

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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2010

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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

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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Climax-Scotts Community Schools as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplementary information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying 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 basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2010, 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* and should be considered in assessing the results of our audit.


Seber Tans, PLC
Kalamazoo, Michigan

October 11, 2010

Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2010
Management's Discussion and Analysis

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

This 2010 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, 2010.

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 statement of fiduciary assets and liabilities, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole – Financial Statements

To follow, are Climax-Scotts Community School's District-Wide Statement of Net Deficit and Statement of Activities. The Statement of Net Deficit includes all assets and liabilities, using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District's net deficit, which is the difference between assets and liabilities, as reported in the Statement of Net Deficit, as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net deficit, as reported in the Statement of Activities, is one indicator of whether its financial health is improving or deteriorating.

Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2010
Management's Discussion and Analysis

The relationship between revenues and expenses represent 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 schools, are other non-financial factors that should be considered to assess the overall health of the District.

The Statement of Net Deficit 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 revenue sources.

Statement of Net Deficit

A summary of the District's net deficit as of June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets	\$ 1,701,746	\$ 2,251,745
Capital assets, net book value	4,469,045	4,636,394
TOTAL ASSETS	<u>\$ 6,170,791</u>	<u>\$ 6,888,139</u>
 LIABILITIES		
Current liabilities	\$ 1,284,614	\$ 1,996,791
Long-term liabilities	6,071,266	6,575,521
TOTAL LIABILITIES	<u>7,355,880</u>	<u>8,572,312</u>
 NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	(1,639,826)	(2,004,283)
Restricted	158,550	165,419
Unrestricted and undesignated	296,187	154,691
TOTAL NET DEFICIT	<u>(1,185,089)</u>	<u>(1,684,173)</u>
 TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 6,170,791</u>	<u>\$ 6,888,139</u>

Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2010
Management's Discussion and Analysis

Statement of Activities

As detailed in the District-Wide Statement of Activities that follows, the net deficit of Climax-Scotts Community Schools decreased during the fiscal year ended June 30, 2010 by \$499,084. In comparison, during the fiscal year ended June 30, 2009 the District realized a decrease in net deficit of \$574,309.

REVENUES	2010	2009
Program revenues:		
Charges for services	\$ 277,666	\$ 282,139
Operating grants	902,674	1,017,997
General revenues:		
Property taxes	1,275,676	1,275,546
State foundation allowance	3,814,091	4,123,554
Interest and investment earnings	11,782	16,027
Other	21,862	36,481
TOTAL REVENUES	6,303,751	6,751,744
EXPENSES		
Instructional and instructional support	2,789,431	2,991,577
Support services	2,073,608	2,208,091
Food services	207,488	234,418
Athletics	205,068	198,329
Interest on long-term debt	323,555	340,509
Capital Outlay	2,784	2,723
Other transactions	6,100	4,600
Depreciation	196,633	197,188
TOTAL EXPENSES	5,804,667	6,177,435
DECREASE IN NET DEFICIT	\$ 499,084	\$ 574,309

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

The District's fund financial statements provide detailed information about the most significant 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 and Athletics Fund, 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 that qualifies to be classified as a major fund.

Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2010
Management's Discussion and Analysis

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

Climax-Scotts Community Schools acts as the trustee for its student activity fund. These activities are reported in a separate Statement of Fiduciary Net Assets. 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.

State Aid and Property Tax on Non-Homestead Taxable Value

Approximately 83% of the District's revenues are received from State sources and local taxes. Unrestricted aid from the State of Michigan is based on three variables:

- The District's per student foundation allowance
- Student enrollment calculated by blending 75% of the September pupil count, and 25% of the February count
- The revenue generated from tax on non-homestead and commercial personal property.

Per Student Foundation Allowance

The foundation allowance that school districts receive is established by the State of Michigan annually. For fiscal year end June 30, 2010, the allowance was set for \$7,316. Although the foundation allowance was consistent with the 2008-2009 school year, the State of Michigan cut State funding in two categoricals. The first was a 22.b Discretionary Payment Adjustment resulting in a reduction in funding of \$178,742, which was replaced with ARRA Stabilization Funds (Federal Funds) made available to school districts. The other reduction (11.d) came in the form of a \$165 per student FTE reduction, which totaled \$98,505. The 11.d reduction was not replaced.

For fiscal year end June 30, 2009, the foundation allowance was originally set for \$7,316, which was a \$112 increase over the foundation allowance of \$7,204 set by the State of Michigan for the 2007-2008 school year. However, due to lack of state revenues to support the school district's foundation, the District experienced a reduction in State Aid totaling \$237,032, which was replaced with ARRA Stabilization Funds from the Federal Government. Historically Climax-Scotts Community Schools experienced other reductions. In the 2002/2003 school year the District experienced a reduction of \$78 per student (from \$6,700 to \$6,622), and a \$74 per student decrease in foundation (from \$6,700 to \$6,626) in 2003/2004. Our District did receive full funding of \$6,700 in 2004/2005, \$6,875 in 2005/2006, \$7,108 in 2006/2007, and \$7,204 in 2007/2008.

Climax-Scotts Community Schools
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Management's Discussion and Analysis

Student Enrollment

Climax-Scotts Community Schools' blended membership count of the 2009-2010 school year was 597.00 students, which includes students enrolled in our alternative education program. The following is a breakdown of student FTE for the last five years:

2005/2006	714.84
2006/2007	670.89
2007/2008	662.92
2008/2009	637.43
2009/2010	597.00

Blended student enrollment for the 2009-2010 school year of 597.00 students was based on 25% of our February 2009 count, and 75% of our September 2009 count. The District has experienced declining enrollment for the last five years.

