



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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2022

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Climax-Scotts Community Schools (the District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Climax-Scotts Community Schools as of June 30, 2022, 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 the District 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.

Change in Accounting Principle

As described in Note M to the financial statements, in the fiscal year ended June 30, 2022, the District adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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 the District's 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.

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

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Seber Tans, PLC

Seber Tans, PLC
Kalamazoo, Michigan

October 17, 2022

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2022
Management's Discussion and Analysis**

Climax-Scotts Community Schools (the District) is a PreK-12 school district covering areas throughout Kalamazoo and Calhoun Counties, Michigan. Climax-Scotts Community Schools encompasses an area of approximately 61 square miles, and is located in the southwestern portion of Michigan's Lower Peninsula. The 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, one social worker, 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.

This 2022 annual financial report is written in conjunction with the District's financial statements, which immediately follow this section. In this financial report, the Climax-Scotts Community Schools present their discussion and analysis of the school's financial condition for the fiscal year ended June 30, 2022.

Using this Annual Report

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

Reporting the District as a Whole – Financial Statements

To follow are Climax-Scotts Community School's District-Wide Statement of Net Position and Statement of Activities. The Statement of Net Position includes all assets and liabilities, using the accrual basis of accounting. All the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District's net position, which are the difference between assets, deferred outflows of resources and liabilities, as reported in the Statement of Activities, as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. However, you need to consider other non-financial factors such as changes in the District's property tax base and the condition and age of the school buildings and other facilities.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2022
Management's Discussion and Analysis**

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

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

Statement of Net Position

A summary of the District's net position as of June 30, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets	\$ 3,849,232	\$ 4,144,066
Capital assets, net book value	<u>13,771,437</u>	<u>13,839,124</u>
TOTAL ASSETS	<u>17,620,669</u>	<u>17,983,190</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on pension and OPEB	<u>1,952,547</u>	<u>2,615,906</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 19,573,216</u>	<u>\$ 20,599,096</u>
LIABILITIES		
Current liabilities	\$ 1,612,372	\$ 2,164,192
Long-term liabilities	<u>18,442,590</u>	<u>23,197,987</u>
TOTAL LIABILITIES	<u>20,054,962</u>	<u>25,362,179</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on pension and OPEB	<u>4,345,072</u>	<u>1,403,355</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF ASSETS	<u>\$ 24,400,034</u>	<u>\$ 26,765,534</u>
NET POSITION		
Net investment in capital assets	2,528,904	2,527,616
Restricted	752,507	607,278
Unrestricted	<u>(8,108,229)</u>	<u>(9,301,332)</u>
TOTAL NET POSITION	<u>\$ (4,826,818)</u>	<u>\$ (6,166,438)</u>

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2022
Management's Discussion and Analysis**

Statement of Activities

As detailed in the District-Wide Statement of Activities that follows, the net position of Climax-Scotts Community Schools increased during the fiscal year ended June 30, 2022, by \$1,339,619. In comparison, during the fiscal year ended June 30, 2021, the District's net position increased by \$421,876.

REVENUES	2022	2021
Program revenues:		
Charges for services	\$ 71,730	\$ 38,905
Operating grants	3,262,878	2,382,452
General revenues:		
Property taxes	1,543,139	1,477,265
State foundation allowance	4,595,357	4,352,917
Interest and investment earnings	4,247	10,454
Other	220,693	165,438
TOTAL REVENUES	9,698,044	8,427,431
EXPENSES		
Instruction and instructional support	3,449,044	4,115,171
Support services	3,377,448	2,575,493
Capital outlay	55,252	106,712
Food services	379,227	267,056
Student activities	94,871	62,843
Interest on long-term debt	414,106	438,801
Depreciation (unallocated)	588,477	439,479
TOTAL EXPENSES	8,358,425	8,005,555
CHANGE IN NET POSITION	\$ 1,339,619	\$ 421,876

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

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2022
Management’s Discussion and Analysis**

The District as Trustee – Reporting the District’s Fiduciary Responsibilities

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

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

Approximately 64% of the District’s 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 that Districts receive is established by the State of Michigan annually. For fiscal year ended June 30, 2022, the allowance was \$8,700 per student FTE. This is an increase of \$589 compared to the 2020-2021 foundation allowance.

Student Enrollment

Climax-Scotts Community Schools’ blended membership count for the 2021-2022 school year was 564.58 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

Our blended student enrollment for the 2021-2022 school year of 564.58 students was based on 90% of October 2021 count and 10% of the February 2021 count.

Property Taxes Levied for General Operations

Climax-Scotts Community Schools levies 18 mills on non-homestead property, which generates revenue for General Fund operations. Under Michigan law, the taxable levy is based on the taxable valuation of properties within each school district. Annually the taxable valuation increase in property values is capped at the rate of the prior year’s CPI increase or 5%, whichever is less. Climax-Scotts Community School levied 17.5864 mills for operations for the 2021-2022 tax year, generating \$331,380. This represents a 3.9% increase in tax revenue. Both Calhoun and Kalamazoo County Treasurers settled their delinquent tax accounts with our school district prior to June 30, 2022.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2022
Management's Discussion and Analysis**

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

2017-2018	\$275,025	Decrease of 1%
2018-2019	\$287,163	Increase of 4%
2019-2020	\$334,662	Increase of 17%
2020-2021	\$319,114	Decrease of 3%
2021-2022	\$331,380	Increase of 4%

Capital Assets

Deyo & Associates of Kalamazoo, Michigan completed the District's most recent asset appraisal for the fiscal year ended June 30, 2022. Deyo provides the District an updated annual asset appraisal based on additions and deletions to assets throughout the current fiscal year. An on-site update of the school's assets was conducted in December 2008.

