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**CLIMAX-SCOTTS COMMUNITY SCHOOLS  
KALAMAZOO COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2009**

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## TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-9
Basic Financial Statements	
District-Wide Financial Statements	
Statement of Net Deficit	10
Statement of Activities	11
Fund Financial Statements	
Combined Balance Sheet – Governmental Funds and the Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Deficit	12
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	14
Fiduciary Funds	
Combining Statement of Fiduciary Net Assets	15
Notes to the Financial Statements	16-26
Required Supplementary Information	
Schedule of Revenues – Budget to Actual – General Fund	27
Schedule of Expenditures and Other Financing Uses – Budget to Actual – General Fund	28-33
Other Supplementary Information	
Combining Balance Sheet – Non-major Governmental Funds	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds	35
Schedule of Changes in Long-term Debt	36
Schedules of Maturities of Bonded Debt	37-39
Schedule of Findings and Responses	40
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	41-42

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Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
District-Wide Statement of Net Deficit  
June 30, 2009

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**ASSETS**

Current Assets

Cash	\$ 1,361,778
Due from other governments	886,086
Inventory	<u>3,881</u>
Total Current Assets	<u>2,251,745</u>

Property and Equipment

Capital assets	8,406,480
Less accumulated depreciation	<u>(3,810,911)</u>
Net Property and Equipment	<u>4,595,569</u>

**Total Assets** \$ 6,847,314

**LIABILITIES AND NET DEFICIT**

Current Liabilities

Accounts payable	\$ 40,004
Deferred revenue	25,376
Accrued payroll and related withholdings	430,897
State aid note payable	889,875
Due to State of Michigan	83,100
Current maturities of long-term debt	68,780
Current maturities of bonds payable	<u>458,759</u>
Total Current Liabilities	<u>1,996,791</u>

Long-term Debt, net of current maturities 2,678

Bonds Payable, net of current maturities 6,140,847

Accrued Interest on School Bond Loan Fund 431,996

Net Assets (Deficit)

Invested in capital assets, net of related debt	(2,045,108)
Restricted for debt service	165,419
Unrestricted and undesignated	<u>154,691</u>
Total Net Deficit	<u>(1,724,998)</u>

**Total Liabilities and Net Deficit** \$ 6,847,314

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**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
District-Wide Statement of Activities  
For the Year Ended June 30, 2009**

	<u>Program Revenue</u>		<b>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</b>
	<u>Expenses</u>	<u>Charges for Service</u>	
Functions/Programs			
Governmental activities:			
Instruction & instructional support	\$ (3,041,939)	\$ 66,614	\$ 879,622
Support services	(2,198,554)	-	50,600
Food services	(234,418)	141,217	87,775
Athletics	(198,329)	74,308	-
Interest on long-term debt	(340,509)	-	-
Capital outlay	(2,723)	-	-
Other transactions	(4,600)	-	-
Depreciation (unallocated)	(197,188)	-	-
<b>Total Governmental Activity</b>	<b>\$ (6,218,260)</b>	<b>\$ 282,139</b>	<b>\$ 1,017,997</b>

General Revenues:

Taxes:	
Property taxes, levied for general obligations	477,956
Property taxes, levied for debt service	797,590
State of Michigan aid, unrestricted	4,123,554
Interest and investment earnings	16,027
Miscellaneous revenue	36,481
<b>Total General Revenues</b>	<b>5,451,608</b>
Decrease in Net Deficit	533,484
Net Deficit, Beginning of Year	(2,258,482)
<b>Net Deficit, End of Year</b>	<b>\$ (1,724,998)</b>

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**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Combined Balance Sheet - Governmental Funds and the Reconciliation of the  
Balance Sheet of Governmental Funds to the Statement of Net Deficit  
June 30, 2009**

	General Fund	Other Non-Major Governmental	Total Governmental
<b>ASSETS</b>			
Cash	\$ 1,184,450	\$ 177,328	\$ 1,361,778
Due from other governments	844,244	3,647	847,891
Inventory	-	3,881	3,881
<b>Total Assets</b>	<b>\$ 2,028,694</b>	<b>\$ 184,856</b>	<b>\$ 2,213,550</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 40,004	\$ -	\$ 40,004
Deferred revenue	23,848	1,528	25,376
Salaries payable and related withholdings	430,897	-	430,897
State aid note payable	889,875	-	889,875
Due to State of Michigan	83,100	-	83,100
<b>Total Liabilities</b>	1,467,724	1,528	1,469,252
<b>Fund Balances</b>			
Reserved for debt service	-	165,419	165,419
Reserved for food service	-	16,367	16,367
Reserved for athletics	-	1,542	1,542
Unreserved	560,970	-	560,970
<b>Total Fund Balances</b>	560,970	183,328	744,298
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,028,694</b>	<b>\$ 184,856</b>	<b>\$ 2,213,550</b>
Reconciliation of the combined balance sheet - governmental funds to the statement of net deficit:			
Total governmental fund balances			\$ 744,298
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:			
The cost of the capital assets is		8,406,480	
Accumulated depreciation is		(3,810,911)	4,595,569
Other assets are not available to pay for current year expenditures and therefore are deferred in the funds and recognized as revenue in the statement of activities			
			38,195
Long term liabilities that are not due and payable in the current period and are not reported in the funds:			
Bonds payable			(6,599,606)
Long-term debt			(71,458)
Accrued interest is not included as a liability in governmental funds			(431,996)
<b>Net Deficit of Governmental Activities</b>			<b>\$ (1,724,998)</b>

