



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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2019

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Climax-Scotts Community Schools (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Climax-Scotts Community Schools as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Seber Tans, PLC

Seber Tans, PLC
Kalamazoo, Michigan

October 28, 2019

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2019
Management's Discussion and Analysis**

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

This 2019 annual financial report is written in conjunction with the School District's financial statements, which immediately follow this section. In this financial report, the Climax-Scotts Community Schools present their discussion and analysis of the school's financial condition for the fiscal year ended June 30, 2019.

Using this Annual Report

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

Reporting the School District as a Whole – Financial Statements

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2019
Management's Discussion and Analysis**

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

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

Statement of Net Position

A summary of the School District's net position as of June 30, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets	\$ 12,845,902	\$ 1,565,310
Capital assets, net book value	4,847,941	3,603,189
TOTAL ASSETS	<u>17,693,843</u>	<u>5,168,499</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on pension and OPEB	<u>3,248,357</u>	<u>1,599,290</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 20,942,200</u>	<u>\$ 6,767,789</u>
LIABILITIES		
Current liabilities	\$ 1,789,844	\$ 1,140,947
Long-term liabilities	24,018,729	11,704,111
TOTAL LIABILITIES	<u>25,808,573</u>	<u>12,845,058</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on pension and OPEB	<u>1,280,152</u>	<u>544,544</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF ASSETS	<u>\$ 27,088,725</u>	<u>\$ 13,389,602</u>
NET POSITION		
Net investment in capital assets	(7,973,094)	1,881,546
Restricted	10,646,446	137,321
Unrestricted	(8,819,877)	(8,640,680)
TOTAL NET POSITION	<u>\$ (6,146,525)</u>	<u>\$ (6,621,813)</u>

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2019
Management's Discussion and Analysis**

Statement of Activities

As detailed in the District-Wide Statement of Activities that follows, the net position of Climax-Scotts Community Schools increased during the fiscal year ended June 30, 2019, by \$475,288. In comparison, during the fiscal year ended June 30, 2018, the District's net position increased by \$343,295.

REVENUES	2019	2018
Program revenues:		
Charges for services	\$ 110,223	\$ 111,392
Operating grants	1,628,457	1,508,303
General revenues:		
Property taxes	1,364,646	1,213,883
State foundation allowance	3,855,536	3,506,388
Interest and investment earnings	109,050	332
Other	81,727	100,650
TOTAL REVENUES	7,149,639	6,440,948
 EXPENSES		
Instruction and instructional support	3,572,747	3,125,864
Support services	2,411,826	2,452,035
Capital outlay	3,450	-
Food services	239,228	250,452
Interest on long-term debt	258,971	100,094
Depreciation (unallocated)	188,129	169,208
TOTAL EXPENSES	6,674,351	6,097,653
 CHANGE IN NET POSITION	 \$ 475,288	 \$ 343,295

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

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2019
Management's Discussion and Analysis**

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

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

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

Approximately 67% of the District's revenues are received from unrestricted State sources and local tax. This unrestricted aid from the State of Michigan is based on three variables:

- The Districts per student foundation allowance
- Student enrollment calculated by blending 90% of the October pupil count, and 10% of the February count
- The revenue generated from tax on non-homestead and commercial personal property.

Per Student Foundation Allowance

The foundation allowance that School Districts receive is established by the State of Michigan annually. For fiscal year ended June 30, 2019, the allowance was \$7,871 per student FTE. This is an increase of \$240 per student over the 2017-18 foundation allowance.

Student Enrollment

Climax-Scotts Community Schools' blended membership count of the 2018-2019 school year was 497.29 students, which includes students enrolled in our online alternative education program. The student FTE for the previous five years was as follows:

2013-2014	521.91
2014-2015	484.38
2015-2016	492.18
2016-2017	503.23
2017-2018	488.82

Our blended student enrollment for the 2018-2019 school year of 497.29 students was based on 10% of the February 2018 count, and 90% of the October 2018 count.

Property Taxes Levied for General Operations

Climax-Scotts Community Schools levies 18 mills on non-homestead property, which generates revenue for General Fund operations. Under Michigan law, the taxable levy is based on the taxable valuation of properties within each School District. Annually the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. Climax-Scotts Community School levied 18 mills for operations for the 2018-2019 tax year, generating \$287,163 on non-homestead property, and \$8,136 in commercial personal property revenue. This represents a 5.7% increase in tax revenue. Both Calhoun and Kalamazoo County Treasurers settled their delinquent tax accounts with our school district prior to June 30, 2019.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2019
Management's Discussion and Analysis**

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

2012-2013	\$259,505	Increase of 1%
2013-2014	\$270,187	Increase of 4%
2014-2015	\$276,400	Increase of 2%
2015-2016	\$279,069	Increase of 1%
2016-2017	\$276,008	Decrease of 1%
2017-2018	\$275,025	Decrease of 1%

Capital Assets

Deyo & Associates of Kalamazoo, Michigan completed the District's most recent asset appraisal for the fiscal year end June 30, 2019. Deyo provides the District an updated annual asset appraisal based on additions and deletions to assets throughout the current fiscal year. An on-site update of the school's assets was conducted in December 2008.