At June 30, 2022, the District had capital assets net of accumulated depreciation, totaling \$13,717,802, which includes land, buildings, furniture and equipment, fleet of buses, and athletic facilities including an all-weather track. This represents a net decrease (including additions, deductions, and depreciation) of \$121,322 from fiscal year ended June 30, 2021. A summary of capital assets is as follows:

	<u>2022</u>	<u>2021</u>
Buildings and improvements	\$ 17,600,845	\$ 17,211,055
Outdoor equipment	1,015,674	1,015,674
Equipment	645,560	604,679
Vehicles and tractors	845,534	809,050
	<u>20,107,613</u>	<u>19,640,458</u>
Less: accumulated depreciation	(6,389,811)	(5,801,334)
NET CAPITAL ASSETS	<u>\$ 13,717,802</u>	<u>\$ 13,839,124</u>

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2022
Management's Discussion and Analysis**

Long-Term Obligations

At the end of fiscal year ended June 30, 2022, the District had a balance of \$15,172,489 in outstanding debt retirement and school improvement bonds, and notes payable. When making a comparison to the balance at fiscal year ended June 30, 2021, of \$16,198,003, this represents a net decrease in long-term obligations of \$1,025,514. Reference page 46 for activity in long-term obligations, which consist of the following:

	Balance at July 1, 2021	Additions	Deductions	Balance at June 30, 2022
2018 Refunding	\$ 515,000	\$ -	\$ (260,000)	\$ 255,000
Interest related to 2018 current refunding bond issue	38,500	-	(25,750)	12,750
2018 School Building and Site	10,370,000	-	(230,000)	10,140,000
Interest related to 2018 school building and site bond issue	4,412,750	-	(446,250)	3,966,500
Bond premiums	790,729	-	(60,707)	730,022
Bus note payables	66,988	-	(33,090)	33,898
Interest related to buses	4,036	-	(2,680)	1,356
Truck note payable	-	29,978	-	29,978
Interest related to truck	-	2,985	-	2,985
Total	\$16,198,003	\$ 32,963	\$(1,058,477)	\$15,172,489

During 2018, the District refunded the 2008 Refunding Bond and issued an additional school building and site improvement bond. The new bonds have an interest rates ranging from 4-5% and payments will be made semi-annually. The new refunding bond matures in 2023 and the school building and site bond matures in 2038. Funds from the school building and site bond will be used to purchase and construct capital assets for the District.

Original versus Revised Budget

The Uniform Budget Act of the State of Michigan requires that a local Board of Education approve the original budget for the upcoming fiscal year prior to July 1st, the start of the fiscal year. The budget for 2021-2022 was approved on June 21, 2021, and the Board approved a final amendment to that budget on June 20, 2022.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2022
Management's Discussion and Analysis**

General Fund Revenues

Total Revenues – Final Revised Budget	\$7,981,030
Total Revenues – Original Budget	<u>6,639,659</u>
	\$1,341,371

The District's final budgeted General Fund revenues were more than the original budget by \$1,341,371. The increase in revenue from the original budget was largely increase in State and Federal grants due to the relief funding provided to schools.

General Fund Expenditures

Total Expenditures/Other Financing Uses – Final Revised Budget	\$7,626,220
Total Expenditures/Other Financing Uses – Original Budget	<u>6,871,165</u>
	\$ 755,055

The District's final budgeted General Fund expenditures and other financing uses were more than the original budget by \$755,055. The most significant increases from the originally approved budget are as follows:

The District's amended budget increased from the original budget primarily due to changes in the covid supplies budgets, cost of our virtual program, and increased wages and benefits due to the additional responsibilities of remote teaching and learning.

Economic Factors and Next Year's Budget and Rates

Many factors were considered when setting the School District's 2022-2023 fiscal year budget. Despite the pandemic, the economic outlook for our school district is looking very positive for the 2022-2023 school year.

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 2020-2021 and 2021-2022, the blended pupil count decreased by 1.6%. This was due to a change in the blend count formula. Due to the pandemic, 2020-2021 used a super blend formula, Preliminary numbers for the fall of 2022 indicate a 1% increase over the 2021-2022 school year's fall count. The state of Michigan budget for the 2022-2023 fiscal year increased per-pupil funding \$450, from \$8,700 to \$9,150.

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 School's general fund balance at fiscal year end June 30, 2022, is \$2,082,283 (\$618,761 increase from June 30, 2021) or approximately 27.68% of its operating expenditures. The recommended fund equity for school districts is maintain at least 15% of operating expenditures.

Request for Information

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

Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Statement of Net Position
June 30, 2022

ASSETS

Current Assets	
Cash	\$ 1,643,913
Accounts receivable	14,615
Investments	383
Due from other governments	2,182,264
Inventory	2,117
Prepaid expenses	5,940
Total Current Assets	<u>3,849,232</u>

Property and Equipment	
Right of use asset, net of accumulated amortization	53,635
Capital assets, net of accumulated depreciation	13,717,802
Total Property and Equipment	<u>13,771,437</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount related to other postemployment benefits	730,306
Deferred amount related to pensions	1,222,241
Total Deferred Outflows of Resources	<u>1,952,547</u>

Total Assets and Deferred Outflows of Resources **\$ 19,573,216**

LIABILITIES

Current Liabilities	
Accounts payable	\$ 108,519
Unearned revenue	146,594
Accrued payroll and related withholdings	571,561
State aid note payable	92,951
Due to other governmental units	94,817
Current maturities of lease liability	23,414
Current maturities of long-term debt	39,516
Current maturities of bonds payable	535,000
Total Current Liabilities	<u>1,612,372</u>

Lease Liability, net of current maturities 30,221

Long-Term Debt, net of current maturities 24,360

Bonds Payable, net of current maturities 10,590,022

Net Postemployment Benefits Liability 493,320

Net Pension Liability 7,304,667

Total Liabilities 20,054,962

DEFERRED INFLOWS OF RESOURCES

Deferred amount related to other postemployment benefits	1,870,107
Deferred amount related to pensions	2,474,965
Total Deferred Inflows of Resources	<u>4,345,072</u>

Total Liabilities and Deferred Inflows of Resources **\$ 24,400,034**

NET POSITION (DEFICIT)

Net investment in capital assets	2,528,904
Restricted for:	
Capital projects	18,620
Debt	397,950
Food service	221,001
Student activities	114,936
Unrestricted	(8,108,229)
Total Net Deficit	<u>(4,826,818)</u>

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Statement of Activities
For the Year Ended June 30, 2022**

