



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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2021

SEBER TANS, PLC
CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

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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, 2021, 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, 2021, 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 25, 2021, 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 25, 2021

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2021
Management's Discussion and Analysis**

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

This 2021 annual financial report is written in conjunction with the District's financial statements, which immediately follow this section. In this financial report, the Climax-Scotts Community Schools present their discussion and analysis of the school's financial condition for the fiscal year ended June 30, 2021.

Using this Annual Report

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

Reporting the District as a Whole – Financial Statements

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2021
Management's Discussion and Analysis**

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

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

Statement of Net Position

A summary of the District's net position as of June 30, 2021 and 2020, are as follows:

| | 2021 | 2020 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current assets | \$ 4,144,066 | \$ 7,740,929 |
| Capital assets, net book value | 13,839,124 | 10,417,310 |
| TOTAL ASSETS | <u>17,983,190</u> | <u>18,158,239</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred amount on pension and OPEB | 2,615,906 | 3,265,014 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 20,599,096 | \$ 21,423,253 |
| LIABILITIES | | |
| Current liabilities | \$ 2,164,192 | \$ 2,602,580 |
| Long-term liabilities | 23,197,987 | 24,137,182 |
| TOTAL LIABILITIES | <u>25,362,179</u> | <u>26,739,762</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred amount on pension and OPEB | 1,403,355 | 1,271,805 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF ASSETS | \$ 26,765,534 | \$ 28,011,567 |
| NET POSITION | | |
| Net investment in capital assets | 2,527,616 | 2,296,432 |
| Restricted | 607,278 | 493,494 |
| Unrestricted | (9,301,332) | (9,378,240) |
| TOTAL NET POSITION | \$ (6,166,438) | \$ (6,588,314) |

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2021
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, 2021, by \$421,876. In comparison, during the fiscal year ended June 30, 2020, the District's net position decreased by \$518,364.

| REVENUES | 2021 | 2020 |
|---------------------------------------|-------------------|---------------------|
| Program revenues: | | |
| Charges for services | \$ 38,905 | \$ 90,913 |
| Operating grants | 2,382,452 | 1,594,640 |
| General revenues: | | |
| Property taxes | 1,477,265 | 1,475,369 |
| State foundation allowance | 4,352,917 | 4,044,141 |
| Interest and investment earnings | 10,454 | 119,854 |
| Other | 165,438 | 168,019 |
| TOTAL REVENUES | 8,427,431 | 7,492,936 |
| EXPENSES | | |
| Instruction and instructional support | 4,115,171 | 4,217,737 |
| Support services | 2,575,493 | 2,351,885 |
| Capital outlay | 106,712 | 328,495 |
| Food services | 267,056 | 253,560 |
| Student activities | 62,843 | 66,923 |
| Interest on long-term debt | 438,801 | 467,753 |
| Depreciation (unallocated) | 439,479 | 324,948 |
| TOTAL EXPENSES | 8,005,555 | 8,011,300 |
| CHANGE IN NET POSITION | \$ 421,876 | \$ (518,364) |

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

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2021
Management's Discussion and Analysis**

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

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

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

Approximately 64% of the District's revenues are received from unrestricted state sources and local tax. This unrestricted aid from the State of Michigan is based on three variables:

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

Per Student Foundation Allowance

The foundation allowance that Districts receive is established by the State of Michigan annually. For fiscal year ended June 30, 2021, the allowance was \$8,111 per student FTE. This is the same amount per student as the 2019-20 foundation allowance.

Student Enrollment

Climax-Scotts Community Schools' blended membership count for the 2020-2021 school year was 573.68 students, which includes students enrolled in our online alternative education program. The student FTE for the previous five years was as follows:

| | |
|-----------|--------|
| 2015-2016 | 492.18 |
| 2016-2017 | 503.23 |
| 2017-2018 | 488.82 |
| 2018-2019 | 529.87 |
| 2019-2020 | 553.01 |

Our blended student enrollment for the 2020-2021 school year of 573.68 students was based on 75% of the 2019-2020 blended count plus 22.5% of the October 2020 count plus 2.5% of the February 2021 count.

Property Taxes Levied for General Operations

Climax-Scotts Community Schools levies 18 mills on non-homestead property, which generates revenue for General Fund operations. Under Michigan law, the taxable levy is based on the taxable valuation of properties within each school district. Annually the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. Climax-Scotts Community School levied 18 mills for operations for the 2020-2021 tax year, generating \$324,615. This represents a 3.00% decrease in tax revenue. Both Calhoun and Kalamazoo County Treasurers settled their delinquent tax accounts with our school district prior to June 30, 2021.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2021
Management's Discussion and Analysis**

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

| | | |
|-----------|-----------|-----------------|
| 2015-2016 | \$279,069 | Increase of 1% |
| 2016-2017 | \$276,008 | Decrease of 1% |
| 2017-2018 | \$275,025 | Decrease of 1% |
| 2018-2019 | \$287,163 | Increase of 4% |
| 2019-2020 | \$334,662 | Increase of 17% |