At June 30, 2019, the School District had capital assets net of accumulated depreciation, totaling \$4,847,941, which includes land, buildings, furniture and equipment, fleet of buses, and athletic facilities including an all-weather track. This represents a net increase (including additions, deductions, and depreciation) of \$1,244,752 from fiscal year ended June 30, 2018. A summary of capital assets is as follows:

	<u>2019</u>	<u>2018</u>
Buildings and improvements	\$ 8,171,114	\$ 6,856,233
Outdoor equipment	666,183	666,183
Equipment	587,429	587,429
Vehicles and tractors	707,677	698,170
	<u>10,132,403</u>	<u>8,808,015</u>
Less: accumulated depreciation	(5,284,462)	(5,204,826)
NET CAPITAL ASSETS	<u><u>\$ 4,847,941</u></u>	<u><u>\$ 3,603,189</u></u>

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2019
Management's Discussion and Analysis**

Long-Term Obligations

At the end of fiscal year ended June 30, 2019, the School District had a balance of \$18,296,176 in outstanding debt retirement and school improvement bonds, notes payable, and a loan through the School Bond Loan Fund. When making a comparison to the balance at fiscal year ended June 30, 2018, of \$1,915,599, this represents a net increase in long-term obligations of \$16,380,577. Reference page 44 for activity in long-term obligations, which consist of the following:

	Balance at July 1, 2018	Additions	Deductions	Balance at June 30, 2019
2008 Refunding	\$1,345,000	\$ -	\$(1,345,000)	\$ -
Interest related to 2008 current refunding bond issue	166,350	-	(166,350)	-
2011 Refunding	150,000	-	(150,000)	-
Interest related to 2011 current refunding bond issue	3,975	-	(3,975)	-
2018 Refunding	-	1,265,000	(235,000)	1,030,000
Interest related to 2018 current refunding bond issue	-	175,133	(46,383)	128,750
2018 School Building and Site	-	10,715,000	-	10,715,000
Interest related to 2018 School Building and Site bond issue	-	5,563,750	(231,750)	5,332,000
Bond premiums	-	972,853	(60,708)	912,145
Bus note payables	214,273	-	(56,552)	157,721
Interest related to buses	23,001	-	(8,689)	14,312
Vehicle note payables	12,370	-	(6,201)	6,169
Interest related to vehicles	623	-	(543)	80
Total	\$1,915,592	\$18,691,736	\$(2,311,151)	\$18,296,177

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2019
Management's Discussion and Analysis**

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

Original versus Revised Budget

The Uniform Budget Act of the State of Michigan requires that a local Board of Education approve the original budget for the upcoming fiscal year prior to July 1st, the start of the fiscal year. The budget for 2018-2019 was approved on June 25, 2018, and the Board approved a final amendment to that budget on June 24, 2019.

General Fund Revenues

Total Revenues – Final Revised Budget	\$5,868,811
Total Revenues – Original Budget	<u>5,576,202</u>
	\$ 292,609

The District's final budgeted General Fund revenues were more than the original budget by \$292,609. The increase in revenue from the original budget was largely due to the addition of an online alternative education program with a third-party partner.

General Fund Expenditures

Total Expenditures/Other Financing Uses – Final Revised Budget	\$5,830,287
Total Expenditures/Other Financing Uses – Original Budget	<u>5,588,558</u>
	\$ 241,729

The District's final budgeted General Fund expenditures and other financing uses were more than the original budget by \$241,729. The most significant increases from the originally approved budget are as follows:

- a) The District's amended instruction budget increased from the original budget due to the addition of an online alternative education program with a third-party partner.
- b) The District's amended support services budget increase from the original budget was largely due to the overlapping of total compensation from an administrative personnel change.

Economic Factors and Next Year's Budget and Rates

The elected Board of Education and administration of Climax-Scotts Community Schools considered many factors when setting the School District's fiscal year end June 30, 2019, 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 FTE. The blended student count for the 2018-2019 school year is based on 10% of the February 2018 and 90% of the October 2018 student counts. The 2017-2018 budget was amended in June 2018 based on a blended student membership count of 497.29 students. Approximately 67% of the total General Fund revenue is from the foundation allowance. Under State Law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. The health of the State's School Aid Fund depends on the State's ability to collect revenues to fund its appropriation to the school districts. The State periodically holds a revenue estimating conference to estimate revenues. If actual State revenues are less than their estimates, reduction to the per-pupil funding allowance may be necessary.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2019
Management's Discussion and Analysis**

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

To recap revenue generated through State Aid for the 2018-2019 school year the reader should note the following: The foundation allowance per pupil was \$7,871. A portion was made up by additional categories, but per student funding was only up \$555 from the 2010-11 fiscal year.

Budget Update: 2019-2020

Based on budget projections approved by the Board of Education of Climax-Scotts Community Schools on June 24, 2019, it was anticipated that the school district will add \$15,101 to its fund equity for FYE June 30, 2020. Revenues were approved at \$6,143,618. Expenditures were approved at \$6,128,517. Retirement rates paid by the District to fund employee defined benefit and defined contribution plans are determined by the State of Michigan Office of Retirement Services. Retirement rates for 2018-2019 ranged from 25.39%-30.16%. Retirement rates for 2019-2020 range from 25.55%-30.16%. This is calculated net of the Section 147c estimated allotment to be provided by the State.

Climax-Scotts Community School's general fund balance at fiscal year end June 30, 2019, is \$879,665 (\$108,068 increase from June 30, 2018) or approximately 15.2% of its operating expenditures. The recommended fund equity for school districts is 15% of operating expenditures.

On May 4, 2018, the Climax and Scotts communities approved two bond proposals. One for \$9,400,000 for improvements to the facilities and grounds, and one for \$2,170,000 for the construction of an auxiliary gym. Construction began in the summer of 2019.