	<u>Program Revenue</u>			Governmental Activities Net (Expense) Revenue and Changes in Net Position
	<u>Expenses</u>	<u>Charges for Service</u>	<u>Operating Grants/ Contributions</u>	
Functions/Programs				
Governmental activities:				
Instruction & instructional support	\$ (3,449,044)	\$ 44,076	\$ 2,825,103	\$ (579,865)
Support services	(3,377,448)	-	-	(3,377,448)
Capital Outlay	(55,252)	-	-	(55,252)
Food services	(379,227)	27,654	437,775	86,202
Student Activities	(94,871)	-	-	(94,871)
Interest on long-term debt	(414,106)	-	-	(414,106)
Depreciation (unallocated)	(588,477)	-	-	(588,477)
Total Governmental Activity	<u>\$ (8,358,425)</u>	<u>\$ 71,730</u>	<u>\$ 3,262,878</u>	<u>\$ (5,023,817)</u>
General Revenues:				
Taxes:				
Property taxes, levied for general obligations				547,629
Property taxes, levied for debt service				995,510
State of Michigan aid, unrestricted				4,595,357
Interest and investment earnings				4,247
Miscellaneous revenue				220,693
Total General Revenues				<u>6,363,436</u>
Change in Net Position				1,339,619
Net Position, Beginning of Year				<u>(6,166,437)</u>
Net Position, End of Year				<u>\$ (4,826,818)</u>

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Balance Sheet - Governmental Funds and the Reconciliation of the
Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2022**

	General Fund	2018 Debt Service	Other Non-Major Governmental	Total Governmental
ASSETS				
Cash	\$ 869,409	\$ 383,652	\$ 390,852	\$ 1,643,913
Accounts receivable	-	-	14,615	14,615
Investments	-	-	383	383
Due from other funds	24,607	14,298	253	39,158
Due from other governments	2,179,344	-	2,920	2,182,264
Prepaid expenses	5,940	-	-	5,940
Inventory	-	-	2,117	2,117
Total Assets	\$ 3,079,300	\$ 397,950	\$ 411,140	\$ 3,888,390
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 81,147	\$ -	\$ 27,372	\$ 108,519
Due to other funds	14,551	-	24,607	39,158
Due to other governmental units	94,817	-	-	94,817
Salaries payable and related withholdings	571,561	-	-	571,561
State aid note payable	92,951	-	-	92,951
Total Liabilities	855,027	-	51,979	907,006
Deferred Inflows of Resources				
Unearned revenue	141,990	-	4,604	146,594
Total Liabilities and Deferred Inflows of Resources	997,017	-	56,583	1,053,600
Fund Balances				
Nonspendable	5,940	-	2,117	8,057
Restricted for:				
Debt	-	397,950	-	397,950
Food service	-	-	218,884	218,884
Student activities	-	-	114,936	114,936
Capital Projects	-	-	18,620	18,620
Committed for Board of Education Strategic Plan	100,000	-	-	100,000
Unassigned	1,976,343	-	-	1,976,343
Total Fund Balances	2,082,283	397,950	354,557	2,834,790
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 3,079,300	\$ 397,950	\$ 411,140	\$ 3,888,390
Reconciliation of the balance sheet - governmental funds to the statement of net position:				
Total governmental fund balances				\$ 2,834,790
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:				
The cost of the capital assets is			20,107,613	
Accumulated depreciation is			(6,389,811)	13,717,802
The original present value for right of use assets is			113,163	
Accumulated amortization is			(59,528)	53,635
Deferred inflows related to other postemployment benefits				(1,870,107)
Deferred inflows related to pensions				(2,474,965)
Deferred outflows related to other postemployment benefits				730,306
Deferred outflows related to pensions				1,222,241
Long term liabilities that are not due and payable in the current period and are not reported in the funds:				
Net other postemployment liability				(493,320)
Net pension liability				(7,304,667)
Lease liability				(53,635)
Bonds payable				(11,125,022)
Long-term debt				(63,876)
Net Position of Governmental Activities				\$ (4,826,818)

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2022**

	<u>General Fund</u>	<u>2018 Debt Service</u>	<u>Other Non-Major Governmental</u>	<u>Total Governmental</u>
Revenues				
Local sources	\$ 445,117	\$ 995,510	\$ 172,169	\$ 1,612,796
Intermediate sources	804,978	-	-	804,978
State sources	5,625,736	-	9,826	5,635,562
Federal sources	1,216,759	-	427,949	1,644,708
Total Revenues	<u>8,092,590</u>	<u>995,510</u>	<u>609,944</u>	<u>9,698,044</u>
Expenditures				
Education				
Instruction	4,023,386	-	-	4,023,386
Support services	3,377,448	-	-	3,377,448
Capital outlay	85,245	-	437,162	522,407
Food service	-	-	379,227	379,227
Student activities	-	-	94,871	94,871
Debt service	35,470	962,432	-	997,902
Total Expenditures	<u>7,521,549</u>	<u>962,432</u>	<u>911,260</u>	<u>9,395,241</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>571,041</u>	<u>33,078</u>	<u>(301,316)</u>	<u>302,803</u>
Other Financing Sources (Uses)				
Operating transfers in	17,742	-	-	17,742
Proceeds on debt	29,978	-	-	29,978
Operating transfers out	-	-	(17,742)	(17,742)
Total Other Financing Sources	<u>47,720</u>	<u>-</u>	<u>(17,742)</u>	<u>29,978</u>
Net Change in Fund Balances	<u>618,761</u>	<u>33,078</u>	<u>(319,058)</u>	<u>332,781</u>
Fund Balances, Beginning of Year	<u>1,463,522</u>	<u>364,872</u>	<u>673,615</u>	<u>2,502,009</u>
Fund Balances, End of Year	<u>\$ 2,082,283</u>	<u>\$ 397,950</u>	<u>\$ 354,557</u>	<u>\$ 2,834,790</u>

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2022**

Net change in fund balances - total governmental funds		\$ 332,781
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	(588,477)	
Capital outlay	<u>467,155</u>	(121,322)
Governmental funds report proceeds from debt as revenue, but not in the statement of activities (where it increases long-term debt payable).		(29,978)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term bonds payable).		550,707
Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt payable).		33,089
Repayment of net other postemployment benefit liability is an expenditure in the governmental funds, but not in the statement of activities (where it reduces net other postemployment benefit liability).		659,665
Repayment of net pension liability is an expenditure in the governmental funds, but not in the statement of activities (where it reduces net pension liability).		<u>(85,323)</u>
Change in Net Position of Governmental Activities		<u>\$ 1,339,619</u>

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

NOTE A – Summary of Significant Accounting Policies

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

Reporting Entity

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

District-Wide Financial Statements

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government-wide activities are considered governmental activities.