See Notes to Financial Statements

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**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2009**

	General Fund	Other Non-Major Governmental	Total Governmental
<b>Revenues</b>			
Local sources	\$ 642,564	\$ 1,013,640	\$ 1,656,204
Intermediate sources	247,004	-	247,004
State sources	4,353,675	15,007	4,368,682
Federal sources	314,798	77,736	392,534
Total Revenues	<u>5,558,041</u>	<u>1,106,383</u>	<u>6,664,424</u>
<b>Other Financing Sources</b>			
Operating transfers in	-	248,795	248,795
Premium on issuance of debt	-	-	-
Proceeds from debt issue	-	-	-
Total Other Financing Sources	<u>-</u>	<u>248,795</u>	<u>248,795</u>
Total Revenues and Other Financing Sources	5,558,041	1,355,178	6,913,219
<b>Expenditures</b>			
<b>Education</b>			
Instruction	3,041,939	-	3,041,939
Support services	2,243,100	432,747	2,675,847
Capital outlay	-	2,723	2,723
Financing costs	-	-	-
Debt service	83,762	905,934	989,696
Total Expenditures	<u>5,368,801</u>	<u>1,341,404</u>	<u>6,710,205</u>
<b>Other Financing Uses</b>			
Operating transfers out	117,446	131,349	248,795
Other transactions	4,600	-	4,600
Total Other Financing Uses	<u>122,046</u>	<u>131,349</u>	<u>253,395</u>
Total Expenditures and Other Financing Uses	<u>5,490,847</u>	<u>1,472,753</u>	<u>6,963,600</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>67,194</b>	<b>(117,575)</b>	<b>(50,381)</b>
Fund balances, beginning of year	<u>493,776</u>	<u>300,903</u>	<u>794,679</u>
<b>Fund Balances, End of Year</b>	<b><u>\$ 560,970</u></b>	<b><u>\$ 183,328</u></b>	<b><u>\$ 744,298</u></b>

See Notes to Financial Statements

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan**

**Reconciliation of the Combined Statement of Revenues, Expenditures and Changes in Balances - Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2009**

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Net change in fund balance - total governmental funds	\$	(50,381)
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		(197,188)
Capital outlay	24,419	(172,769)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		96,245
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)		487,742
Repayment of liability to State of Michigan is a decrease in revenue in the governmental funds, but not in the statement of activities (where it reduces due to State of Michigan)		83,099
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)		65,200
Decrease in compensated absences are reported as expenditures when financial resources are used in the governmental funds		20,127
Other long-term assets are not available to pay future years long-term liabilities (where it reduces due from other governments.		(3,587)
Gain on sale of assets not recognized in the governmental funds		7,808
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b>533,484</b>

Climax-Scotts Community Schools  
 Kalamazoo County, Michigan  
 Combining Statement of Fiduciary Net Assets  
 For the Year Ended June 30, 2009

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	<u>Student Activities</u>	<u>Dependent Care</u>	<u>Unreimbursed Medical</u>	<u>Total</u>
Assets				
Cash	\$ 83,785	\$ 16	\$ 3,700	\$ 87,501
Liabilities				
Due to student groups and teachers	\$ 83,785	\$ 16	\$ 3,700	\$ 87,501

**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. In accordance with the provisions of National Committee on Governmental Accounting (NCGA) Statement 3 and the Governmental Accounting Standards Board (GASB), certain other governmental organizations are not considered to be part of the District entity for financial reporting purposes. The criteria established by NCGA and GASB for determining the various governmental organizations to be included in the District's financial statements include oversight responsibility, scope of public service, and special financing relationships.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the District's government-wide activities are considered governmental activities.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

*District-Wide Statements*

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

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

*Fund Based Statements*

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

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

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The District reports the following major governmental fund:

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

Additionally, the District reports the following fund types:

Debt service funds are governmental funds used to record tax, interest and other revenue for payment of principal, and other expenditures on the District's various bond issues. The debt service funds maintained by the District are the 1997 Debt Service Fund, the 2001 Debt Service Fund, the 2008 Debt Service Fund and the Durant Debt Service Fund.

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

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 Athletic Fund and Food Service Fund.

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary fund net assets and results of operations are not included in the government-wide statements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These funds are used to record the transactions of student, teacher, and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students, teachers, and parents. The agency funds maintained by the District are the Student Activities Fund, Dependent Care Fund, and Unreimbursed Medical Fund.

Assets, Liabilities, and Net Assets 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 "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Taxes are levied on December 1 and are collected through February 28 by various local units for the District. The local units then remit to the District any delinquent real property taxes by June 30.

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

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

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

*Inventories and Prepaid Costs*

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Cafeteria 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 government as assets with an initial individual cost of more than \$1,500 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*

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

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

*Long-Term Obligations*

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

In the fund financial statements governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

*Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

*Flow Assumption*

Restricted resources are utilized first when both restricted and unrestricted resources are used for the same purpose.