Request for Information

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Statement of Net Position
June 30, 2019**

ASSETS

Current Assets		
Cash	\$	994,681
Investmentes		10,831,555
Due from other governments		958,443
Inventory		2,800
Prepaid expenses		58,423
Total Current Assets		<u>12,845,902</u>
Property and Equipment		
Capital assets, net of accumulated depreciation		<u>4,847,941</u>
Total Assets		<u>17,693,843</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount related to other postemployment benefits		365,860
Deferred amount related to pensions		<u>2,882,497</u>
Total Deferred Outflows of Resources		<u>3,248,357</u>

Total Assets and Deferred Outflows of Resources

\$ 20,942,200

LIABILITIES

Current Liabilities		
Accounts payable	\$	670,266
Unearned revenue		3,877
Accrued payroll and related withholdings		472,346
State aid note payable		104,657
Due to other governmental units		63,613
Current maturities of long-term debt		65,085
Current maturities of bonds payable		<u>410,000</u>
Total Current Liabilities		<u>1,789,844</u>
Long-term Debt, net of current maturities		98,805
Bonds Payable, net of current maturities		12,247,145
Net Postemployment Benefits Liability		2,501,443
Net Pension Liability		9,166,304
Accrued Interest		<u>5,032</u>
Total Liabilities		<u>25,808,573</u>

DEFERRED INFLOWS OF RESOURCES

Deferred amount related to other postemployment benefits		562,538
Deferred amount related to pensions		<u>717,614</u>
Total Deferred Inflows of Resources		<u>1,280,152</u>

Total Liabilities and Deferred Inflows of Resources

27,088,725

NET POSITION

Net investment in capital assets		(7,973,094)
Restricted for:		
Debt		322,637
Food service		43,798
Capital Projects		10,280,011
Unrestricted		<u>(8,819,877)</u>
Total Net Position		<u><u>\$ (6,146,525)</u></u>

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Statement of Activities
For the Year Ended June 30, 2019**

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Service</u>	<u>Operating Grants/ Contributions</u>	
Functions/Programs				
Governmental activities:				
Instruction & instructional support	\$ (3,572,747)	\$ 38,351	\$ 1,423,016	\$ (2,111,380)
Support services	(2,411,826)	-	-	(2,411,826)
Capital Outlay	(3,450)	-	-	(3,450)
Food services	(239,228)	71,872	205,441	38,085
Interest on long-term debt	(258,971)	-	-	(258,971)
Depreciation (unallocated)	(188,129)	-	-	(188,129)
Total Governmental Activity	\$ (6,674,351)	\$ 110,223	\$ 1,628,457	\$ (4,935,671)
General Revenues:				
Taxes:				
Property taxes, levied for general obligations				472,992
Property taxes, levied for debt service				891,654
State of Michigan aid, unrestricted				3,855,536
Interest and investment earnings				109,050
Miscellaneous revenue				81,727
Total General Revenues				<u>5,410,959</u>
Change in Net Position				475,288
Net Position, Beginning of Year				<u>(6,621,813)</u>
Net Position, End of Year				<u>\$ (6,146,525)</u>

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Balance Sheet - Governmental Funds and the Reconciliation of the
Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2019**

	General Fund	2018 Capital Projects	Other Non-Major Governmental	Total Governmental
ASSETS				
Cash	\$ 634,395	\$ 1,528	\$ 358,758	\$ 994,681
Investments	-	10,831,555	-	10,831,555
Due from other funds	-	-	7,073	7,073
Due from other governments	956,824	-	1,619	958,443
Prepaid expenses	58,423	-	-	58,423
Inventory	-	-	2,800	2,800
Total Assets	\$ 1,649,642	\$ 10,833,083	\$ 370,250	\$ 12,852,975
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 116,859	\$ 553,072	\$ 335	\$ 670,266
Due to other funds	7,073	-	-	7,073
Due to other governmental units	63,613	-	-	63,613
Salaries payable and related withholdings	472,346	-	-	472,346
Accrued interest	5,032	-	-	5,032
State aid note payable	104,657	-	-	104,657
Total Liabilities	769,580	553,072	335	1,322,987
Deferred Inflows of Resources				
Unearned revenue	397	-	3,480	3,877
Total Liabilities and Deferred Inflows of Resources	769,977	553,072	3,815	1,326,864
Fund Balances				
Nonspendable	58,423	-	2,800	61,223
Restricted for:				
Debt	-	-	322,637	322,637
Food service	-	-	40,998	40,998
Capital Projects	-	10,280,011	-	10,280,011
Unassigned	821,242	-	-	821,242
Total Fund Balances	879,665	10,280,011	366,435	11,526,111
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,649,642	\$ 10,833,083	\$ 370,250	\$ 12,852,975
Reconciliation of the balance sheet - governmental funds to the statement of net position:				
Total governmental fund balances				\$ 11,526,111
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:				
The cost of the capital assets is			10,132,403	
Accumulated depreciation is			(5,284,462)	
				4,847,941
Deferred inflows related to other postemployment benefits				(562,538)
Deferred inflows related to pensions				(717,614)
Deferred outflows related to other postemployment benefits				365,860
Deferred outflows related to pensions				2,882,497
Long term liabilities that are not due and payable in the current period and are not reported in the funds:				
Net other postemployment liability				(2,501,443)
Net pension liability				(9,166,304)
Bonds payable				(12,657,145)
Long-term debt				(163,890)
Net Position of Governmental Activities				\$ (6,146,525)