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

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

NOTE A – Summary of Significant Accounting Policies (Continued)

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

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

Fund Financial Statements

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

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

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

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The 2018 Debt Service Fund is a debt service fund used to record tax, interest and other revenue for payment of principal, and other expenditures on the District's 2018 bond issue.

The District reports the following non-major governmental funds:

The 2018 Capital Projects Fund is a capital projects fund used to track the financial resources acquired and used for major capital expenditures from the proceeds of the District's 2018 School Building and Site Bond.

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

NOTE A – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Position or Equity

Deposits and Investments

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

Receivables and Payables

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

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Taxes are levied on December 1 and are collected through February 28 by various local units for the District. The local units then remit to the District any delinquent real property taxes by June 30.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state’s School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year’s Consumer Price Index increase or 5%, whichever is less. At the time the property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is 50% of the property’s market value.

For the year ended June 30, 2022, the District’s non-homestead property tax collections were approximately \$548,000. This is a 9% decrease from the prior year.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

NOTE A – Summary of Significant Accounting Policies (Continued)

The District levies 7.3 mills of property taxes on all classes of property located within the District for bonded debt retirement. This levy is not subject to rollback provisions and is used to pay the principal and interest on bond obligations. The total amount collected for debt retirement during the year ended June 30, 2022 was approximately \$995,000. This is a 2.5% increase from the prior year.

Inventories and Prepaid Costs

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

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The District does not have infrastructure type assets.

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

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

Compensated Absences (Vacation and Sick Leave)

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

Deferred Outflows/Inflows of Resources

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

NOTE A – Summary of Significant Accounting Policies (Continued)

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

Long-Term Obligations

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

In the fund financial statements governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Pension and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension and the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension 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.

Comparative Data

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

Estimates

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

NOTE A – Summary of Significant Accounting Policies (Continued)

Fund Balance

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

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

Restricted fund balance includes amounts that are restricted by externally imposed restrictions of creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The District reports restricted funds in the debt and lunch funds.

Committed fund balance includes amounts that are committed for specific purposes by formal action of the District's Board. A fund balance commitment may be established, modified, or rescinded by the District's Board. As of June 30, 2022, the District's Board has committed \$100,000 for the Board of Education Strategic Plan.

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

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

NOTE B – Stewardship, Compliance, and Accountability

Budgetary Information

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

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

Excess of Expenditures Over Appropriations in Budgeted Funds

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

NOTE B – Stewardship, Compliance, and Accountability (Continued)

Expenditures made in excess of the functional amendments are as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund - Instruction – Basic Programs	\$3,262,802	\$3,319,484	\$ (56,682)
General Fund – Support Services – General administration	319,819	320,961	(1,142)
General Fund - Support Services –School administration	527,691	538,949	(11,258)
General Fund - Support Services – Community services	31,974	57,944	(25,970)

NOTE C – Deposits and Investments

State statutes and the District’s investment policy authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; the District is allowed to invest in U.S. Treasury or Agency obligations, U.S. Government repurchase agreements, bankers’ acceptances, commercial paper rated prime at the time of purchase which mature not more than 270 days after the date of purchase, and mutual funds in investments pools that are composed of authorized investment vehicles. The District’s deposits are in accordance with statutory authority. The District utilizes one bank for the deposit of funds. The investment policy adopted by the board in accordance with state statutes has authorized investment in bonds and securities of the United States government, bank accounts and CD’s, and the remainder of state statutory authority as listed above.

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

	<u>Governmental Activities</u>
Cash	\$ 1,643,913
Investments	383
Total	<u>\$ 1,644,296</u>

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

Deposits (checking, savings accounts, money markets, certificates of deposits)	\$ 1,643,913
Investments in cash management funds	383
	<u>\$ 1,644,296</u>

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a policy for custodial credit risk.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

NOTE C – Deposits and Investments (Continued)

As of June 30, 2022, \$1,590,000 of the District’s bank balance of \$1,840,169 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk of Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer or other investment holder), the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. State statutes and the District’s investment policy do not contain requirements that would limit the exposure to custodial credit risk for investments.

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

State statutes and the District’s investment policy place no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities) that represent 5% or more of the School’s total investments are as follows. These investments are not insured by the Federal Deposit Insurance Corporation and are in addition to the uninsured cash deposits disclosed on page 22:

Issuer	Investment Type	Reported Amount	Rating by Standard & Poor’s
MILAF	MILAF+ Cash Mgmt Class (short-term)	\$ 383	AAAm

Foreign Currency Risk

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

NOTE C – Deposits and Investments (Continued)

Fair Value Measurements

The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 – Quoted prices in active markets for identical securities.
- Level 2 – Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S government agency securities, corporate securities, and commercial paper.
- Level 3 – Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs are inputs that reflect the reporting entities own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The following table summarizes the valuation of the District's financial instruments by the aforementioned pricing categories at June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash Funds (short-term)	<u>\$ -</u>	<u>\$ 383</u>	<u>\$ -</u>

NOTE D – Risk Management

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

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

The extent of the impact of COVID-19 on operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the impact on the state economy, taxpayers, employees and vendors, all of which are uncertain and cannot be predicted. At this point the extent to which COVID-19 may impact the District's financial condition and results of operations is uncertain.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

NOTE E – Commitments and Contingencies

Grant Programs

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2022, may be impaired. In the opinion of the District's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Unemployment

The District is a reimbursing employer to the Michigan Employment Security Agency (MESA) and as such is responsible to pay the MESA for those benefits charged to its account. As of June 30, 2022, appropriate liabilities have been recorded for all claims paid or chargeable by the MESA. However, no provision has been made for future payments that might result from claims in process or unfilled claims.