Comparative Data/Reclassifications

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

Estimates

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

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2009**

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**NOTE B - Stewardship, Compliance, and Accountability**

Budgetary Information

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

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

Excess of Expenditures Over Appropriations in Budgeted Funds

The District has the following significant expenditure budget variances in the general fund:

	<u>Final budget</u>	<u>Actual</u>	<u>Variance</u>
Instruction - elementary	\$ 715,725	\$ 749,221	\$ (33,496)
Supporting services – Operations and maintenance	\$ 590,576	\$ 598,310	\$ (7,735)

**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 repurchases agreements, bankers' acceptances, commercial paper rated prime at the time of purchases which mature not more than 270 days after the date of purchases, and mutual funds in investments pools that are composed of authorized investment vehicles. The District's deposits are in accordance with statutory authority.

The District has designated one bank for the deposit of its funds.

The investment policy adopted by the board in accordance with state statutes has authorized investment in bonds and securities of the United States government, bank accounts and CD's, and the remainder of state statutory authority as listed above.

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

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash, and cash equivalents	<u>\$ 1,361,778</u>	<u>\$ 87,501</u>	<u>\$ 1,449,279</u>

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

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

Deposits (checking, savings accounts, money markets, certificates of deposits)	<u>\$ 1,449,279</u>
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The District's investments are subject to several types of risk, which are discussed below:

*Interest Rate Risk*

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

*Credit Risk*

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

*Concentration of Credit Risk*

The District has no policy that would limit the amount that may be invested with any one issuer.

*Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2009, \$1,273,261 of the District's bank balance of \$1,523,261 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Climax-Scotts Community Schools  
 Kalamazoo County, Michigan  
 Notes to the Financial Statements  
 For the Year Ended June 30, 2009

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**NOTE D - Capital Assets**

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

	Balance July 1, 2008	Additions	Disposals and Adjustments	Balance June 30, 2009
<b>Cost</b>				
Buildings and improvements	\$ 6,843,107	\$ ---	\$ ---	\$ 6,843,107
Outdoor equipment	644,158	---	(4,975)	639,183
Equipment	517,594	24,419	8,814	550,827
Vehicles and tractors	433,659	---	(60,296)	373,363
	<u>8,438,518</u>	<u>24,419</u>	<u>(56,457)</u>	<u>8,406,480</u>
<b>Accumulated Depreciation</b>				
Buildings and improvements	2,677,214	107,009	(182)	2,784,041
Outdoor equipment	367,956	28,829	(6,126)	390,659
Equipment	399,685	19,944	1,789	421,418
Vehicles and tractors	233,133	41,407	(59,746)	214,794
	<u>3,677,988</u>	<u>197,189</u>	<u>(64,265)</u>	<u>3,810,912</u>
Net capital assets	<u>\$ 4,760,530</u>	<u>\$ (164,962)</u>	<u>\$ 7,808</u>	<u>\$ 4,595,568</u>

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

**NOTE E - Deferred Revenue**

The District had deferred the recognition of revenue in connection with resources that have been received but not yet earned. At June 30, 2009 the District has a total of \$25,376 in deferred revenue.

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2009**

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**NOTE F - Long-Term Debt**

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

Long-term obligation activity is summarized as follows:

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Amount due within one year
Government obligation bonds	\$ 5,960,000	\$ ---	\$ (455,000)	\$ 5,505,000	\$ 455,000
Durant resolution package bond	41,782	---	(3,587)	38,195	3,759
School bond loan fund	1,085,566	---	(29,155)	1,056,411	---
Bus and vehicle notes payable	136,658	---	(65,200)	71,458	68,780
Compensated absences	20,127	---	(20,127)	---	---
	<u>\$ 7,244,133</u>	<u>\$ ---</u>	<u>\$ (573,069)</u>	<u>\$ 6,671,064</u>	<u>\$ 527,539</u>

Long-term debt consisted of the following at June 30, 2009:

Current Refunding Bond issue of 2008 with annual payments ranging from \$260,000 to \$335,000 plus true interest cost of 3.59%	\$ 4,075,000
2001 School building and site bond issue with annual payments ranging from \$60,000 to \$155,000 plus interest ranging from 3.1% to 5.00%	1,430,000
1998 School Improvement Bond issue (Durant) with annual payments ranging from \$3,587 to \$26,373 plus interest at 4.76% paid directly by the State of Michigan.	38,195
School bond fund loan payable with no fixed payment schedule. Interest accrues at a 4.75%	1,056,411
2005 bus note payable with annual payments ranging from \$54,100 to \$65,375 plus interest at 4.85%	65,791
2006 van note payable with annual payments ranging from \$685 to \$845 plus interest at 4.29%	5,667
Total principal payable	6,671,064
Interest payable	2,073,685
Total long-term debt payable	<u>\$ 8,744,749</u>

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Notes to the Financial Statements  
For the Year Ended June 30, 2009**

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**NOTE F - Long-Term Debt (Continued)**

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

	Principal	Interest	Total
2010	\$ 527,760	\$ 233,663	\$ 761,423
2011	456,395	214,454	670,849
2012	454,125	198,227	652,352
2013	476,373	188,152	664,525
2014	445,000	163,916	608,916
2015-2019	2,190,000	533,425	2,723,425
2020-2023	1,065,000	109,850	1,174,850
2024-2029	1,056,411	431,996	1,488,407
	<u>\$ 6,671,064</u>	<u>\$ 2,073,683</u>	<u>\$ 8,744,747</u>