Property Taxes Levied for General Operations

Climax-Scotts Community Schools levies 18 mills on non-homestead property, which generates revenue for General Fund operations. Under Michigan law, the taxable levy is based on the taxable valuation of properties within each school district. Annually, the taxable valuation increase in property values is capped at the rate of the prior year CPI increase or five percent, whichever is less. Climax-Scotts Community School levied 18 mills for operations for the 2009 tax year, generating \$251,695 on non-homestead property, and \$4,673 in commercial personal property revenue. This represents a 6% increase in tax revenue. The percent of unpaid delinquent personal property taxes at fiscal year end June 30, 2010 was .3%. Both Calhoun and Kalamazoo County Treasurers settled their delinquent tax accounts with the District prior to June 30, 2010.

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

2005-2006	\$219,902	
2006-2007	\$233,720	Increase of 6%
2007-2008	\$241,200	Increase of 3%
2008-2009	\$236,842	Decrease of 2%
2009-2010	\$251,695	Increase of 6%

Climax-Scotts Community Schools
 Kalamazoo and Calhoun Counties Michigan
 For the Year End June 30, 2010
 Management's Discussion and Analysis

Capital Assets

Deyo & Associates of Kalamazoo, Michigan completed the District's most recent asset appraisal for the fiscal year end June 30, 2010. 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 District's assets was conducted in December 2008.

At June 30, 2010, the District had capital assets net of accumulated depreciation, totaling \$4,469,045, 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 \$167,349 or 3.7% from fiscal year end June 30, 2009. A summary of capital assets is as follows:

	2010	2009
Buildings and improvements	\$ 6,843,107	\$ 6,843,107
Outdoor equipment	664,183	639,183
Equipment	523,491	591,652
Vehicles and tractors	445,808	373,363
	8,476,589	8,447,305
Less accumulated depreciation	(4,007,544)	(3,810,911)
NET CAPITAL ASSETS	\$ 4,469,045	\$ 4,636,394

Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2010
Management's Discussion and Analysis

Long-Term Obligations

At June 30, 2010, the District had a balance of \$7,935,690 in outstanding debt including school improvement bonds, notes payable, and a loan through the School Bond Loan Fund. This represents a net decrease in long-term obligations of \$809,059. Activity in long-term obligations during the year ended June 30, 2010 consisted of the following:

	Balance at July 1, 2009	Additions	Deductions	Balance at June 30, 2010
2001 bond issue	\$ 1,430,000		\$ (125,000)	\$ 1,305,000
Interest related to 2001 bond issue	389,995		(66,810)	323,185
2008 Refunding	4,075,000		(330,000)	3,745,000
Interest related to 2008 current refunding bond issue	1,238,439		(162,538)	1,075,901
1998 School Improvement (Durant)	38,195	-	(3,759)	34,436
Interest related to 1998 school improvement bond issue (Durant)	10,100	-	(1,210)	8,890
School bond loan fund	1,056,411			1,056,411
Interest related to school bond loan fund	431,996	83,161	(130,800)	384,357
2005 bus note payable	65,791	-	(65,791)	-
Interest related to 2005 bus note payable	2,908	-	(2,908)	-
2006 van note payable	5,667	-	(3,207)	2,460
Interest related to 2006 van note payable	247	-	(197)	50
Total	\$ 8,744,749	\$ 83,161	\$ (892,220)	\$ 7,935,690

The District has been participating in the School Bond Loan Fund since its bond issue in 1994. The District currently has two bond issues that are active, represented by our 2001 and 2008 Debt Retirement Funds.

Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2010
Management's Discussion and Analysis

It should be noted that due to a drop in interest rates, the District refinanced its 1994 bonds in 1997, and again refinanced their 1997 bonds in 2008. The 2008 Refunding Bond Issue totaled \$4,410,000, and the transaction took place in February of 2008. Total savings to the District's taxpayers totaled \$524,705. This number can be broken down into net cumulative savings totaling \$448,066, with additional estimated savings related to interest cost avoidance on the current School Bond Loan of \$76,639.

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 2009/2010 was approved on June 30, 2009, and the Board approved a final amendment to that budget on June 28, 2010.

General Fund Revenues

Total Revenues – Revised Budget	June 29, 2010	\$5,149,893
Total Revenues – Original Budget	June 30, 2009	\$5,119,909

The District's actual General Fund revenues were more than the amended budget by a difference of \$25,130.

General Fund Expenditures

Total Expenditures/Other Financing Uses – Revised Budget	\$5,132,510
Total Expenditures/Other Financing Uses – Original Budget	\$5,210,693

The District's actual General Fund expenditures and other financing uses were less than the amended budget by \$38,397.

Economic Factors and Next Year's Budget and Rates

The elected Board of Education and administration of Climax-Scotts Community Schools considered many factors when setting the District's fiscal year end June 30, 2010 budget. One of the most important factors affecting the budget is our student membership. The State foundation allowance revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended student count for the 2009-2010 school year is based in 25% of the February 2010 and 75% of the September 2009 student counts. The 2009-2010 budget was amended in June 2010 based on a blended student membership count of 597.00 students. Approximately 79% of the total General Fund revenue is from the foundation allowance. Under State Law, the District cannot assess additional property tax revenue for general operations. As a

Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2010
Management's Discussion and Analysis

result, District funding is heavily dependent on the State's ability to fund local school operations. The health of the State's School Aid Fund depends on the State's ability to collect revenues to fund its appropriation to the school districts. The State periodically holds a revenue estimating conference to estimate revenues. If actual State revenues are less than their estimates, reduction to the per-pupil funding allowance may be necessary.

Once the final student count and related per pupil funding is verified, State law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations.