Other Contingencies

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

NOTE F – Receivables and Unearned Revenue

At June 30, 2022, the District's receivables were reported in the basic financial statements as follows:

<u>Type</u>	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Due from other governments	\$ 2,179,344	\$ 2,920	\$ 2,182,264

Governmental funds report deferred inflows of resources recognized as unearned revenue in connection with resources that have been received but not yet earned. At June 30, 2022, grant and categorical aid payments received prior to meeting all eligibility requirements were \$146,594.

NOTE G – Interfund Receivables, Payables and Transfers

The composition of interfund balances is as follows:

<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
General Fund	2018 Debt Service	\$ 14,298
Food Service Fund	General Fund	18,303
Student Activities Fund	General Fund	6,051

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

NOTE G – Interfund Receivables, Payables and Transfers (Continued)

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

During the year ended June 30, 2022, the following transfers between funds were made:

1. \$17,742 was transferred from the Food Service Fund to the General Fund to reimburse the general fund for allowable indirect costs incurred on behalf of the food service fund.

NOTE H – Capital Assets

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

	Balance July 1, 2021	Additions	Transfers	Deletions	Balance June 30, 2022
Capital assets being depreciated:					
Buildings and improvements	\$17,211,055	\$ 389,790	\$ -	\$ -	\$17,600,845
Outdoor equipment	1,015,674	-	-	-	1,015,674
Equipment	604,679	40,881	-	-	645,560
Vehicles and tractors	809,050	36,484	-	-	845,534
Total	<u>19,640,458</u>	<u>467,155</u>	<u>-</u>	<u>-</u>	<u>20,107,613</u>
Less accumulated depreciation for:					
Buildings and improvements	4,384,825	478,681	-	-	4,863,506
Outdoor equipment	411,300	34,339	-	-	445,639
Equipment	521,356	6,599	-	-	527,955
Vehicles and tractors	483,853	68,858	-	-	552,711
	<u>5,801,334</u>	<u>588,477</u>	<u>-</u>	<u>-</u>	<u>6,389,811</u>
Total capital assets being depreciated, net	<u>13,839,124</u>	<u>(121,322)</u>	<u>-</u>	<u>-</u>	<u>13,717,802</u>
Net Capital Assets	<u>\$13,839,124</u>	<u>\$ (121,322)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$13,717,802</u>

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

NOTE I – Long-Term Debt and Bond Compliance

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

Long-term obligation activity is summarized as follows:

	Balance July 1, 2021	Additions	Reductions	Balance June 30, 2022	Amount due within one year
Government obligation bonds	\$ 10,885,000	---	\$ (490,000)	\$ 10,395,000	\$ 535,000
Bond issuance premium	790,729	---	(60,707)	730,022	60,707
Bus and vehicle notes payable	66,988	29,978	(33,090)	63,876	39,516
	<u>\$ 11,742,717</u>	<u>\$ 29,978</u>	<u>\$ (583,797)</u>	<u>\$ 11,188,898</u>	<u>\$ 635,223</u>

Bond Compliance

The Capital Projects Fund includes activities funded by bonds that were issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351(a) of the Revised School Code.

State Aid Anticipation Note

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

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

	Balance July 1, 2021	Proceeds	Accrued Interest	Repayments	Balance June 30, 2022
State Aid Anticipation Note	\$ 423,812	\$ 650,000	\$ 94	\$ (980,955)	\$ 92,951

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

NOTE I – Long-Term Debt and Bond Compliance (Continued)

Long-term debt consisted of the following at June 30, 2022:

2018 school building and site bond issue with annual payments ranging \$155,000 to \$850,000 plus interest of 4%	\$ 10,140,000
Refunding bond issue of 2018 with annual payments ranging from \$235,000 to \$260,000 plus interest of 4%	255,000
Bus note payables with one yearly payment ranging from \$29,332 to \$33,898 plus interest at 3.25%.	33,898
Truck note payable with one yearly payment ranging from \$5,618 to \$6,385 plus interest at 4%.	29,978
Bond issuance premium	730,022
Total principal payable	<u>11,188,898</u>
Interest payable	3,983,591
Total long-term debt payable	<u>\$ 15,172,489</u>

Future minimum payments of long-term debt, excluding bond issuance premium, for years ended June 30 are as follows:

	Principal	Interest	Total
2023	\$ 574,516	\$ 449,830	\$ 1,024,346
2024	485,801	421,542	907,343
2025	505,989	397,353	903,342
2026	531,185	372,158	903,343
2027	556,385	345,708	902,093
2028-2032	3,150,000	1,324,800	4,474,800
2033-2037	3,805,000	638,200	4,443,200
2038	850,000	34,000	884,000
	<u>\$ 10,458,876</u>	<u>\$ 3,983,591</u>	<u>\$ 14,442,467</u>

NOTE J – Leases

The District has recorded right-of-use (“ROU”) assets for contracts with a third party to lease office equipment under financing leases expiring in August and September 2024. The leases require monthly payments of \$51 to \$2,008. The right-of-use assets were recorded at present value discounted by the District’s incremental borrowing rate of approximately 3%. Equipment lease payments under the agreements totaled approximately \$24,000 during the year ended June 30, 2022.

Right-of-use assets recognized on the District’s government-wide statement of net position are as follows:

Right of use asset	\$ 113,163
Accumulated amortization	(59,528)
Right of use asset, net of amortization	<u>\$ 53,635</u>

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

NOTE J – Leases (Continued)

Future minimum payments of under the financing lease agreements for years ended June 30, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 23,414	\$ 1,289	\$ 24,703
2024	24,127	577	24,704
2025	6,094	30	6,124
Subtotal	<u>\$ 53,635</u>	<u>\$ 1,896</u>	<u>\$ 55,531</u>

NOTE K – Net Investment in Capital Assets

The composition of the District's net investment in capital assets as of June 30, 2022 is as follows:

Capital Assets		
Right of use assets, net of accumulated amortization		\$ 53,635
Capital assets, net of accumulated depreciation		13,717,802
Related Debt		
Total lease liability		(53,635)
Total principal payable		<u>(11,188,898)</u>
Total Related Debt		<u>(11,242,533)</u>
Net Investment in Capital Assets		<u>\$ 2,528,904</u>

NOTE L – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB)

Plan Description

The District participates in the Michigan Public School Employees' Retirement System (MPERS or the "System"), a state-wide, cost-sharing, multiple-employer, state-wide defined benefit public employee retirement plan governed by the State of Michigan (the "State") originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of 12 members - 11 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 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.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

**NOTE L – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB)
(Continued)**

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided – Overall

Benefit provisions of the defined benefit pension plan and postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan and postemployment healthcare plan.

