matters with various personnel in the School District during the audit including management. We would also be pleased to meet with you to discuss these matters at your convenience.

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

*Yeo & Yeo, P.C.*

Kalamazoo, Michigan



## Appendix I

### Auditors' Communication of Significant Matters with Those Charged with Governance

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. We have communicated such information in our engagement letter dated May 31, 2023. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Matters

##### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in the footnotes of the financial statements. The School District has adopted the following Governmental Accounting Standards Board Statements effective July 1, 2022:

- Statement No. 96, *Subscription-Based Information Technology Arrangements* is based on the standards established in Statement No. 87 *Leases*. This statement (1) defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction (2) requires governments with SBITAs to recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability, and (3) provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA.

We noted no transactions entered into by the School District during the year where there is 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 and assumptions about future events. 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 School District's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Net other postemployment (OPEB) liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We have evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Disclosures in the financial statements are neutral, consistent and clear.

A significant risk is an identified and assessed risk of material misstatement that, in the auditors' professional judgment, requires special audit consideration. Within our audit, we focused on the following areas.

- Management override of controls
- Improper revenue recognition
- Implementation of new accounting standard

### **Accounting Standards and Regulatory Updates**

The Governmental Accounting Standards Board has released additional Statements. Details regarding these Statements are described in the footnotes of the financial statements.

Implementation Guide No 2021-1, *Implementation Guidance Update-2021* has an amended response related to the capitalization of assets purchased as a group. Under the amended guidance, governments *should* capitalize individual items when the purchase in the aggregate is considered significant, even if the individual items are less than the capitalization threshold of the government. The effective date for implementation is for reporting periods beginning after June 15, 2023 (effectively, for the first year ended June 30, 2024 or later) and requires retroactive implementation.

### **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 clearly trivial and communicate them to the appropriate level of management. Management has corrected all such misstatements.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

There were no known uncorrected misstatements that were more than trivial.

### **Disagreements with Management**

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' 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 as of the date of the audit report.

### **Management's Consultations with Other 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 School District'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.

## **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 School 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 Reports**

Other information that is required to be reported to you is included in the 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*. Please read all information included in that report to ensure you are aware of relevant information.

## **Report on Required Supplementary Information**

We applied certain limited procedures to management's discussion and analysis and the remaining required supplementary information (RSI) as described in the table of contents of the financial statements 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.

## **Report on Other Supplementary Information**

We were engaged to report on other supplementary information as described in the table of contents of the financial statements, 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.

## **Appendix II Matters for Management's Consideration**

In planning and performing our audit of the financial statements of Climax-Scotts Community Schools as of and for the year ended June 30, 2023, we considered the School District's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of the following matter for management's consideration that is an opportunity for ensuring compliance with regulations. This letter does not affect our report dated October 10, 2023, on the financial statements of Climax-Scotts Community Schools.

### **Net Cash Resources**

As a result of the COVID-19 pandemic and flexibilities awarded related to eligibility and food distribution, meal claim revenues were in excess of anticipated amounts. This resulted in the net cash resources to continue to be in excess of the three-month average expenditure requirement included in the federal regulations. At this time, neither MDE nor USDA has issued a waiver for this requirement. This item has not been determined to be material to the federal program or the financial statements. In order to resolve the issue, School Districts may reduce lunch prices in a manner that is consistent with the paid lunch equity provisions, improve food quality, or take other action designed to improve the program. We recommend that School Districts look at other possible enhancements to the program in order to develop a spend down plan to return to compliance with this requirement.

### **Receipt Transactions**

It appeared that when revenues were collected at the building level, those receipts were forwarded to the district's service organization for recording, approving, and posting. To promote efficiency, consistency, and accuracy, we recommend the district consider creating the work record for approval within the system for the service organization to approve and post.

### **Credit Cards**

We noted that it appeared one individual was approving all credit card transactions, including their own purchases. To ensure appropriate segregation of duties and guard against inappropriate expenditures, no one should be able to approve their own transactions. Also, during testing we noted sales tax had been paid in certain instances, and that the business purpose for charges was not always evident or documented. We recommend:

- Within the credit card approval site, it should be a system setting that no one can approve their own transactions, if possible. The district should implement a control where each cardholder's purchases are approved by someone other than the cardholder.
- The district should consider whether the individual approving transactions is the most ideal choice, or if another individual would be better suited. The approver should have knowledge of why the expenditure was made and be able to determine if it was necessary, reasonable, and for district purposes.
- Sales tax should not be paid for any district purchases that are exempt from sales tax.
- The business purpose for each transaction should be clearly documented. For example – a hotel stay should indicate the reason a hotel was needed and that it was for the benefit of the district.