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2019**

	<u>General Fund</u>	<u>2018 Capital Projects</u>	<u>Other Non-Major Governmental</u>	<u>Total Governmental</u>
Revenues				
Local sources	\$ 415,546	\$ 105,473	\$ 963,553	\$ 1,484,572
Intermediate sources	567,011	-	-	567,011
State sources	4,754,561	-	8,854	4,763,415
Federal sources	138,054	-	196,587	334,641
Total Revenues	<u>5,875,172</u>	<u>105,473</u>	<u>1,168,994</u>	<u>7,149,639</u>
Expenditures				
Education				
Instruction	3,285,482	-	-	3,285,482
Support services	2,411,826	-	-	2,411,826
Capital outlay	3,449	1,432,882	-	1,436,331
Food service	-	-	239,228	239,228
Debt service	81,346	-	668,151	749,497
Total Expenditures	<u>5,782,103</u>	<u>1,432,882</u>	<u>907,379</u>	<u>8,122,364</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>93,069</u>	<u>(1,327,409)</u>	<u>261,615</u>	<u>(972,725)</u>
Other Financing Sources (Uses)				
Payment to escrow agent	-	-	(1,362,933)	(1,362,933)
Proceeds from bond	-	10,715,000	1,265,000	11,980,000
Bond premium	-	892,420	80,433	972,853
Operating transfers in	15,000	-	93,668	108,668
Operating transfers out	-	-	(108,668)	(108,668)
Total Other Financing Sources	<u>15,000</u>	<u>11,607,420</u>	<u>(32,500)</u>	<u>11,589,920</u>
Net Change in Fund Balances	<u>108,069</u>	<u>10,280,011</u>	<u>229,115</u>	<u>10,617,195</u>
Fund Balances, Beginning of Year	<u>771,596</u>	<u>-</u>	<u>137,320</u>	<u>908,916</u>
Fund Balances, End of Year	<u>\$ 879,665</u>	<u>\$ 10,280,011</u>	<u>\$ 366,435</u>	<u>\$ 11,526,111</u>

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances - Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019**

Net change in fund balances - total governmental funds		\$ 10,617,195
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	(188,129)	
Capital outlay	<u>1,432,881</u>	1,244,752
Governmental funds report proceeds from debt as revenue, but not in the statement of activities (where it increases long-term debt payable).		(12,952,853)
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).		1,790,706
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).		62,753
Repayment of net other postemployment benefit liability is an expenditure in the governmental funds, but not in the statement of activities (where it reduces net other postemployment benefit liability).		64,253
Repayment of net pension liability is an expenditure in the governmental funds, but not in the statement of activities (where it reduces net pension liability).		<u>(351,518)</u>
Change in Net Position of Governmental Activities		<u>\$ 475,288</u>

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Statement of Fiduciary Net Position
For the Year Ended June 30, 2019**

	<u>Student Activities</u>
Assets	
Cash	\$ 76,593
Liabilities	
Due to Student Groups	\$ 76,593

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

NOTE A – Summary of Significant Accounting Policies

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

Reporting Entity

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

District-Wide Financial Statements

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

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

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

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

NOTE A – Summary of Significant Accounting Policies (Continued)

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

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

Fund Financial Statements

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

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

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

The District reports the following major governmental funds:

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

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

Additionally, the District reports the following fund types:

Debt service funds are governmental funds used to record tax, interest and other revenue for payment of principal, and other expenditures on the District's various bond issues. The debt service funds maintained by the District are the 2008 Debt Service Fund, 2011 Debt Service Fund and 2018 Debt Service Fund.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

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 fund maintained by the District is the 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 position and results of operations are not included in the government-wide statements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These funds are used to record the transactions of student, teacher, and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students, teachers, and parents. The agency fund maintained by the District is the Student Activities Fund.

Assets, Liabilities, and Net Position or Equity

Deposits and Investments

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

Receivables and Payables

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

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

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

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

NOTE A – Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Costs

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

Capital Assets

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

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

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

Compensated Absences (Vacation and Sick Leave)

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

Deferred Outflows/Inflows of Resources

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

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

NOTE A – Summary of Significant Accounting Policies (Continued)

Long-Term Obligations

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

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

Pension and Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net pension and the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balance

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

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

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

Committed fund balance includes amounts that are committed for specific purposes by formal action of the District's Board. A fund balance commitment may be established, modified, or rescinded by the District's Board.

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

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

NOTE A – Summary of Significant Accounting Policies (Continued)

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.

Excess of Expenditures Over Appropriations in Budgeted Funds

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

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

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund - Support Services - General Administration	253,347	266,475	(13,128)
General Fund - Support Services - Other Support Services	2,655,746	2,670,508	(14,762)

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

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 investment pools that are composed of authorized investment vehicles. The District's deposits are in accordance with statutory authority. The District utilizes one bank for the deposit of funds. The investment policy adopted by the board in accordance with state statutes has authorized investment in bonds and securities of the United States government, bank accounts and CD's, and the remainder of state statutory authority as listed above.

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 994,681	\$ 76,593	\$ 1,071,274
Investments	10,831,555	--	10,831,555
Total	<u>\$ 11,826,236</u>	<u>\$ 76,593</u>	<u>\$ 11,902,829</u>

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

Deposits (checking, savings accounts, money markets, certificates of deposits)	\$ 1,071,274
Investments in cash management funds	10,831,555
	<u>\$ 11,902,829</u>

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

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2019, \$821,000 of the District's bank balance of \$1,070,649 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk of Investments

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

Interest Rate Risk

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

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

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

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Rating by Standard & Poor's</u>
MILAF	MILAF+ Cash Mgmt Class (short-term)	\$ 10,831,555	AAAm

Foreign Currency Risk

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

NOTE C – Deposits and Investments (Continued)

Fair Value Measurements

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

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

The following table summarizes the valuation of the District's financial instruments by the aforementioned pricing categories at June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash Funds (short-term)	<u>\$ -</u>	<u>\$ 10,831,555</u>	<u>\$ -</u>

NOTE D – Receivables and Unearned Revenue

At June 30, 2019, the District's receivables were reported in the basic financial statements as follows:

<u>Type</u>	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Due from other governments	<u>\$ 956,824</u>	<u>\$ 1,619</u>	<u>\$ 958,443</u>

Governmental funds report deferred inflows of resources recognized as unearned revenue in connection with resources that have been received but not yet earned. At June 30, 2019, grant and categorical aid payments received prior to meeting all eligibility requirements were \$3,877.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

NOTE E – Interfund Receivables, Payables and Transfers

The composition of interfund balances is as follows:

<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
Food Service Fund	General Fund	\$ 7,073

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

An interfund reimbursement transfer was made from the Food Service Fund to the General Fund in the amount of \$15,000 to reimburse the General Fund for indirect costs related to food service activities. Another interfund transfer of \$93,668 was made to the 2018 Debt Service fund to close the 2008 Debt Service Fund when the 2008 Bond was refunded.