Benefits Provided – Pension

Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.5%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Benefits Provided – OPEB

Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning 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.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

**NOTE L – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB)
(Continued)**

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 and Funded Status

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

District pension and 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, 2020, valuation will be amortized over a 18-year period beginning October 1, 2020 and ending September 30, 2038.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

**NOTE L – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB)
(Continued)**

The schedule below summarizes pension and OPEB contribution rates in effect for fiscal year ended September 30, 2021:

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	19.78%
Member Investment Plan	3.0 - 7.0	19.78
Pension Plus	3.0 - 6.4	16.82
Pension Plus 2	6.2	19.59
Defined Contribution	0.0	13.39

OPEB Contribution Rates

Benefit Structure	Member	Employer
Premium Subsidy	3.0%	8.43%
Personal Healthcare Fund (PHF)	0.0	7.57

Required contributions to the pension and OPEB plan from the District were \$926,411 and \$239,923, respectively, for the year ended September 30, 2021.

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

At June 30, 2022, the District reported a liability of \$7,304,667 and \$493,320 for its proportionate share of the MPSERS net pension liability and net OPEB liability, respectively. The net pension and OPEB liabilities were measured as of September 30, 2021, and the total liabilities used to calculate the net pension and OPEB liabilities was determined by an actuarial valuation rolled forward from September 2020. The District's proportion of the net pension and OPEB liability was determined by dividing each employer's statutorily required pension and OPEB contributions to the system during the measurement period by the percent of pension and OPEB contributions required from all applicable employers during the measurement period. At September 30, 2021, the District's proportion was .03%, which is the same as its proportion measured as of September 30, 2020.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

**NOTE L – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB)
(Continued)**

For the year ended June 30, 2022, the District recognized pension expense of \$879,270 and OPEB expense of \$(248,503). At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 113,152	\$ 43,016	\$ -	\$ 1,408,146
Changes of Assumptions	460,460	-	412,391	61,709
Net difference between projected and actual earnings on plan investments	-	2,348,427	-	371,824
Changes in proportion and differences between Employer contributions and proportionate share of contributions	201,924	83,522	125,299	28,428
District contributions subsequent to the measurement date	446,705	-	192,616	-
Total	\$ 1,222,241	\$ 2,474,965	\$ 730,306	\$ 1,870,107

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

**NOTE L – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB)
(Continued)**

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions and OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension and OPEB liability in the year ended June 30, 2022. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension and OPEB expense as follows:

<u>Plan Year Ending September, 30</u>	<u>Pension Amount</u>	<u>OPEB Amount</u>
2022	\$ (169,052)	\$ (344,571)
2023	(387,678)	(320,617)
2024	(531,215)	(300,897)
2025	(611,484)	(273,094)
2026	-	(82,424)
	<u>\$ (1,699,429)</u>	<u>\$ (1,321,603)</u>

Actuarial Assumptions

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

**NOTE L – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB)
(Continued)**

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2020
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75% (Pension and OPEB)
Investment Rate of Return:	6.95% net of investments (OPEB)
- MIP and Basic Plans (Non-Hybrid):	6.80% (Pension)
- Pension Plus Plan (Hybrid):	6.80% (Pension)
- Pension Plus 2 Plan:	6.0% (Pension)
Projected Salary Increases:	2.75 – 11.55%, including wage inflation at 2.75% (Pension and OPEB)
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members (Pension)
Healthcare Cost Trend Rate:	Pre-65: 7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120 (OPEB) Post-65: 5.25% Year 1 graded to 3.5% Year 15; 3.0% Year 120 (OPEB)
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. (Pension and OPEB) Active: RP -2014 Male and Female Employee Annuitant Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006. (Pension and OPEB)

Other Assumptions (OPEB):

Opt Out Assumptions	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 one or more dependents.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

**NOTE L – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB)
(Continued)**

Actuarial Assumptions (continued)

Notes (Pension and OPEB):

- *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 and OPEB valuations beginning with the September 30, 2018 valuation. The total OPEB liability as of Sept. 30, 2021, is based on the results of an actuarial valuation date of Sept. 30, 2020, and rolled forward using generally accepted actuarial procedures, including the experience study.*
- *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.44367 for pension and 6.1312 for OPEB*
- *Recognition period for assets in years is 5.0000*
- *Full actuarial assumptions are available in the 2021 MPSERS Comprehensive Annual Financial Report found on the ORS website at (www.michigan.gov/orsschools).*

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension and 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 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%	5.4%
Private Equity Pools	16.0	9.2
International Equity Pools	15.0	7.5
Fixed Income Pools	10.5	(0.7)
Real Estate and Infrastructure Pools	10.0	5.4
Absolute Return Pools	9.0	2.6
Real Return/Opportunistic Pools	12.5	6.1
Short Term Investment Pools	2.0	(1.3)
TOTAL	100.0%	

**Long term rate of return is net of administrative expenses and 2.0% inflation.*

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

**NOTE L – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB)
(Continued)**

Rate of Return

For the fiscal year ended September 30, 2022, the annual money-weighted rate of return on pension and OPEB plan investment, net of pension and OPEB plan investment expense, was 27.3% and 27.14%, respectively. 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 6.80% and 6.95% was used to measure the total pension (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan provided through non-university employers only) and OPEB liability, respectively. This discount rate was based on the long term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2) and OPEB plan investments of 6.95%. 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 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 and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liability.