To recap, revenue generated through State Aid for the 2009-2010 school year the reader should note the following: The foundation allowance per pupil was \$7,316. Cuts in categorical between 22.b and 11.d totaled \$270,680, with 22.b cuts being restored in the amount of \$178,742 though ARRA Stabilization funds made available by the Federal Government.

Budget Update: 2010-2011

In a Michigan Association of School Board's (MASB) news release from the Capitol for the week of September 27 – October 1, 2010 school districts received news regarding legislation pertaining to the Education Jobs Fund (EduJobs). In this news release MASB stated that the legislature finally reached an agreement on how the education jobs fund money would be spent. HB 5872 appropriates \$316.3 million in one-time federal money to local school districts, ISDs and the Department of Education. Every district will receive the equivalent of \$154 per pupil, plus an equity payment of \$23 to \$46 depending on foundation allowance. Districts with the lowest foundation would receive \$46 per pupil, while districts at the high end would receive \$23 per pupil. In addition to the money available to local school districts, there was an additional \$4.5 million for Sec. 81 money for ISD's. What this means in additional revenue to Climax-Scotts Schools is approximately \$120,000. The foundation allowance for the 2010-2011 school year will be \$7,362 per pupil with the formula to reach that number listed below:

08-09 Foundation	\$ 7,316
09-10 Foundation Cut	(\$ 165)
2010-2011 Foundation Restored	\$ 11
HB 5872 EduJobs Cut Restoration	\$ 154
2010-11 2X Addition	\$ 46
2010-2011 Minimum per Pupil Foundation	\$7,362

Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2010
Management's Discussion and Analysis

In addition to the above information, school districts received notification that due to the increased number of retirees associated with the early retirement incentive, the revised contribution rate due on members' wages paid between November 1, 2010, and September 30, 2011 would increase to 20.66% for members who first worked prior to July 1, 2010, and 19.16% for members who first worked July 1, 2010 or later (Pension Plus Plan members). This rate is approximately 3% higher than it would be without the Preliminary Injunction, which prevents the use of employee contributions ordered by the Court of Claims in the McMillan et al v. MPSERS et al lawsuit. At such time as this injunction may be lifted, the contribution rate will be reduced. Districts had been told originally that the retirement rate would be 19.41% on gross wages for the period October 1, 2010 through September 30, 2011, which represented a 2.47% increase from the previous fiscal year.

Climax-Scotts Community School's fund balance at the end of the fiscal year end June 30, 2010 is \$641,880 or approximately twelve percent of its operating budget. The increase in fund equity from fiscal year end June 30, 2009 is an amount of \$80,910. The recommended percent of fund equity for school districts is 15%.

Request for Information

It is the effort of Climax-Scotts Community Schools to make this financial report available to our citizens, taxpayers, parents, student, investors, and creditors so that they have a general overview of the District's finances, and to demonstrate the District's accountability for the money within its budget.

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
District-Wide Statement of Net Deficit
June 30, 2010**

ASSETS

Current Assets	
Cash	\$ 835,350
Due from other governments	860,964
Inventory	5,432
Total Current Assets	<u>1,701,746</u>
Property and Equipment	
Capital assets	8,476,589
Less accumulated depreciation	<u>(4,007,544)</u>
Net Property and Equipment	<u>4,469,045</u>
Total Assets	<u><u>\$ 6,170,791</u></u>

LIABILITIES AND NET DEFICIT

Current Liabilities	
Accounts payable	\$ 34,395
Deferred revenue	8,207
Accrued payroll and related withholdings	361,826
State aid note payable	423,788
Current maturities of long-term debt	2,460
Current maturities of bonds payable	<u>453,938</u>
Total Current Liabilities	<u>1,284,614</u>
Bonds Payable, net of current maturities	5,686,909
Accrued Interest on School Bond Loan Fund	384,357
Net Assets (Deficit)	
Invested in capital assets, net of related debt	(1,639,826)
Restricted for debt service	158,550
Unrestricted and undesignated	<u>296,187</u>
Total Net Deficit	<u>(1,185,089)</u>
Total Liabilities and Net Deficit	<u><u>\$ 6,170,791</u></u>

See Notes to Financial Statements

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
District-Wide Statement of Activities
For the Year Ended June 30, 2010**

	<u>Program Revenue</u>			Governmental Activities Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Service</u>	<u>Operating Grants/ Contributions</u>	
Functions/Programs				
Governmental activities:				
Instruction & instructional support	\$ (2,789,431)	\$ 66,352	\$ 792,560	\$ (1,930,519)
Support services	(2,073,608)	-	3,500	(2,070,108)
Food services	(207,488)	121,233	106,614	20,359
Athletics	(205,068)	90,081	-	(114,987)
Interest on long-term debt	(323,555)	-	-	(323,555)
Capital outlay	(2,784)	-	-	(2,784)
Other transactions	(6,100)	-	-	(6,100)
Depreciation (unallocated)	(196,633)	-	-	(196,633)
Total Governmental Activity	<u>\$ (5,804,667)</u>	<u>\$ 277,666</u>	<u>\$ 902,674</u>	<u>\$ (4,624,327)</u>
General Revenues:				
Taxes:				
Property taxes, levied for general obligations				466,598
Property taxes, levied for debt service				809,078
State of Michigan aid, unrestricted				3,814,091
Interest and investment earnings				11,782
Miscellaneous revenue				21,862
Total General Revenues				<u>5,123,411</u>
Decrease in Net Deficit				499,084
Net Deficit, Beginning of Year				<u>(1,684,173)</u>
Net Deficit, End of Year				<u>\$ (1,185,089)</u>