**Durant Non-Plaintiff Bond**

The District was part of the Durant vs. State of Michigan lawsuit regarding under funding of state mandated programs, as a "non-plaintiff." The case was settled in July 1997 in favor of the plaintiffs and non-plaintiffs. The District accepted an offer of \$140,000 in March 1998. The State of Michigan will pay one-half of the sums over ten years, which began in November 1998, and the remaining one-half was provided through a bonding program during fiscal 1999. The lump-sum payment and related expenditures were recorded by the District in the capital projects funds during fiscal 1999. The ten installments and related expenditures have been and will continue to be recorded by the District in the general fund. The State of Michigan had suspended payments on the bond until 2008.

The bonds will be repaid directly by the State of Michigan and will be recorded by the District in the debt service funds. Proceeds from the bond were used for purposes as specified in the Michigan Revised School Code.

**NOTE G - Risk Management**

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

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

**NOTE H - Defined Benefit Pension Plan and Post Retirement Benefits**

Plan Description

The District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The system also provides post-employment healthcare benefits to retirees and beneficiaries who elect to receive those benefits. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report is available on the web at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools) or may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Funding Policy

Employer contributions to the system result from implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate was 10.17% for the period July 1, 2008, through September 30, 2008, and 9.73% for the period October 1, 2008, through June 30, 2009, of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3.0% to 4.3% of gross wages depending on the plan. The District's contributions to the MPERS plan totaled \$509,499, \$515,487 and \$563,314 for the years ended June 30, 2009, 2008, and 2007, respectively.

Post Employment Benefits

Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.55% of covered payroll for the period from July 1, 2008 through September 30, 2008 and 6.81% percent for the period from October 1, 2008 through June 30, 2009. The District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2009, 2008 and 2007 were XXX, XXX and XXXX, respectively. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

**NOTE 1 - Commitments and Contingencies**

Environmental Remediation Liability

During the year ended June 30, 1994, a release of petroleum products from underground storage tanks was detected on the District's property, and soil and ground water contamination was discovered. As a result, the District retained an environmental remediation company to perform various stages of investigation and clean-up activities under approval of the Michigan Department of Natural Resources. During the year ended June 30, 2008 the District was notified that the clean up is completed but the site requires periodic monitoring. If the monitoring shows any additional clean up is required, the District will be liable for remediation of the site. The District has not accrued any liability associated with the potential for future environmental remediation costs.

State Aid

There is a commitment related to over-funding by the State of Michigan related to the District's alternative education program. The State of Michigan has granted the District five years to pay back the over-funding. The State of Michigan has agreed to decrease the District's February State Aid payment by \$83,100 every year through February 2010.

Grant Programs

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2009, 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 paid and charged to its account. As of June 30, 2009, 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.

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.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Schedule of Revenues - Budget to Actual - General Fund  
For the Year Ended June 30, 2009**

**DRAFT**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with final budget fav/(unfav)</u>
<b>Revenues</b>				
Revenue from local sources				
Property taxes	\$ -	\$ 480,599	\$ 477,962	\$ (2,637)
Earnings on investments	-	16,925	15,496	(1,429)
Other local revenue	-	158,934	149,106	(9,828)
Total revenue from local sources	-	656,458	642,564	(13,894)
Revenue from intermediate school district	-	247,004	247,004	-
Revenue from State sources				
Unrestricted				
State aid membership	-	4,043,659	4,040,455	(3,204)
Restricted				
Special education	-	232,599	232,599	-
At risk	-	58,101	40,755	(17,346)
Adult education	-	30,019	30,019	-
Other restricted State revenue	-	9,847	9,847	-
Total restricted	-	330,566	313,220	(17,346)
Total revenue from State sources	-	4,374,225	4,353,675	(20,550)
Revenue from federal sources				
American Recovery and Reinvestment Act	-	237,032	237,032	-
Title I	-	51,901	51,901	-
Title II	-	25,592	21,662	(3,930)
Title V	-	-	449	449
Drug free schools	-	1,210	1,190	(20)
Other federal programs	-	2,565	2,564	(1)
Total revenue from federal sources	-	318,300	314,798	(3,502)
<b>Total Revenues</b>	<b>\$ -</b>	<b>\$ 5,595,987</b>	<b>\$ 5,558,041</b>	<b>\$ (37,946)</b>

Climax-Scotts Community Schools  
Kalamazoo County, Michigan

DRAFT

Schedule of Expenditures and Other Financing Uses - Budget to Actual - General Fund  
For the Year Ended June 30, 2009