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

The following presents the District's proportionate share of the net pension and OPEB liability calculated using the discount rate of 6.80% (6.80% for the Hybrid Plan) and 6.95%, respectively, as well as what the District's proportionate share of the net pension and OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	<u>1% Decrease</u>	<u>Current Single Discount Rate Assumption</u>	<u>1% Increase</u>
	<i>5.80 / 5.80 / 5.0% Pension</i>	<i>6.80 / 6.80 / 6.0% Pension</i>	<i>7.80 / 7.80 / 7.0% Pension</i>
	<i>5.95% OPEB</i>	<i>6.95% OPEB</i>	<i>7.95% OPEB</i>
Pension	\$10,443,693	\$7,304,667	\$4,702,209
OPEB	\$916,667	\$493,320	\$134,041

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

**NOTE L – Pension Plan and Postemployment Benefits Other Than Pensions (OPEB)
(Continued)**

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
OPEB	\$120,070	\$493,320	\$913,271

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

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

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

At June 30, 2022, there were reported payables to MPSERS of \$102,762.

NOTE M – Change in Accounting Principle

Effective July 1, 2021, the District adopted GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The District believes that implementing this statement increases the usefulness of its financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, the District is required to recognize a lease liability and an intangible right-to-use lease asset, thereby enhancing the relevance and consistency of information about governments' leasing activities. Fund balances and net position have were not affected by the change in accounting principle.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2022**

NOTE N – Upcoming Accounting Pronouncements

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The District is currently evaluating the impact this standard will have on the financial statement when adopted during the District's 2024-2025 fiscal year.

In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

NOTE O – Subsequent Events

Management has evaluated subsequent events through October 17, 2022, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Budget Comparison Schedule - General Fund
For the Year Ended June 30, 2022**

	Budgeted Amounts		Actual	Variance with Final Budget Fav (Unfav)
	Original	Final		
REVENUES				
Local sources				
Property taxes	\$ 327,115	\$ 330,838	\$ 320,616	\$ (10,222)
Earnings on investments	3,550	3,522	3,606	84
Other local revenue	74,507	132,301	120,895	(11,406)
Intermediate sources	652,996	784,476	804,978	20,502
State sources				
Unrestricted school aid	4,550,077	4,668,060	4,705,302	37,242
Restricted school aid	861,861	865,429	920,434	55,005
Federal sources	169,553	1,196,404	1,216,759	20,355
Total Revenues	<u>6,639,659</u>	<u>7,981,030</u>	<u>8,092,590</u>	<u>111,560</u>
EXPENDITURES				
Instruction				
Basic programs	3,114,334	3,262,802	3,319,484	(56,682)
Added needs	750,788	776,536	703,902	72,634
Total Instruction	<u>3,865,122</u>	<u>4,039,338</u>	<u>4,023,386</u>	<u>15,952</u>
Support services				
Pupil services	408,560	495,805	493,522	2,283
Instructional	206,886	226,851	187,419	39,432
General administration	315,272	319,819	320,961	(1,142)
Schools administration	460,731	527,691	538,949	(11,258)
Business services	185,612	208,102	207,267	835
Operations/maintenance	555,392	667,623	646,836	20,787
Transportation	436,613	519,595	483,337	36,258
Communication services	-	37,752	29,013	8,739
Other support services	357,935	429,873	412,200	17,673
Community services	26,642	31,974	57,944	(25,970)
Total Support Services	<u>2,953,643</u>	<u>3,465,085</u>	<u>3,377,448</u>	<u>87,637</u>
Capital outlay	8,180	85,312	85,245	67
Debt service	44,220	36,485	35,470	1,015
Total Expenditures	<u>6,871,165</u>	<u>7,626,220</u>	<u>7,521,549</u>	<u>104,604</u>
Excess of Revenues Over Expenditures	<u>(231,506)</u>	<u>354,810</u>	<u>571,041</u>	<u>216,164</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	15,000	15,000	17,742	2,742
Proceeds on debt	-	29,978	29,978	-
Operating transfers out	-	(260)	-	260
Net Change in Fund Balance	<u>\$ (216,506)</u>	<u>\$ 399,528</u>	<u>\$ 618,761</u>	<u>\$ 219,166</u>

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

	2021	2020	2019	2018	2017	2016	2015	2014
A. Reporting unit's proportion of net pension liability (%)	0.03085%	0.03006%	0.03053%	0.03049%	0.03034%	0.02939%	0.02905%	0.02950%
B. Reporting unit's proportionate share of net pension liability	\$ 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. Reporting unit's covered-employee payroll	\$ 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. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	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	72.60%	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

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

	2022	2021	2020	2019	2018	2017	2016	2015
A. Statutorily required contributions	\$ 926,411	\$ 825,952	\$ 811,113	\$ 830,291	\$ 704,214	\$ 659,931	\$ 560,471	\$ 458,132
B. Contributions in relation to statutorily required contributions*	926,411	825,952	811,113	830,291	704,214	659,931	560,471	458,132
C. Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
D. Reporting unit's covered-employee payroll	\$ 3,244,298	\$ 2,893,210	\$ 2,781,792	\$ 2,734,873	\$ 2,664,103	\$ 2,537,274	\$ 2,408,531	\$ 2,487,437
E. Contributions as a percentage of covered-employee payroll	28.56%	28.55%	29.16%	30.36%	26.43%	26.01%	23.27%	18.42%

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

	2021	2020	2019	2018	2017
A. Reporting unit's proportion of net OPEB liability (%)	0.03232%	0.03086%	0.03092%	0.03147%	0.03034%
B. Reporting unit's proportionate share of net OPEB liability	\$ 493,320	\$ 1,653,162	\$ 2,219,378	\$ 2,501,443	\$ 2,686,619
C. Reporting unit's covered-employee payroll	\$ 2,988,160	\$ 2,767,027	\$ 2,726,909	\$ 2,694,895	\$ 2,567,051
D. Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%)	16.51%	59.75%	81.39%	92.82%	104.66%
E. Plan fiduciary net position as a percentage of total OPEB liability	87.33%	59.44%	48.46%	42.95%	36.39%

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

	2022	2021	2020	2019	2018
A. Statutorily required OPEB contributions	\$ 239,923	\$ 218,022	\$ 212,301	\$ 204,263	\$ 236,198
B. OPEB contributions in relation to statutorily required contributions*	239,923	218,022	212,301	204,263	236,198
C. Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
D. Reporting unit's covered payroll (OPEB)	\$ 3,244,298	\$ 2,893,210	\$ 2,781,792	\$ 2,734,873	\$ 2,664,103
E. OPEB contributions as a percentage of covered-employee payroll	7.40%	7.54%	7.63%	7.47%	8.87%

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to Required Supplementary Information
For the Year Ended June 30, 2022**

Pension Information

Ultimately 10 years of data will be presented in both of the pension-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became available.