See Notes to Financial Statements

**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, 2010**

	<u>General Fund</u>	<u>Other Non-Major Governmental</u>	<u>Total Governmental</u>
ASSETS			
Cash	\$ 640,804	\$ 194,546	\$ 835,350
Due from other funds	929	-	929
Due from other governments	826,528	-	826,528
Inventory	-	5,432	5,432
Total Assets	<u>\$ 1,468,261</u>	<u>\$ 199,978</u>	<u>\$ 1,668,239</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 34,395	\$ -	\$ 34,395
Deferred revenue	6,372	1,835	8,207
Salaries payable and related withholdings	361,826	-	361,826
Due to other funds	-	929	929
State aid note payable	423,788	-	423,788
Total Liabilities	<u>826,381</u>	<u>2,764</u>	<u>829,145</u>
Fund Balances			
Reserved for debt service	-	158,550	158,550
Reserved for food service	-	34,174	34,174
Reserved for athletics	-	4,490	4,490
Unreserved	641,880	-	641,880
Total Fund Balances	<u>641,880</u>	<u>197,214</u>	<u>839,094</u>
Total Liabilities and Fund Balances	<u>\$ 1,468,261</u>	<u>\$ 199,978</u>	<u>\$ 1,668,239</u>
Reconciliation of the combined balance sheet - governmental funds to the statement of net deficit:			
Total governmental fund balances			\$ 839,094
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		8,476,589	
Accumulated depreciation is		<u>(4,007,544)</u>	4,469,045
Certain receivables are not available to pay for current year expenditures and therefore, are deferred in the funds.			34,436
Long term liabilities that are not due and payable in the current period and are not reported in the funds:			
Bonds payable			(6,140,847)
Long-term debt			(2,460)
Accrued interest is not included as a liability in governmental funds			<u>(384,357)</u>
Net Deficit of Governmental Activities			<u>\$ (1,185,089)</u>

See Notes to Financial Statements

**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, 2010**

	<u>General Fund</u>	<u>Other Non-Major Governmental</u>	<u>Total Governmental</u>
Revenues			
Local sources	\$ 568,372	\$ 1,020,904	\$ 1,589,276
Intermediate sources	246,956	-	246,956
State sources	4,083,779	21,274	4,105,053
Federal sources	275,916	90,309	366,225
Total Revenues	<u>5,175,023</u>	<u>1,132,487</u>	<u>6,307,510</u>
Other Financing Sources			
Operating transfers in	-	117,655	117,655
Total Revenues and Other Financing Sources	5,175,023	1,250,142	6,425,165
Expenditures			
Education			
Instruction	2,818,715	-	2,818,715
Support services	2,073,608	412,556	2,486,164
Capital outlay	-	2,784	2,784
Debt service	78,035	820,916	898,951
Total Expenditures	<u>4,970,358</u>	<u>1,236,256</u>	<u>6,206,614</u>
Other Financing Uses			
Operating transfers out	117,655	-	117,655
Other transactions	6,100	-	6,100
Total Other Financing Uses	<u>123,755</u>	<u>-</u>	<u>123,755</u>
Total Expenditures and Other Financing Uses	<u>5,094,113</u>	<u>1,236,256</u>	<u>6,330,369</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	80,910	13,886	94,796
Fund balances, beginning of year	560,970	183,328	744,298
Fund Balances, End of Year	<u>\$ 641,880</u>	<u>\$ 197,214</u>	<u>\$ 839,094</u>

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, 2010**

Net change in fund balance - total governmental funds		\$ 94,796
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	(196,633)	
Capital outlay	<u>29,284</u>	(167,349)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.		47,639
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).		458,759
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).		68,998
Other long-term assets are not available to pay future years long-term liabilities (where it reduces due from other governments).		<u>(3,759)</u>
Change in Net Assets of Governmental Activities		<u>\$ 499,084</u>

See Notes to Financial Statements

**Climax-Scotts Community Schools
 Kalamazoo County, Michigan
 Combining Statement of Fiduciary Net Assets
 For the Year Ended June 30, 2010**

	<u>Student Activities</u>	<u>Dependent Care</u>	<u>Unreimbursed Medical</u>	<u>Total</u>
Assets				
Cash	<u>\$ 83,145</u>	<u>\$ 200</u>	<u>\$ 4,604</u>	<u>\$ 87,949</u>
Liabilities				
Due to student groups and teachers	<u>\$ 83,145</u>	<u>\$ 200</u>	<u>\$ 4,604</u>	<u>\$ 87,949</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2010**

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 and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net deficit and the statement of activities) report information on all of the non-fiduciary activities of the District. 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 included among program revenues are reported as general revenue.

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2010**

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

The District reports the following major governmental fund:

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

Additionally, the District reports the following fund types:

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2010**

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 Deficit

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.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2010**

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 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 \$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

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 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.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2010**

NOTE A - Summary of Significant Accounting Policies (Continued)

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 available 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.

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.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2010**

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

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>
Total Supporting Services	\$ 2,067,896	\$ 2,073,608	\$ (5,712)

NOTE C - Deposits and Investments

State statutes and the District's investment policy authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; the District is allowed to invest in U.S. Treasury or Agency obligations, U.S. Government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase which mature not more than 270 days after the date of purchase, and mutual funds in investments pools that are composed of authorized investment vehicles. The District's deposits are in accordance with statutory authority.