	Original	Final	Actual	Variance with final budget fav/(unfav)
<b>Expenditures</b>				
Instruction				
Elementary				
Salaries	\$ -	\$ 461,139	\$ 461,137	\$ 2
Benefits	-	212,622	247,624	(35,002)
Purchased services	-	19,803	18,300	1,503
Supplies and materials	-	22,161	22,160	1
Total elementary	-	715,725	749,221	(33,496)
Intermediate				
Salaries	-	284,925	284,924	1
Benefits	-	142,221	135,413	6,808
Purchased services	-	4,530	4,526	4
Supplies and materials	-	11,808	11,808	-
Total intermediate	-	443,484	436,671	6,813
High school				
Salaries	-	808,803	809,013	(210)
Benefits	-	408,206	384,592	23,614
Purchased services	-	41,116	41,112	4
Supplies and materials	-	31,641	31,637	4
Other fees and dues	-	5,578	5,578	-
Equipment	-	1,044	1,044	-
Total high school	-	1,296,388	1,272,976	23,412
Preschool				
Salaries	-	13,337	13,337	-
Benefits	-	3,249	3,247	2
Purchased services	-	321	320	1
Supplies and materials	-	222	222	-
Total preschool	-	17,129	17,126	3
Summer school				
Salaries	-	7,315	7,643	(328)
Benefits	-	1,507	2,552	(1,045)
Purchased services	-	1,590	1,589	1
Other fees and dues	-	92	91	1
Total summer school	-	10,504	11,875	(1,371)

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**Climax-Scotts Community Schools**

**Kalamazoo County, Michigan**

**Schedule of Expenditures and Other Financing Uses - Budget to Actual - General Fund**

**For the Year Ended June 30, 2009**

	Original	Final	Actual	Variance with final budget fav (unfav)
Special education				
Salaries	\$ -	\$ 197,981	\$ 197,979	\$ 2
Benefits	-	101,069	92,202	8,867
Purchased services	-	2,983	2,981	2
Supplies and materials	-	802	801	1
Total special education	-	302,835	293,963	8,872
Compensatory education				
Salaries	-	74,203	75,044	(841)
Benefits	-	30,698	30,459	239
Purchased services	-	1,202	1,222	(20)
Supplies and materials	-	312	312	-
Other fees and dues	-	143	143	-
Total compensatory education	-	106,558	107,180	(622)
Vocational education				
Salaries	-	36,890	36,890	-
Benefits	-	20,215	19,295	920
Purchased services	-	34,417	31,942	2,475
Supplies and materials	-	9,121	9,121	-
Equipment	-	571	571	-
Total vocational education	-	101,214	97,819	3,395
Adult/continuing education				
Salaries	-	35,190	35,189	1
Benefits	-	10,548	11,621	(1,073)
Purchased services	-	833	831	2
Supplies and materials	-	6,436	6,433	3
Other fees and dues	-	774	773	1
Equipment	-	261	261	-
Total adult/continuing education	-	54,042	55,108	(1,066)
Total instruction	-	3,047,879	3,041,939	5,940
Supporting services				
Guidance services				
Salaries	-	59,278	59,278	-
Benefits	-	27,098	25,949	1,149
Purchased services	-	6,864	7,151	(287)
Other fees and dues	-	47	47	-
Total guidance services	-	93,287	92,425	862

Climax-Scotts Community Schools  
Kalamazoo County, Michigan

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Schedule of Expenditures and Other Financing Uses - Budget to Actual - General Fund  
For the Year Ended June 30, 2009

	Original	Final	Actual	Variance with final budget fav (unfav)
Health services				
Purchased services	\$ -	\$ 387	\$ 385	\$ 2
Supplies and materials	-	74	73	1
Total health services	-	461	458	3
Psychological services				
Salaries	-	57,811	57,810	1
Benefits	-	13,433	13,418	15
Purchased services	-	993	928	65
Supplies and materials	-	12	12	-
Other fees and dues	-	85	85	-
Total psychological services	-	72,334	72,253	81
Speech and audio services				
Salaries	-	26,586	26,585	1
Benefits	-	6,252	6,239	13
Purchased services	-	717	617	100
Supplies and materials	-	182	180	2
Total speech and audio services	-	33,737	33,621	116
Social work				
Purchased services	-	9,906	10,100	(194)
Other pupil services				
Salaries	-	17,707	20,440	(2,733)
Benefits	-	5,411	5,407	4
Purchased services	-	16,843	16,841	2
Other fees and dues	-	680	680	-
Total other pupil services	-	40,641	43,368	(2,727)
Improvement of instruction				
Salaries	-	750	750	-
Benefits	-	14,681	14,677	4
Purchased services	-	10,260	8,527	1,733
Supplies and materials	-	1,419	1,419	-
Other fees and dues	-	3,609	3,608	1
Total improvement of instruction	-	30,719	28,981	1,738

D R A F T

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Schedule of Expenditures and Other Financing Uses - Budget to Actual - General Fund  
For the Year Ended June 30, 2009**