NOTE F – Capital Assets

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

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2019</u>
Cost				
Buildings and improvements	\$ 6,856,233	\$ 1,314,882	\$ ---	\$ 8,171,114
Outdoor equipment	666,183	---	---	666,183
Equipment	587,429	---	---	587,429
Vehicles and tractors	698,170	118,000	(108,493)	707,677
	<u>8,808,015</u>	<u>1,432,881</u>	<u>(108,493)</u>	<u>10,132,403</u>
Accumulated Depreciation				
Buildings and improvements	3,747,713	107,600	---	3,855,313
Outdoor equipment	585,768	18,493	---	604,261
Equipment	487,169	6,643	---	493,812
Vehicles and tractors	384,176	55,393	(108,493)	331,076
	<u>5,204,826</u>	<u>188,129</u>	<u>(108,493)</u>	<u>5,284,462</u>
Net capital assets	<u>\$ 3,603,189</u>	<u>\$ 1,244,752</u>	<u>\$ ---</u>	<u>\$ 4,847,941</u>

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

NOTE G – State Aid Anticipation Note

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

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

	Balance July 1, 2018	Proceeds	Accrued Interest	Repayments	Balance June 30, 2019
State Aid Anticipation Note	\$ 88,808	\$ 718,229	\$ 12,600	\$ (714,980)	\$ 104,657

NOTE H – Long-Term Debt

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

Long-term obligation activity is summarized as follows:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Amount due within one year
Government obligation bonds	\$ 1,495,000	\$11,980,000	\$(1,730,000)	\$11,745,000	\$ 410,000
Bond issuance premium	---	972,853	(60,708)	912,145	60,708
Bus and vehicle notes payable	226,643	---	(62,753)	163,890	65,085
	<u>\$ 1,721,643</u>	<u>\$12,952,853</u>	<u>\$(1,853,461)</u>	<u>\$12,821,035</u>	<u>\$ 535,793</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

NOTE H – Long-Term Debt (continued)

Long-term debt consisted of the following at June 30, 2019:

2018 School building and site bond issue with annual payments ranging \$155,000 to \$850,000 plus interest of 4%	\$ 10,715,000
Refunding Bond issue of 2018 with annual payments ranging from \$235,000 to \$260,000 plus interest of 4%	1,030,000
Refunding Bond issue of 2008 with annual payments ranging from \$260,000 to \$335,000 plus interest of 3.59%, refunded in 2018	---
2011 School building and site bond issue with annual payments ranging from \$145,000 to \$155,000 plus interest of 2.65%, paid off in 2018	---
Bus note payables with one yearly payment ranging from \$27,220 to \$29,332 plus interest at 4%.	157,721
Vehicle note payable with quarterly payments ranging from \$900 to \$1,100 plus interest at 4.0048% and a vehicle note payable with an annual payment ranging from \$4,000 to \$4,700 plus interest at 4%.	6,169
Bond issuance premium	912,145
Total principal payable	<u>12,821,035</u>
Interest payable	<u>5,475,142</u>
Total long-term debt payable	<u><u>\$ 18,296,177</u></u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 475,085	\$ 521,404	\$ 996,489
2021	481,817	498,452	980,269
2022	523,090	474,679	997,769
2023	568,898	448,857	1,017,755
2024	480,000	420,750	900,750
2025-2029	2,760,000	1,721,000	4,481,000
2030-2034	3,400,000	1,062,000	4,462,000
2035-2038	3,220,000	328,000	3,548,000
	<u>\$ 11,908,890</u>	<u>\$ 5,475,142</u>	<u>\$ 17,384,032</u>

NOTE I – Risk Management

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

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

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

Plan Description

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

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

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

Benefits Provided – Overall

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

Benefits Provided – Pension

Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

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

Benefits Provided – OPEB

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

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

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions and Funded Status

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

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

District pension and OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2017, valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

The schedule below summarizes pension and OPEB contribution rates in effect for fiscal year ended September 30, 2018:

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	17.89%
Member Investment Plan	3.0 - 7.0	17.89
Pension Plus	3.0 - 6.4	16.61
Pension Plus 2	6.2	19.74
Defined Contribution	0.0	13.54

OPEB Contribution Rates

Benefit Structure	Member	Employer
Premium Subsidy	3.0%	6.44%
Personal Healthcare Fund (PHF)	0.0	6.13

Required contributions to the pension and OPEB plan from the District were \$830,291 and \$204,263, respectively, for the year ended September 30, 2018.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