The District has designated 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>\$ 835,350</u>	<u>\$ 87,949</u>	<u>\$ 923,299</u>

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

Deposits (checking, savings accounts, money markets, certificates of deposits)	<u>\$ 923,299</u>
--	-------------------

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.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2010**

NOTE C - Deposits and Investments (Continued)

Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2010, \$722,563 of the District's bank balance of \$972,563 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE D - Capital Assets

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

	Balance June 30, 2009	Additions	Disposals and Adjustments	Balance June 30, 2010
Cost				
Buildings and improvements	\$ 6,843,107	\$ ---	\$ ---	\$ 6,843,107
Outdoor equipment	639,183	---	25,000	664,183
Equipment	591,652	29,284	(97,445)	523,491
Vehicles and tractors	373,363	---	72,445	445,808
	<u>8,447,305</u>	<u>29,284</u>	<u>---</u>	<u>8,476,589</u>
Accumulated Depreciation				
Buildings and improvements	2,784,041	107,009	---	2,891,050
Outdoor equipment	390,659	29,822	1,249	421,730
Equipment	421,418	19,293	(65,017)	375,694
Vehicles and tractors	214,793	40,509	63,768	319,070
	<u>3,810,911</u>	<u>196,633</u>	<u>---</u>	<u>4,007,544</u>
Net capital assets	<u>\$ 4,636,394</u>	<u>\$ (167,349)</u>	<u>\$ ---</u>	<u>\$ 4,469,045</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2010**

NOTE D - Capital Assets (Continued)

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 has deferred the recognition of revenue in connection with resources that have been received but not yet earned. At June 30, 2010 the District has a total of \$8,207 in deferred revenue.

NOTE F – 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, 2009	Proceeds	Accrued Interest	Repayments	Balance June 30, 2010
State Aid Anticipation Note	\$ 889,875	\$ 775,000	\$ 8,788	\$(1,249,875)	\$ 423,788

NOTE G - Long-Term Debt

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

Long-term obligation activity is summarized as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Amount due within one year
Government obligation bonds	\$ 5,505,000	\$ ---	\$ (455,000)	\$ 5,050,000	\$ 450,000
Durant resolution package bond	38,195	---	(3,759)	34,436	3,938
School bond loan fund	1,056,411	---	---	1,056,411	---
Bus and vehicle notes payable	71,458	---	(68,998)	2,460	2,460
	<u>\$ 6,671,064</u>	<u>\$ ---</u>	<u>\$ (527,757)</u>	<u>\$ 6,143,307</u>	<u>\$ 456,398</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2010**

NOTE G - Long-Term Debt (Continued)

Long-term debt consisted of the following at June 30, 2010:

Refunding Bond issue of 2008 with annual payments ranging from \$260,000 to \$335,000 plus interest of 3.59%.	\$ 3,745,000
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%.	1,305,000
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.	34,436
School bond fund loan payable with no fixed payment schedule. Interest accrues at a 4.75%	1,056,411
2006 van note payable with monthly payments ranging from \$685 to \$845 plus interest at 4.29%	2,460
Total principal payable	<u>6,143,307</u>
Interest payable	<u>1,792,383</u>
Total long-term debt payable	<u><u>\$ 7,935,690</u></u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 456,398	\$ 214,454	\$ 670,852
2012	454,125	198,227	652,352
2013	476,373	188,152	664,525
2014	445,000	163,916	608,916
2015	445,000	146,675	591,675
2016-2020	2,015,000	432,052	2,447,052
2021-2024	795,000	64,550	859,550
2025-2029	1,056,411	384,357	1,440,768
	<u>\$ 6,143,307</u>	<u>\$ 1,792,383</u>	<u>\$ 7,935,690</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 sum 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 has extended its payment schedule through 2013.

The bonds will be repaid directly by the State of Michigan and are 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.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2010**

NOTE H - 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 I - 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 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 9.73% for the period July 1, 2009, through September 30, 2009, and 10.13% for the period October 1, 2009, through June 30, 2010, 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 6.4% of gross wages depending on the plan. The District's contributions to the MPERS plan totaled approximately \$302,200, \$306,000 and \$313,600 for the years ended June 30, 2010, 2009, and 2008, respectively.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2010**

NOTE I - Defined Benefit Pension Plan and Post Retirement Benefits (Continued)

Post Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental, and vision coverage. 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 MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.81% of covered payroll for the period from July 1, 2009 through June 30, 2010. The District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2010, 2009 and 2008 were approximately \$202,400, \$210,000 and \$202,900, respectively. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

NOTE J - Commitments and Contingencies

Environmental Remediation Liability

The District is monitoring a site on its property where petroleum products were leaked causing water and soil contamination. During the year ended June 30, 2008 the District completed the clean up of the site and is now required to monitor and test for contaminants periodically. If the monitoring shows any additional clean-up is required, the District will be liable for further remediation of the site. The District has not accrued any liability associated with the potential for future environmental remediation costs.

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, 2010, 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.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2010**

NOTE J - Commitments and Contingencies (Continued)

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, 2010, 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 K - Subsequent Events

Management has evaluated subsequent events through October 11, 2010, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Revenues - Budget to Actual - General Fund
For the Year Ended June 30, 2010**

	Original	Final	Actual	Variance with final budget fav/(unfav)
Revenues				
Revenue from local sources				
Property taxes	\$ 454,136	\$ 469,258	\$ 466,674	\$ (2,584)
Earnings on investments	20,000	11,100	11,194	94
Other local revenue	75,850	91,085	90,504	(581)
Total revenue from local sources	<u>549,986</u>	<u>571,443</u>	<u>568,372</u>	<u>(3,071)</u>
Revenue from intermediate school district	246,663	246,264	246,956	692
Revenue from State sources				
Unrestricted				
State aid membership	3,963,662	3,803,228	3,814,091	10,863
Restricted				
Special education	194,414	173,087	173,087	-
At risk	57,500	51,408	44,953	(6,455)
Adult education	26,500	32,112	34,300	2,188
Other restricted State revenue	1,500	17,353	17,348	(5)
Total restricted	<u>279,914</u>	<u>273,960</u>	<u>269,688</u>	<u>(4,272)</u>
Total revenue from State sources	4,243,576	4,077,188	4,083,779	6,591
Revenue from federal sources				
American Recovery and Reinvestment Act	-	158,354	178,742	20,388
Title I	51,433	57,721	60,109	2,388
Title II	26,426	21,006	19,149	(1,857)
Drug free schools	1,200	1,357	1,357	-
Other federal programs	625	16,560	16,559	(1)
Total revenue from federal sources	<u>79,684</u>	<u>254,998</u>	<u>275,916</u>	<u>20,918</u>
Total Revenues	<u>\$ 5,119,909</u>	<u>\$ 5,149,893</u>	<u>\$ 5,175,023</u>	<u>\$ 25,130</u>