	Original	Final	Actual	Variance with final budget fav (unfav)
Libraries				
Salaries	\$ -	\$ 19,165	\$ 19,164	\$ 1
Benefits	-	6,445	6,442	3
Purchased services	-	985	985	-
Supplies and materials	-	2,298	2,295	3
Other fees and dues	-	45	45	-
Equipment	-	2,305	2,304	1
Total libraries	-	31,243	31,235	8
Computer instruction				
Salaries	-	28,526	28,525	1
Benefits	-	11,213	10,833	380
Purchased services	-	8,594	8,592	2
Supplies and materials	-	346	346	-
Equipment	-	62,127	60,167	1,960
Total computer instruction	-	110,806	108,463	2,343
Direction of instruction				
Salaries	-	44,405	44,535	(130)
Benefits	-	10,659	10,656	3
Purchased services	-	93	92	1
Supplies and materials	-	388	388	-
Other fees and dues	-	125	125	-
Total direction of instruction	-	55,670	55,796	(126)
Academic student assessment				
Purchased services	-	159	159	-
Supplies and materials	-	4,607	4,607	-
Other fees and dues	-	20	20	-
Total Academic student assessment	-	4,786	4,786	-
Board of education				
Salaries	-	4,458	4,482	(24)
Benefits	-	481	505	(24)
Purchased services	-	24,521	25,629	(1,108)
Supplies and materials	-	136	135	1
Other fees and dues	-	6,684	6,750	(66)
Total board of education	-	36,280	37,501	(1,221)

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**Climax-Scotts Community Schools  
Kalamazoo County, Michigan**

**Schedule of Expenditures and Other Financing Uses - Budget to Actual - General Fund  
For the Year Ended June 30, 2009**

	Original	Final	Actual	Variance with final budget fav (unfav)
Executive administration				
Salaries	\$ -	\$ 169,484	\$ 169,865	\$ (381)
Benefits	-	120,966	121,344	(378)
Purchased services	-	10,909	10,905	4
Supplies and materials	-	3,831	3,805	26
Other fees and dues	-	2,751	2,751	-
Equipment	-	3,890	3,889	1
Total executive administration	-	311,831	312,559	(728)
Office of principals				
Salaries	\$ -	\$ 149,801	\$ 149,790	\$ 11
Benefits	-	39,351	39,781	(430)
Purchased services	-	106,661	106,676	(15)
Supplies and materials	-	2,784	2,783	1
Other fees and dues	-	658	657	1
Total office of principals	-	299,255	299,687	(432)
Other school administration				
Other fees and dues	-	1,913	1,913	-
Business office				
Salaries	-	49,548	49,547	1
Benefits	-	12,357	12,354	3
Purchased services	-	25	25	-
Other fees and dues	-	129	129	-
Total business office	-	62,059	62,055	4
Other business services				
Purchased services	-	34,437	34,436	1
Other fees and dues	-	5,143	5,143	-
Total other business services	-	39,580	39,579	1
Operations & maintenance				
Salaries	-	188,879	188,161	718
Benefits	-	88,998	90,919	(1,921)
Purchased services	-	87,689	88,093	(404)
Supplies and materials	-	216,100	222,227	(6,127)
Equipment	-	8,910	8,910	-
Total operations & maintenance	-	590,576	598,310	(7,734)

D R A F T

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan**

**Schedule of Expenditures and Other Financing Uses - Budget to Actual - General Fund  
For the Year Ended June 30, 2009**

	Original	Final	Actual	Variance with final budget fav (unfav)
Pupil transportation				
Salaries	\$ -	\$ 187,429	\$ 186,523	\$ 906
Benefits	-	62,670	62,745	(75)
Purchased services	-	25,966	27,157	(1,191)
Supplies and materials	-	77,493	77,491	2
Other fees and dues	-	161	160	1
Equipment	-	3,261	3,261	-
Total pupil transportation	-	356,980	357,337	(357)
Technology				
Purchased services	-	29,040	22,884	6,156
Custody and care				
Salaries	-	20,963	21,139	(176)
Benefits	-	5,557	5,800	(243)
Purchased services	-	554	553	1
Total custody and care	-	27,074	27,492	(418)
Community services				
Purchased services	-	1,102	1,101	1
Supplies and materials	-	1,196	1,196	-
Total community services	-	2,298	2,297	1
Total supporting services	-	2,240,476	2,243,100	(2,624)
Debt service	-	83,764	83,762	2
Total Expenditures	-	5,372,119	5,368,801	3,318
Other Financing Uses				
Other transfers to other funds	-	117,447	117,446	1
Payments to other governments	-	4,600	4,600	-
Total Other Financing Uses	-	122,047	122,046	1
<b>Total Expenditures and Other Financing Uses</b>	<b>\$ -</b>	<b>\$ 5,494,166</b>	<b>\$ 5,490,847</b>	<b>\$ 3,319</b>

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OTHER SUPPLEMENTARY INFORMATION

**Climax-Scotts Community Schools**  
**Kalamazoo County, Michigan**  
**Combining Balance Sheet - Non-Major Governmental Funds**  
**June 30, 2009**

	Food Service Fund	Athletic Fund	1997 Debt Service	2001 Debt Service	2008 Debt Service	Durant Debt Service	Total
<b>ASSETS</b>							
Cash	\$ 10,367	\$ 1,542	\$ -	\$ 47,353	\$ 118,066	\$ -	\$ 177,328
Receivables	3,647	-	-	-	-	-	3,647
Inventory	3,881	-	-	-	-	-	3,881
<b>Total Assets</b>	<b>\$ 17,895</b>	<b>\$ 1,542</b>	<b>\$ -</b>	<b>\$ 47,353</b>	<b>\$ 118,066</b>	<b>\$ -</b>	<b>\$ 184,856</b>
<b>LIABILITIES AND FUND BALANCE</b>							
<b>Liabilities</b>							
Deferred Revenue	\$ 1,528	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,528
<b>Fund Balances</b>							
Reserved for food service	16,367	-	-	-	-	-	16,367
Reserved for athletics	-	1,542	-	-	-	-	1,542
Reserved for debt Service	-	-	-	47,353	118,066	-	165,419
<b>Total Fund Balances</b>	<b>16,367</b>	<b>1,542</b>	<b>-</b>	<b>47,353</b>	<b>118,066</b>	<b>-</b>	<b>183,328</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 17,895</b>	<b>\$ 1,542</b>	<b>\$ -</b>	<b>\$ 47,353</b>	<b>\$ 118,066</b>	<b>\$ -</b>	<b>\$ 184,856</b>