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

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

At June 30, 2019, the District reported a liability of \$9,166,304 and \$2,501,443 for its proportionate share of the MPSERS net pension liability and net OPEB liability, respectively. The net pension and OPEB liabilities were measured as of September 30, 2018, and the total liabilities used to calculate the net pension and OPEB liabilities was determined by an actuarial valuation rolled forward from September 2017. The District's proportion of the net pension and OPEB liability was determined by dividing each employer's statutorily required pension and OPEB contributions to the system during the measurement period by the percent of pension and OPEB contributions required from all applicable employers during the measurement period. At September 30, 2018, the District's proportion was .03%, which is the same as its proportion measured as of September 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$1,196,135 and OPEB expense of \$140,476. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 42,533	\$ 66,610	\$ -	\$ 465,583
Changes of Assumptions	2,122,909	-	264,904	-
Net difference between projected and actual earnings on plan investments	-	626,742	-	96,136
Changes in proportion and differences between Employer contributions and proportionate share of contributions	200,940	24,262	85,272	819
District contributions subsequent to the measurement date	516,115	-	15,684	-
Total	\$ 2,882,497	\$ 717,614	\$ 365,860	\$ 562,538

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

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

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions and OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension and OPEB liability in the year ended June 30, 2019. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension and OPEB expense as follows:

Deferred (Inflow) and Deferred Outflow of
Resources by Year (To Be Recognized in Future
Pension & OPEB Expenses)

<u>Plan Year Ending September, 30</u>	<u>Pension Amount</u>	<u>OPEB Amount</u>
2019	\$ 653,815	\$ (54,931)
2020	510,377	(54,931)
2021	347,982	(54,931)
2022	136,594	(35,350)
2023	---	(12,219)
	<u>\$1,648,768</u>	<u>\$ (212,362)</u>

Actuarial Assumptions

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2017
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	7.15%
- MIP and Basic Plans (Non-Hybrid):	7.05%
- Pension Plus Plan (Hybrid):	7.0%
- Pension Plus 2 Plan:	6.0%
Projected Salary Increases:	2.75 – 11.55%, including wage inflation at 2.75%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.0% Year 12
Mortality:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For active members, 100% of the table rates were used. For retirees, 82% of the table rates were used for males and 78% of the table rates were used for females.

Other Assumptions:

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

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

Actuarial Assumptions (continued)

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension and OPEB liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5304 for pension and 5.6018 for OPEB
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2018 MPSERS Comprehensive Annual Financial Report found on the ORS website at (www.michigan.gov/orsschools).

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension and OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.7%
Private Equity Pools	18.0	9.2
International Equity Pools	16.0	7.2
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	3.9
Absolute Return Pools	15.5	5.2
Short Term Investment Pools	2.0	0.0
TOTAL	100.0%	

*Long term rate of return is net of administrative expenses and 2.3% inflation.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

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

Rate of Return

For the fiscal year ended September 30, 2018, the annual money-weighted rate of return on pension and OPEB plan investment, net of pension and OPEB plan investment expense, was 11.11% and 10.75%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.05% and 7.15% was used to measure the total pension (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan provided through non-university employers only) and OPEB liability, respectively. This discount rate was based on the long term expected rate of return on pension plan investments of 7.05% (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2) and OPEB plan investments of 7.15%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the District's proportionate share of the net pension and OPEB liability calculated using the discount rate of 7.05% (7.0% for the Hybrid Plan) and 7.15%, respectively, as well as what the District's proportionate share of the net pension and OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	<u>1% Decrease</u>	<u>Current Single Discount Rate Assumption</u>	<u>1% Increase</u>
	<i>6.0 / 6.0% / 6.5% Pension</i>	<i>7.05 / 7.0 / 6.0% Pension</i>	<i>8.05 / 8.0 / 7.0% Pension</i>
	<i>6.15% OPEB</i>	<i>7.15% OPEB</i>	<i>8.15% OPEB</i>
Pension	\$12,034,650	\$9,166,304	\$6,783,176
OPEB	\$3,002,931	\$2,501,443	\$2,079,630

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

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

Sensitivity of the District's proportionate share of the net OPEB liability to Healthcare Cost Trend Rate

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
OPEB	\$2,057,409	\$2,501,443	\$3,010,840

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

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued 2018 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

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

At June 30, 2018, there were reported payables to MPSERS of \$80,929.

NOTE K – Commitments and Contingencies

Grant Programs

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2019, may be impaired. In the opinion of the District's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Unemployment

The District is a reimbursing employer to the Michigan Employment Security Agency (MESA) and as such is responsible to pay the MESA for those benefits charged to its account. As of June 30, 2019, 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.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2019**

NOTE K – Commitments and Contingencies (continued)

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 L – Upcoming Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The District is currently evaluating the impact this standard will have on the financial statement when adopted during the District's 2019-2020 fiscal year.

In June 2017, the GASB issued Statement No. 87, *Leases*. The Statement requires recognition of certain lease assets and liabilities that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The District is currently evaluating the impact this standard will have on the financial statement when adopted during the District's 2020-2021 fiscal year.

NOTE M – Subsequent Events

Management has evaluated subsequent events through October 28, 2019, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Budget Comparison Schedule - General Fund
For the Year Ended June 30, 2019**