**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, 2010**

	Original	Final	Actual	Variance with final budget fav/(unfav)
Expenditures				
Instruction				
Elementary				
Salaries	\$ 744,359	\$ 583,613	\$ 583,611	\$ 2
Benefits	354,168	284,086	271,758	12,328
Purchased services	22,193	15,617	14,577	1,040
Supplies and materials	51,550	42,990	42,989	1
Other fees and dues	500	-	-	-
Total elementary	<u>1,172,770</u>	<u>926,306</u>	<u>912,935</u>	<u>13,371</u>
Intermediate				
Benefits	-	885	3,758	(2,873)
Total intermediate	<u>-</u>	<u>885</u>	<u>3,758</u>	<u>(2,873)</u>
High school				
Salaries	793,243	846,376	835,572	10,804
Benefits	393,877	409,516	399,778	9,738
Purchased services	43,614	38,013	36,511	1,502
Supplies and materials	34,850	31,440	31,438	2
Other fees and dues	11,520	11,159	7,875	3,284
Equipment	1,500	612	3,895	(3,283)
Total high school	<u>1,278,604</u>	<u>1,337,116</u>	<u>1,315,069</u>	<u>22,047</u>
Preschool				
Salaries	13,662	13,377	13,377	-
Benefits	3,515	3,310	3,308	2
Purchased services	526	333	333	-
Supplies and materials	250	16	16	-
Total preschool	<u>17,953</u>	<u>17,036</u>	<u>17,034</u>	<u>2</u>
Summer school				
Salaries	8,750	5,320	6,201	(881)
Benefits	2,189	1,894	980	914
Purchased services	2,100	1,369	1,369	-
Supplies and materials	350	-	-	-
Other fees and dues	125	8	7	1
Total summer school	<u>13,514</u>	<u>8,591</u>	<u>8,557</u>	<u>34</u>

**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, 2010**

	Original	Final	Actual	Variance with final budget fav (unfav)
Special education				
Salaries	\$ 176,822	\$ 183,153	\$ 183,124	\$ 29
Benefits	79,381	82,091	81,510	581
Purchased services	1,450	494	823	(329)
Supplies and materials	750	7,395	7,394	1
Total special education	258,403	273,133	272,851	282
Compensatory education				
Salaries	78,665	87,668	87,665	3
Benefits	31,161	34,587	33,668	919
Purchased services	2,150	933	935	(2)
Supplies and materials	150	1,091	1,090	1
Other fees and dues	150	301	301	-
Total compensatory education	112,276	124,580	123,659	921
Vocational education				
Salaries	38,469	39,322	39,321	1
Benefits	19,806	20,823	20,822	1
Purchased services	38,300	47,320	47,319	1
Supplies and materials	5,522	2,838	2,837	1
Equipment	1,000	1,000	1,000	-
Total vocational education	103,097	111,303	111,299	4
Adult/continuing education				
Salaries	43,766	44,585	35,504	9,081
Benefits	12,104	12,189	10,953	1,236
Purchased services	1,425	119	119	-
Supplies and materials	3,750	4,439	4,438	1
Other fees and dues	250	897	897	-
Equipment	-	1,642	1,642	-
Total adult/continuing education	61,295	63,871	53,553	10,318
Total instruction	3,017,912	2,862,821	2,818,715	44,106
Supporting services				
Guidance services				
Salaries	60,167	59,250	59,249	1
Benefits	26,593	26,826	26,824	2
Purchased services	11,470	7,763	3,760	4,003
Other fees and dues	50	-	-	-
Total guidance services	98,280	93,839	89,833	4,006

**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, 2010**

	Original	Final	Actual	Variance with final budget fav (unfav)
Health services				
Purchased services	\$ 625	\$ 280	\$ 280	\$ -
Supplies and materials	250	76	76	-
Total health services	875	356	356	-
Psychological services				
Salaries	58,621	61,634	61,633	1
Benefits	13,850	14,582	14,577	5
Purchased services	1,550	1,129	1,128	1
Supplies and materials	75	410	410	-
Other fees and dues	-	60	60	-
Total psychological services	74,096	77,815	77,808	7
Speech and audio services				
Salaries	27,788	36,734	35,553	1,181
Benefits	6,607	2,870	2,779	91
Purchased services	800	576	575	1
Supplies and materials	250	74	74	-
Other fees and dues	50	-	-	-
Total speech and audio services	35,495	40,254	38,981	1,273
Social work				
Purchased services	10,000	8,486	12,485	(3,999)
Other pupil services				
Salaries	19,893	19,888	22,545	(2,657)
Benefits	4,906	5,238	5,258	(20)
Purchased services	4,918	4,804	4,804	-
Supplies and materials	-	42	41	1
Other fees and dues	1,300	405	405	-
Total other pupil services	31,017	30,377	33,053	(2,676)
Improvement of instruction				
Salaries	-	40	365	(325)
Benefits	2	14,020	15,302	(1,282)
Purchased services	27,300	2,146	4,899	(2,753)
Supplies and materials	200	6,161	5,332	829
Other fees and dues	2,850	1,978	1,978	-
Total improvement of instruction	30,352	24,345	27,876	(3,531)