Benefit Changes: There were no changes of benefit terms in FY 2021.

Changes in Assumptions: There were no changes of benefit assumptions in FY 2021.

OPEB Information

Ultimately 10 years of data will be presented in both of the OPEB-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became available.

Benefit Changes: There were no changes of benefit terms in FY 2021.

Changes in Assumptions: There were no changes of benefit assumptions in FY 2021.

OTHER SUPPLEMENTARY INFORMATION

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Balance Sheet - Non-Major Governmental Funds
June 30, 2022**

	<u>Food Service Fund</u>	<u>Student Activities Fund</u>	<u>2018 Capital Projects</u>	<u>Total</u>
ASSETS				
Cash	\$ 251,288	\$ 121,327	\$ 18,237	\$ 390,852
Accounts receivable	14,615	-	-	14,615
Investments	-	-	383	383
Due from other funds	253	-	-	253
Due from other governments	2,920	-	-	2,920
Inventory	2,117	-	-	2,117
Total Assets	<u>\$ 271,193</u>	<u>\$ 121,327</u>	<u>\$ 18,620</u>	<u>\$ 411,140</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 27,032	\$ 340	\$ -	\$ 27,372
Due to other funds	18,556	6,051	-	24,607
Due to students	4,604	-	-	4,604
	<u>50,192</u>	<u>6,391</u>	<u>-</u>	<u>56,583</u>
Fund Balances				
Nonspendable	2,117	-	-	2,117
Restricted for:				
Food service	218,884	-	-	218,884
Student activities	-	114,936	-	114,936
Capital Projects	-	-	18,620	18,620
Total Fund Balances	<u>221,001</u>	<u>114,936</u>	<u>18,620</u>	<u>354,557</u>
Total Liabilities and Fund Balance	<u>\$ 271,193</u>	<u>\$ 121,327</u>	<u>\$ 18,620</u>	<u>\$ 411,140</u>

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Statement of Revenues, Expenditures and Changes in Fund
Balances - Non-Major Governmental Funds
For the Year Ended June 30, 2022**

	<u>Food Service Fund</u>	<u>Student Activities Fund</u>	<u>2018 Capital Projects</u>	<u>Total</u>
Revenues				
Local sources	\$ 27,967	\$ 119,630	\$ 24,572	\$ 172,169
State sources	9,826	-	-	9,826
Federal sources	427,949	-	-	427,949
Total Revenues	<u>465,742</u>	<u>119,630</u>	<u>24,572</u>	<u>609,944</u>
Expenditures				
Food service	379,227	-	-	379,227
Student activities	-	94,871	-	94,871
Capital outlay	-	-	437,162	437,162
Total Expenditures	<u>379,227</u>	<u>94,871</u>	<u>437,162</u>	<u>911,260</u>
Other Financing Uses				
Operating transfers out	17,742	-	-	17,742
Net Change in Fund Balances	<u>68,773</u>	<u>24,759</u>	<u>(412,590)</u>	<u>(319,058)</u>
Fund Balances, Beginning of Year	<u>152,228</u>	<u>90,177</u>	<u>431,210</u>	<u>673,615</u>
Fund Balances, End of Year	<u>\$ 221,001</u>	<u>\$ 114,936</u>	<u>\$ 18,620</u>	<u>\$ 354,557</u>

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Schedule of Changes in Long-Term Debt
For the Year Ended June 30, 2022**

	Balance at July 1, 2021	Additions	Deductions	Balance at June 30, 2022
2018 Refunding	\$ 515,000	\$ -	\$ (260,000)	\$ 255,000
Interest related to 2018 current refunding bond issue	38,500	-	(25,750)	12,750
2018 Bond	10,370,000	-	(230,000)	10,140,000
Interest related to 2018 current refunding bond issue	4,412,750	-	(446,250)	3,966,500
Bond Premium	790,729	-	(60,707)	730,022
Bus note payables	66,988	-	(33,090)	33,898
Interest related to buses	4,036	-	(2,680)	1,356
Truck note payable	-	29,978	-	29,978
Interest related to truck	-	2,985	-	2,985
Total	\$ 16,198,003	\$ 32,963	\$ (1,058,477)	\$ 15,172,489

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedules of Maturities of Bonded Debt
June 30, 2022**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018 BOND ISSUE			
Principal payment due		May 1	
Interest payments due		May 1 and November 1	
Interest rate		4.0 to 5.0%	
Original issue		\$10,715,000	
Payments due for years ending June 30:			
2023	280,000	434,750	714,750
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	605,000	289,000	894,000
2030	630,000	264,800	894,800
2031	655,000	239,600	894,600
2032	680,000	213,400	893,400
2033	705,000	186,200	891,200
2034	730,000	158,000	888,000
2035	760,000	128,800	888,800
2036	790,000	98,400	888,400
2037	820,000	66,800	886,800
2038	850,000	34,000	884,000
TOTALS	<u>\$ 10,140,000</u>	<u>\$ 3,966,500</u>	<u>\$ 14,106,500</u>

**Climax-Scotts Community Schools
 Kalamazoo County, Michigan
 Schedules of Maturities of Bonded Debt
 June 30, 2022**

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018 Refunding Bond Issue				
Principal payment due	May 1			
Interest payments due	May 1 and November 1			
Interest rates	4.0% to 5.0%			
Original issue	\$1,265,000			
Payments due for years ending June 30:				
2023		<u>\$ 255,000</u>	<u>\$ 12,750</u>	<u>\$ 267,750</u>