	Budgeted Amounts			Variance with Final Budget Fav (Unfav)
	Original	Final	Actual	
REVENUES				
Local sources				
Property taxes	\$ 272,812	\$ 292,200	\$ 291,955	\$ (245)
Earnings on investments	285	3,500	3,513	13
Other local revenue	120,893	119,738	120,078	340
Intermediate sources	584,481	566,286	567,011	725
State sources				
Unrestricted school aid	3,702,711	3,960,217	3,922,805	(37,412)
Restricted school aid	751,187	787,374	831,756	44,382
Federal sources	143,833	139,496	138,054	(1,442)
Total Revenues	5,576,202	5,868,811	5,875,172	6,361
EXPENDITURES				
Instruction				
Basic programs	2,474,522	2,655,746	2,670,508	(14,762)
Added needs	610,126	640,141	614,974	25,167
Total Instruction	3,084,648	3,295,887	3,285,482	10,405
Support services				
Pupil services	273,384	296,480	286,184	10,296
Instructional	171,361	200,247	197,879	2,368
General administration	235,577	253,347	266,475	(13,128)
Schools administration	389,247	416,515	410,596	5,919
Business services	103,902	108,983	108,764	219
Operations/maintenance	531,365	503,095	492,234	10,861
Transportation	463,908	436,460	427,678	8,782
Other support services	202,390	207,642	205,469	2,173
Community services	23,468	23,775	16,547	7,228
Total Support Services	2,394,602	2,446,544	2,411,826	34,718
Capital outlay	32,400	3,449	3,449	-
Debt service	76,908	84,407	81,346	3,061
Total Expenditures	5,588,558	5,830,287	5,782,103	48,184
Excess (Deficiency) of Revenues Over Expenditures	(12,356)	38,524	93,069	54,545
OTHER FINANCING SOURCES (USES)				
Operating transfers in	15,000	15,000	15,000	-
Total Other Financing Sources	15,000	15,000	15,000	-
Net Change in Fund Balance	\$ 2,644	\$ 53,524	\$ 108,069	\$ 54,545

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

	2018	2017	2016	2015	2014
A. Reporting unit's proportion of net pension liability (%)	0.03049%	0.03034%	0.02939%	0.02905%	0.02950%
B. Reporting unit's proportionate share of net pension liability	\$ 9,166,304	\$ 7,780,404	\$ 7,332,155	\$ 7,096,220	\$ 6,497,525
C. Reporting unit's covered - employee payroll	\$ 2,694,895	\$ 2,567,051	\$ 2,540,127	\$ 2,481,895	\$ 2,533,142
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	340.14%	303.09%	288.65%	285.92%	256.50%
E. Plan fiduciary net position as a percentage of total pension liability	62.36%	64.21%	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years which information is available.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
A. Statutorily required contributions	\$ 830,291	\$ 704,214	\$ 659,931	\$ 560,471	\$ 458,132
B. Contributions in relation to statutorily required contributions*	<u>830,291</u>	<u>704,214</u>	<u>659,931</u>	<u>560,471</u>	<u>458,132</u>
C. Contribution deficiency (excess)	<u>\$ -</u>				
D. Reporting unit's covered-employee payroll	\$ 2,734,873	\$ 2,664,103	\$ 2,537,274	\$ 2,408,531	\$ 2,487,437
E. Contributions as a percentage of covered-employee payroll	30.36%	26.43%	26.01%	23.27%	18.42%

* Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to MPSERS, which may differ from the statutorily required contributions.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years which information is available.

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

	<u>2018</u>	<u>2017</u>
A. Reporting unit's proportion of net OPEB liability (%)	0.03147%	0.03034%
B. Reporting unit's proportionate share of net OPEB liability	\$ 2,501,443	\$ 2,686,619
C. Reporting unit's covered - employee payroll	\$ 2,694,895	\$ 2,567,051
D. Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%)	92.82%	104.66%
E. Plan fiduciary net position as a percentage of total OPEB liability	42.95%	36.39%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years which information is available.

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

	<u>2019</u>	<u>2018</u>
A. Statutorily required OPEB contributions	\$ 204,263	\$ 236,198
B. OPEB contributions in relation to statutorily required contributions*	<u>204,263</u>	<u>236,198</u>
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
D. Reporting unit's covered payroll (OPEB)	\$ 2,734,873	\$ 2,664,103
E. OPEB contributions as a percentage of covered-employee payroll	7.47%	8.87%

* Contributions in relation to statutorily required OPEB contributions are the contributions a reporting unit actually made to the OPEB plan, which may differ from the statutorily required contributions.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years which information is available.

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to Required Supplementary Information
For the Year Ended June 30, 2019**

Pension Information

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

Benefit Changes

There were no changes in benefit terms in 2018.

Changes in Assumptions

The discount rate for the September 30, 2018 annual actuarial valuation decreased to 7.05% (7.0% Pension Plus, 6.0% Pension Plus 2) from 7.5% (7.0% Pension Plus). The wage inflation rate decreased to 2.75% from 3.5%. Projected salary increases decreased to 2.75-11.55% from 3.5-12.3%.

Covered Payroll

Covered payroll represents payroll on which contributions to the plans are based.

OPEB Information

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

Benefit Changes

There were no changes in benefit terms in 2018.

Changes in Assumptions

The discount rate for the September 30, 2018 annual actuarial valuation decreased to 7.15% from 7.5%. The wage inflation rate decreased to 2.75% from 3.5%. The investment rate of return reduced to 7.15% from 7.5%. The healthcare cost trend rate is now 7.5% in Year 1 graded to 3.0% in Year 12, which varies from the 7.5% Year 1 graded to 3.5% in Year 12 used in the previous year. Projected salary increases decreased to 2.75-11.55% from 3.5-12.3%.

Covered Payroll

Covered payroll represents payroll on which contributions to the plans are based.