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, 2010

	Original	Final	Actual	Variance with final budget fav (unfav)
Libraries				
Salaries	\$ 14,004	\$ 16,028	\$ 16,027	\$ 1
Benefits	3,465	3,945	4,738	(793)
Purchased services	985	690	690	-
Supplies and materials	4,000	1,322	521	801
Equipment	1,500	300	300	-
Total libraries	23,954	22,285	22,276	9
Computer instruction				
Salaries	28,803	28,526	28,525	1
Benefits	10,980	10,006	10,004	2
Purchased services	10,500	8,000	7,997	3
Supplies and materials	500	695	694	1
Other fees and dues	150	-	-	-
Equipment	2,500	5,484	5,483	1
Total computer instruction	53,433	52,711	52,703	8
Direction of instruction				
Salaries	38,383	39,223	56,012	(16,789)
Benefits	10,772	10,760	10,757	3
Purchased services	650	30	164	(134)
Supplies and materials	-	246	245	1
Other fees and dues	125	-	-	-
Total direction of instruction	49,930	50,259	67,178	(16,919)
Academic student assessment				
Purchased services	175	162	162	-
Supplies and materials	6,056	6,203	6,202	1
Total Academic student assessment	6,231	6,365	6,364	1
Board of education				
Salaries	4,478	4,456	4,485	(29)
Benefits	491	504	477	27
Purchased services	29,050	34,412	32,987	1,425
Supplies and materials	350	137	136	1
Other fees and dues	7,500	5,060	6,028	(968)
Total board of education	41,869	44,569	44,113	456

**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, 2010**

	Original	Final	Actual	Variance with final budget fav (unfav)
Executive administration				
Salaries	\$ 151,444	\$ 142,342	\$ 142,341	\$ 1
Benefits	60,280	59,490	59,107	383
Purchased services	10,900	8,133	8,302	(169)
Supplies and materials	4,250	3,505	3,505	-
Other fees and dues	3,250	3,924	3,977	(53)
Equipment	3,890	8,723	8,721	2
Total executive administration	234,014	226,117	225,953	164
Office of principals				
Salaries	144,908	146,532	147,159	(627)
Benefits	39,924	40,652	39,074	1,578
Purchased services	97,485	88,164	88,163	1
Supplies and materials	4,200	2,123	2,122	1
Other fees and dues	800	605	605	-
Total office of principals	287,317	278,076	277,123	953
Other school administration				
Other fees and dues	2,000	1,330	1,517	(187)
Business office				
Salaries	49,547	47,625	47,624	1
Benefits	12,530	11,579	11,577	2
Purchased services	500	270	395	(125)
Other fees and dues	150	129	127	2
Total business office	62,727	59,603	59,723	(120)
Other business services				
Purchased services	35,000	35,170	35,169	1
Other fees and dues	5,000	8,696	8,695	1
Total other business services	40,000	43,866	43,864	2
Operations & maintenance				
Salaries	192,456	191,997	191,992	5
Benefits	87,426	97,433	95,616	1,817
Purchased services	81,600	116,227	117,631	(1,404)
Supplies and materials	175,075	196,157	179,907	16,250
Other fees and dues	250	3	2	1
Equipment	-	5,913	5,913	-
Total operations & maintenance	536,807	607,730	591,061	16,669

OTHER SUPPLEMENTARY INFORMATION

**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, 2010**

	Original	Final	Actual	Variance with final budget fav (unfav)
Pupil transportation				
Salaries	\$ 174,678	\$ 181,498	\$ 181,415	\$ 83
Benefits	62,904	68,364	66,909	1,455
Purchased services	28,400	20,606	21,307	(701)
Supplies and materials	57,692	66,347	67,028	(681)
Other fees and dues	400	473	473	-
Equipment	3,000	3,200	3,200	-
Total pupil transportation	<u>327,074</u>	<u>340,488</u>	<u>340,332</u>	<u>156</u>
Technology				
Purchased services	22,367	25,805	28,320	(2,515)
Custody and care				
Salaries	13,541	23,664	23,436	228
Benefits	3,534	6,052	5,749	303
Purchased services	1,550	2,509	2,509	-
Other fees and dues	100	100	100	-
Total custody and care	<u>18,725</u>	<u>32,325</u>	<u>31,794</u>	<u>531</u>
Community services				
Purchased services	-	895	895	-
Total community services	<u>-</u>	<u>895</u>	<u>895</u>	<u>-</u>
Total supporting services	1,986,563	2,067,896	2,073,608	(5,712)
Debt service	<u>83,949</u>	<u>78,036</u>	<u>78,035</u>	<u>1</u>
Total Expenditures	5,088,424	5,008,753	4,970,358	38,395
Other Financing Uses				
Other transfers to other funds	122,269	117,656	117,655	1
Payments to other governments	-	6,101	6,100	1
Total Other Financing Uses	<u>122,269</u>	<u>123,757</u>	<u>123,755</u>	<u>2</u>
Total Expenditures and Other Financing Uses	<u>\$ 5,210,693</u>	<u>\$ 5,132,510</u>	<u>\$ 5,094,113</u>	<u>\$ 38,397</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Combining Balance Sheet - Non-Major Governmental Funds
June 30, 2010**