D R A F T

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Combining Statement of Revenues, Expenditures and Changes in Fund  
Balances - Non-Major Governmental Funds  
For the Year Ended June 30, 2009**

	Food Service Fund	Athletic Fund	1997 Debt Service	2001 Debt Service	2008 Debt Service	Durant Debt Service	Total
<b>Revenues</b>							
Local Sources	\$ 141,629	\$ 74,421	\$ 565	\$ 218,121	\$ 578,904	\$ -	\$ 1,013,640
State Sources	10,039	-	-	-	-	4,968	15,007
Federal Sources	77,736	-	-	-	-	-	77,736
<b>Total Revenues</b>	<b>229,404</b>	<b>74,421</b>	<b>565</b>	<b>218,121</b>	<b>578,904</b>	<b>4,968</b>	<b>1,106,383</b>
<b>Other Financing Sources</b>							
Proceeds from issuance of debt	-	-	-	-	-	-	-
Premium on issuance of debt	-	-	-	-	-	-	-
Operating transfers in	-	117,446	-	-	131,349	-	248,795
	-	117,446	-	-	131,349	-	248,795
<b>Total Revenues and Other Financing Sources</b>	<b>229,404</b>	<b>191,867</b>	<b>565</b>	<b>218,121</b>	<b>710,253</b>	<b>4,968</b>	<b>1,355,178</b>
<b>Expenditures</b>							
Food service	234,418	-	-	-	-	-	234,418
Athletics	-	198,329	-	-	-	-	198,329
Capital outlay	2,723	-	-	-	-	-	2,723
Financing costs	-	-	-	-	-	-	-
Debt service	-	-	-	219,210	681,756	4,968	905,934
<b>Total Expenditures</b>	<b>237,141</b>	<b>198,329</b>	<b>-</b>	<b>219,210</b>	<b>681,756</b>	<b>4,968</b>	<b>1,341,404</b>
<b>Other Financing Uses</b>							
Transfer to escrow agent	-	-	-	-	-	-	-
Transfers to other funds	-	-	131,349	-	-	-	131,349
<b>Total Other Financing Uses</b>	<b>-</b>	<b>-</b>	<b>131,349</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>131,349</b>
<b>Total Expenditures and Other Financing Uses</b>	<b>237,141</b>	<b>198,329</b>	<b>131,349</b>	<b>219,210</b>	<b>681,756</b>	<b>4,968</b>	<b>1,472,753</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses</b>	<b>(7,737)</b>	<b>(6,462)</b>	<b>(130,784)</b>	<b>(1,089)</b>	<b>28,497</b>	<b>-</b>	<b>(117,575)</b>
Fund balances, beginning of year	24,104	8,004	130,784	48,442	89,569	-	300,903
<b>Fund Balances, End of Year</b>	<b>\$ 16,367</b>	<b>\$ 1,542</b>	<b>\$ -</b>	<b>\$ 47,353</b>	<b>\$ 118,066</b>	<b>\$ -</b>	<b>\$ 183,328</b>

**D R A F T**

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Schedule of Changes in Long-Term Debt  
For the Year Ended June 30, 2009**

**D R A F T**

	Balance at July 1, 2008	Additions	Deductions	Balance at June 30, 2,009
2001 bond issue	\$ 1,550,000	\$ -	\$ (120,000)	\$ 1,430,000
Interest related to 2001 bond issue	461,725	-	(71,730)	389,995
2008 Refunding	4,410,000	-	(335,000)	4,075,000
Interest related to 2008 current refunding bond issue	1,411,864	-	(173,425)	1,238,439
1998 School Improvement (Durant)	41,782	-	(3,587)	38,195
Interest related to 1998 school improvement bond issue (Durant)	11,481	-	(1,381)	10,100
School bond loan fund	1,085,566	-	(29,155)	1,056,411
Interest related to school bond loan fund	528,241	74,600	(170,845)	431,996
2005 bus note payable	127,925	-	(62,134)	65,791
Interest related to 2005 bus note payable	9,102	-	(6,194)	2,908
2006 van note payable	8,733	-	(3,066)	5,667
Interest related to 2006 van note payable	580	-	(333)	247
Accumulated unused compensation time off	20,127		(20,127)	-
<b>Total</b>	<b>\$ 9,667,126</b>	<b>\$ 74,600</b>	<b>\$ (996,977)</b>	<b>\$ 8,744,749</b>

**Climax-Scotts Community Schools  
Kalamazoo County, Michigan  
Schedules of Maturities of Bonded Debt  
June 30, 2009**