OTHER SUPPLEMENTARY INFORMATION

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Balance Sheet - Non-Major Governmental Funds
June 30, 2019**

	<u>Food Service Fund</u>	<u>2008 Debt Service</u>	<u>2011 Debt Service</u>	<u>2018 Debt Service</u>	<u>Total</u>
ASSETS					
Cash	\$ 36,121	\$ -	\$ 21,042	\$ 301,595	\$ 358,758
Due from other funds	7,073	-	-	-	7,073
Due from other governments	1,619	-	-	-	1,619
Inventory	2,800	-	-	-	2,800
Total Assets	<u>\$ 47,613</u>	<u>\$ -</u>	<u>\$ 21,042</u>	<u>\$ 301,595</u>	<u>\$ 370,250</u>
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 335	\$ -	\$ -	\$ -	\$ 335
Due to students	3,480	-	-	-	3,480
	<u>3,815</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,815</u>
Fund Balances					
Nonspendable	2,800	-	-	-	2,800
Restricted for:					
Food service	40,998	-	-	-	40,998
Debt	-	-	21,042	301,595	322,637
Total Fund Balances	<u>43,798</u>	<u>-</u>	<u>21,042</u>	<u>301,595</u>	<u>366,435</u>
Total Liabilities and Fund Balance	<u>\$ 47,613</u>	<u>\$ -</u>	<u>\$ 21,042</u>	<u>\$ 301,595</u>	<u>\$ 370,250</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Statement of Revenues, Expenditures and Changes in Fund
Balances - Non-Major Governmental Funds
For the Year Ended June 30, 2019**

	<u>Food Service Fund</u>	<u>2008 Debt Service</u>	<u>2011 Debt Service</u>	<u>2018 Debt Service</u>	<u>Total</u>
Revenues					
Local Sources	\$ 71,899	\$ -	\$ 152,581	\$ 739,073	\$ 963,553
State Sources	8,854	-	-	-	8,854
Federal Sources	196,587	-	-	-	196,587
Total Revenues	<u>277,340</u>	<u>-</u>	<u>152,581</u>	<u>739,073</u>	<u>1,168,994</u>
Expenditures					
Food service	239,228	-	-	-	239,228
Debt service	-	-	154,505	513,646	668,151
Total Expenditures	<u>239,228</u>	<u>-</u>	<u>154,505</u>	<u>513,646</u>	<u>907,379</u>
Excess (Deficiency) of Revenues over Expenditures	38,112	-	(1,924)	225,427	261,615
Other Financing Sources(Uses)					
Payment to escrow agent	-	-	-	(1,362,933)	(1,362,933)
Net proceeds from refunding bond	-	-	-	1,265,000	1,265,000
Bond premium	-	-	-	80,433	80,433
Transfers from other funds	-	-	-	93,668	93,668
Transfers to other funds	(15,000)	(93,668)	-	-	(108,668)
Total other financing sources (uses)	<u>(15,000)</u>	<u>(93,668)</u>	<u>-</u>	<u>76,168</u>	<u>(32,500)</u>
Net Change in Fund Balances	23,112	(93,668)	(1,924)	301,595	229,115
Fund Balances, Beginning of Year	20,686	93,668	22,966	-	137,320
Fund Balances, End of Year	\$ 43,798	\$ -	\$ 21,042	\$ 301,595	\$ 366,435

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Changes in Long-Term Debt
For the Year Ended June 30, 2019**

	Balance at July 1, 2018	Additions	Deductions	Balance at June 30, 2019
2008 Refunding	\$ 1,345,000	\$ -	\$ (1,345,000)	\$ -
Interest related to 2008 current refunding bond issue	166,350	-	(166,350)	-
2011 Refunding	150,000	-	(150,000)	-
Interest related to 2011 current refunding bond issue	3,975	-	(3,975)	-
2018 Refunding	-	1,265,000	(235,000)	1,030,000
Interest related to 2018 current refunding bond issue	-	175,133	(46,383)	128,750
2018 Bond	-	10,715,000	-	10,715,000
Interest related to 2018 current refunding bond issue	-	5,563,750	(231,750)	5,332,000
Bond Premium	-	972,853	(60,708)	912,145
Bus note payables	214,273	-	(56,552)	157,721
Interest related to buses	23,001	-	(8,690)	14,311
Vehicle note payables	12,370	-	(6,201)	6,169
Interest related to vehicles	630	-	(550)	80
Total	\$ 1,915,599	\$ 18,691,736	\$ (2,311,159)	\$ 18,296,176

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedules of Maturities of Bonded Debt
June 30, 2019**

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018 BOND ISSUE				
Principal payment due	May 1			
Interest payments due	May 1 and November 1			
Interest rate	4.0 to 5.0%			
Original issue	\$10,715,000			
Payments due for years ending June 30:				
2020		\$ 155,000	\$ 463,500	\$ 618,500
2021		190,000	455,750	645,750
2022		230,000	446,250	676,250
2023		280,000	434,750	714,750
2024		480,000	420,750	900,750
2025		500,000	396,750	896,750
2026		525,000	371,750	896,750
2027		550,000	345,500	895,500
2028		580,000	318,000	898,000
2029		605,000	289,000	894,000
2030		630,000	264,800	894,800
2031		655,000	239,600	894,600
2032		680,000	213,400	893,400
2033		705,000	186,200	891,200
2034		730,000	158,000	888,000
2035		760,000	128,800	888,800
2036		790,000	98,400	888,400
2037		820,000	66,800	886,800
2038		850,000	34,000	884,000
TOTALS		<u>\$ 10,715,000</u>	<u>\$ 5,332,000</u>	<u>\$ 16,047,000</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedules of Maturities of Bonded Debt
June 30, 2019**

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018 Refunding Bond Issue				
Principal payment due	May 1			
Interest payments due	May 1 and November 1			
Interest rates	4.0% to 5.0%			
Original issue	\$1,265,000			
Payments due for years ending June 30:				
2020		\$ 255,000	\$ 51,500	\$ 306,500
2021		260,000	38,750	298,750
2022		260,000	25,750	285,750
2023		255,000	12,750	267,750
TOTALS		<u>\$ 1,030,000</u>	<u>\$ 128,750</u>	<u>\$ 1,158,750</u>

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedule of Findings and Responses
June 30, 2019**

FINDINGS AND RESPONSES

No matters were reported.

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Climax-Scotts Community Schools (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 28, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Seber Tans, PLC

Seber Tans, PLC
Kalamazoo, Michigan

October 28, 2019