	<u>Food Service Fund</u>	<u>Athletic Fund</u>	<u>2001 Debt Service</u>	<u>2008 Debt Service</u>	<u>Durant Debt Service</u>	<u>Total</u>
ASSETS						
Cash	\$ 31,409	\$ 4,587	\$ 45,353	\$ 113,197	\$ -	\$ 194,546
Inventory	5,432	-	-	-	-	5,432
Total Assets	\$ 36,841	\$ 4,587	\$ 45,353	\$ 113,197	\$ -	\$ 199,978
LIABILITIES AND FUND BALANCE						
Liabilities						
Deferred Revenue	\$ 1,835	\$ -	\$ -	\$ -	\$ -	\$ 1,835
Due to other funds	832	97	-	-	-	929
	<u>2,667</u>	<u>97</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,764</u>
Fund Balances						
Reserved for food service	34,174	-	-	-	-	34,174
Reserved for athletics	-	4,490	-	-	-	4,490
Reserved for debt Service	-	-	45,353	113,197	-	158,550
Total Fund Balances	<u>34,174</u>	<u>4,490</u>	<u>45,353</u>	<u>113,197</u>	<u>-</u>	<u>197,214</u>
Total Liabilities and Fund Balance	\$ 36,841	\$ 4,587	\$ 45,353	\$ 113,197	\$ -	\$ 199,978

**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, 2010**

	<u>Food Service Fund</u>	<u>Athletic Fund</u>	<u>2001 Debt Service</u>	<u>2008 Debt Service</u>	<u>Durant Debt Service</u>	<u>Total</u>
Revenues						
Local Sources	\$ 121,465	\$ 90,361	\$ 226,980	\$ 582,098	\$ -	\$ 1,020,904
State Sources	16,305	-	-	-	4,969	21,274
Federal Sources	90,309	-	-	-	-	90,309
Total Revenues	<u>228,079</u>	<u>90,361</u>	<u>226,980</u>	<u>582,098</u>	<u>4,969</u>	<u>1,132,487</u>
Other Financing Sources						
Operating transfers in	-	117,655	-	-	-	117,655
Total Revenues and Other Financing Sources	<u>228,079</u>	<u>208,016</u>	<u>226,980</u>	<u>582,098</u>	<u>4,969</u>	<u>1,250,142</u>
Expenditures						
Food service	207,488	-	-	-	-	207,488
Athletics	-	205,068	-	-	-	205,068
Capital outlay	2,784	-	-	-	-	2,784
Debt service	-	-	228,980	586,967	4,969	820,916
Total Expenditures	<u>210,272</u>	<u>205,068</u>	<u>228,980</u>	<u>586,967</u>	<u>4,969</u>	<u>1,236,256</u>
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures	17,807	2,948	(2,000)	(4,869)	-	13,886
Fund balances, beginning of year	16,367	1,542	47,353	118,066	-	183,328
Fund Balances, End of Year	<u>\$ 34,174</u>	<u>\$ 4,490</u>	<u>\$ 45,353</u>	<u>\$ 113,197</u>	<u>\$ -</u>	<u>\$ 197,214</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Changes in Long-Term Debt
For the Year Ended June 30, 2010**

	Balance at July 1, 2009	Additions	Deductions	Balance at June 30, 2010
2001 bond issue	\$ 1,430,000	\$ -	\$ (125,000)	\$ 1,305,000
Interest related to 2001 bond issue	389,995	-	(66,810)	323,185
2008 Refunding	4,075,000	-	(330,000)	3,745,000
Interest related to 2008 current refunding bond issue	1,238,439	-	(162,538)	1,075,901
1998 School Improvement (Durant)	38,195	-	(3,759)	34,436
Interest related to 1998 school improvement bond issue (Durant)	10,100	-	(1,210)	8,890
School bond loan fund	1,056,411	-	-	1,056,411
Interest related to school bond loan fund	431,996	83,161	(130,800)	384,357
2005 bus note payable	65,791	-	(65,791)	-
Interest related to 2005 bus note payable	2,908	-	(2,908)	-
2006 van note payable	5,667	-	(3,207)	2,460
Interest related to 2006 van note payable	247	-	(197)	50
Total	\$ 8,744,749	\$ 83,161	\$ (892,220)	\$ 7,935,690

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedules of Maturities of Bonded Debt
June 30, 2010**

	<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:			
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
TOTALS	<u>\$ 3,745,000</u>	<u>\$ 1,075,901</u>	<u>\$ 4,820,901</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedules of Maturities of Bonded Debt
June 30, 2010**

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001 BOND ISSUE				
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:				
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	7,750	162,750
TOTALS		<u>\$ 1,305,000</u>	<u>\$ 323,185</u>	<u>\$ 1,628,185</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedules of Maturities of Bonded Debt
June 30, 2010**

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998 SCHOOL IMPROVEMENT BOND ISSUE (DURANT)				
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:				
2011		\$ 3,938	\$ 1,031	\$ 4,969
2012		4,125	844	4,969
2013		26,373	7,015	33,388
TOTALS		<u>\$ 34,436</u>	<u>\$ 8,890</u>	<u>\$ 43,326</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Findings and Responses
For the Year Ended June 30, 2010**

FINDINGS AND RESPONSES

Reference Number	Audit Finding
10-01	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.
10-02	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.
Reference Number	Management Responses
10-01	<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. As an additional step started in the 2009/2010 school year the Superintendent reviews and approves all adjusting journal entries and bank reconciliations.</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 the balance sheets for all funds, and the reconciling of all statements.</p>
10-02	The District will explore ways to modify its procedures to maintain receipts under dual control.

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

Audit Finding	Current Status
The District does not have adequate segregation of duties.	See finding 10-1
Sporting event receipts of the District are processed under single control.	See finding 10-2

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

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, 2010, which collectively comprise Climax-Scotts Community Schools' basic financial statements and have issued our report thereon dated October 11, 2010. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses at 10-01 and 10-02 to be significant deficiencies in internal control over financial reporting.

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 11, 2010