**D R A F T**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008 Current Refunding Bond Issue			
Principal payment due May 1			
Interest payments due May 1 and November 1			
Interest rates 3.25% to 4.0%			
Original issue \$4,410,000			
Payments due for years ending June 30:			
2010	\$ 330,000	\$ 162,538	\$ 492,538
2011	320,000	151,813	471,813
2012	315,000	141,413	456,413
2013	310,000	131,175	441,175
2014	300,000	120,325	420,325
2015	295,000	109,825	404,825
2016	290,000	99,500	389,500
2017	290,000	85,000	375,000
2018	280,000	70,500	350,500
2019	280,000	56,500	336,500
2020	270,000	45,300	315,300
2021	270,000	33,150	303,150
2022	265,000	21,000	286,000
2023	260,000	10,400	270,400
<b>TOTALS</b>	<b><u>\$ 4,075,000</u></b>	<b><u>\$ 1,238,439</u></b>	<b><u>\$ 5,313,439</u></b>

**Climax-Scotts Community Schools  
 Kalamazoo County, Michigan  
 Schedules of Maturities of Bonded Debt  
 June 30, 2009**

**DRAFT**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>2001 BOND ISSUE</b>			
Principal payment due		May 1	
Interest payments due		May 1 and November 1	
Interest rates		3.1% to 5.0%	
Original issue		\$2,090,000	
Payments due for years ending June 30:			
2010	\$ 125,000	\$ 66,810	\$ 191,810
2011	130,000	61,560	191,560
2012	135,000	55,970	190,970
2013	140,000	49,962	189,962
2014	145,000	43,591	188,591
2015	150,000	36,850	186,850
2016	150,000	29,726	179,726
2017	150,000	22,526	172,526
2018	150,000	15,250	165,250
2019	155,000	7,748	162,748
<b>TOTALS</b>	<b><u>\$ 1,430,000</u></b>	<b><u>\$ 389,993</u></b>	<b><u>\$ 1,819,993</u></b>

**Climax-Scotts Community Schools  
 Kalamazoo County, Michigan  
 Schedules of Maturities of Bonded Debt  
 June 30, 2009**

**DRAFT**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>1998 SCHOOL IMPROVEMENT</b>			
<b>BOND ISSUE (DURANT)</b>			
Principal payment due	May 15		
Interest payments due	May 15		
Interest rates	4.76%		
Original issue	\$70,763		
Payments due for years			
ending June 30:			
2010	\$ 3,759	\$ 1,210	\$ 4,969
2011	3,938	1,031	4,969
2012	4,125	844	4,969
2013	26,373	7,015	33,388
<b>TOTALS</b>	<b><u>\$ 38,195</u></b>	<b><u>\$ 10,100</u></b>	<b><u>\$ 48,295</u></b>

**Climax-Scotts Community Schools  
 Kalamazoo County, Michigan  
 Schedule of Findings and Responses  
 For the Year Ended June 30, 2009**

**D R A F T**

**FINDINGS AND RESPONSES**

<b>Reference Number</b>	<b>Audit Finding</b>
09-1	The District does not have adequate segregation of duties. The accounting department consists of two individuals. The small number of personnel involved in recording and reconciling accounting information makes it inherently difficult to maintain adequate segregation of duties.
09-3	Sporting event receipts are processed under single control without an adequate accounting control making these receipts susceptible to misstatement and misappropriation. Handling by multiple individuals under single control makes it difficult to affix responsibility for misappropriations.
<b>Reference Number</b>	<b>Management Responses</b>
09-1	<p>Management is aware of this ongoing issue. It is typical that small school districts like ours have findings of inadequate segregation of duties because of the limited dollars and human resources to address such matters. In the meantime, the staff employs strategies and techniques that it is physically capable of with limited staff.</p> <p>One strategy to address this issue is to re-assign day to day accounting responsibilities for the General Fund to another office staff member to free up time for the Business Manager, changing her responsibility to one of additional oversight. She would be responsible for balance sheets for all funds, and the reconciling of all statements.</p> <p>It should also be noted that in April 2008 the District moved to contract their payroll services through their Intermediate School District (K/RESA) as a move to segregate duties in this area.</p>
09-2	<p>Management is aware of this as an issue. With recent changes in accounting standards and practices, and the District has worked toward meeting this expectation over the past year. Management acknowledges the importance of these standards and practices.</p> <p>We believe that our Business Manager has made progress towards this goal. When meeting with our auditing firm, we believe she has shown much growth in her understanding of the balance sheet, and the financial statements within the audit. A District goal for next year's audit would be to have all year-end adjusting journal entries complete prior to audit. Because of staffing, time is an issue in completing the required financial reports within the audit. The District may again choose to have the auditing firm be responsible for completion of financial statements within the audit for the fiscal year end June 30, 2009. It is our understanding that this is acceptable as long as the Business Manager can show an understanding of these statements.</p>
09-3	The District will explore ways to modify its procedures to maintain receipts under dual control.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Climax-Scotts Community Schools, as of and for the year ended June 30, 2009, which collectively comprise Climax-Scotts Community Schools' basic financial statements and have issued our report thereon dated October 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses at 09-01 and 09-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 09-01 and 09-02 to be material weaknesses.

Compliance and Other Matters

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

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Seber Tans, PLC  
Kalamazoo, Michigan

October 16, 2009