Capital Assets

Deyo & Associates of Kalamazoo, Michigan completed the District's most recent asset appraisal for the fiscal year ended June 30, 2021. 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, 2021, the District had capital assets net of accumulated depreciation, totaling \$13,839,124, 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 \$3,421,814 from fiscal year ended June 30, 2020. A summary of capital assets is as follows:

| | 2021 | 2020 |
|--------------------------------|----------------------|----------------------|
| Buildings and improvements | \$ 17,211,055 | \$ 13,349,762 |
| Outdoor equipment | 1,015,674 | 1,015,674 |
| Equipment | 604,679 | 604,679 |
| Vehicles and tractors | 809,050 | 809,050 |
| | 19,640,458 | 15,779,165 |
| Less: accumulated depreciation | (5,801,334) | (5,361,855) |
| NET CAPITAL ASSETS | \$ 13,839,124 | \$ 10,417,310 |

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2021
Management's Discussion and Analysis**

Long-Term Obligations

At the end of fiscal year ended June 30, 2021, the District had a balance of \$16,198,003 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, 2020, of \$17,238,980, this represents a net decrease in long-term obligations of \$1,040,977. Reference page 46 for activity in long-term obligations, which consist of the following:

| | Balance at July 1, 2020 | Additions | Deductions | Balance at June 30, 2021 |
|--|--|------------------|--------------------------|---|
| 2018 Refunding Interest related to 2018 current refunding bond issue | \$ 775,000 77,250 | \$ - - | \$ (260,000) (38,750) | \$ 515,000 38,500 |
| 2018 School Building and Site Interest related to 2018 school building and site bond issue | 10,560,000 4,868,500 | - - | (190,000) (455,750) | 10,370,000 4,412,750 |
| Bond premiums | 851,437 | - | (60,708) | 790,729 |
| Bus note payables | 98,805 | - | (31,817) | 66,988 |
| Interest related to buses | 7,988 | - | (3,952) | 4,036 |
| Total | \$17,238,980 | \$ - | \$ (1,040,977) | \$16,198,003 |

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 2020-2021 was approved on June 22, 2020, and the Board approved a final amendment to that budget on June 21, 2021.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
For the Year End June 30, 2021
Management's Discussion and Analysis**

General Fund Revenues

| | |
|---------------------------------------|------------------|
| Total Revenues – Final Revised Budget | \$7,009,682 |
| Total Revenues – Original Budget | <u>5,814,085</u> |
| | \$1,195,597 |

The District's final budgeted General Fund revenues were more than the original budget by \$1,195,597. The increase in revenue from the original budget was largely increase in State and Federal grants due to the relief funding provided to schools.

General Fund Expenditures

| | |
|--|------------------|
| Total Expenditures/Other Financing Uses – Final Revised Budget | \$6,985,586 |
| Total Expenditures/Other Financing Uses – Original Budget | <u>6,009,419</u> |
| | \$ 976,167 |

The District's final budgeted General Fund expenditures and other financing uses were more than the original budget by \$976,167. The most significant increases from the originally approved budget are as follows:

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

Economic Factors and Next Year's Budget and Rates

Many factors were considered when setting the School District's 2021-2022 fiscal year budget. One of the most important factors affecting the budget again this year is COVID-19. The district will be awarded approximately \$800,000 in ESSER III funds. Despite the pandemic, the economic outlook for our school district is looking very positive for the 2021-2022 school year.

Since much of our revenue is calculated on a per pupil basis, the district's financial health is impacted in large part by the number of pupils enrolled. Between 2019-20 and 2020-21, the blended pupil count increased by 3.6%. Preliminary numbers for the fall of 2021 indicate another 4.4% increase over the 2020-2021 school year. The state of Michigan budget for the 2021-22 fiscal year increased per-pupil funding \$589, from \$8,111 to \$8,700.

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

Climax-Scotts Community School's general fund balance at fiscal year end June 30, 2021, is \$1,463,522 (\$504,189 increase from June 30, 2020) or approximately 22.53% of its operating expenditures. The recommended fund equity for school districts is maintain at least 15% of operating expenditures.

Request for Information

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Statement of Net Position
June 30, 2021**

ASSETS

| | | |
|----------------------------|----|-----------|
| Current Assets | | |
| Cash | \$ | 2,867,599 |
| Investments | | 382 |
| Due from other governments | | 1,267,880 |
| Inventory | | 2,265 |
| Prepaid expenses | | 5,940 |
| Total Current Assets | | 4,144,066 |

| | | |
|---|--|------------|
| Property and Equipment | | |
| Capital assets, net of accumulated depreciation | | 13,839,124 |
| Total Assets | | 17,983,190 |

DEFERRED OUTFLOWS OF RESOURCES

| | | |
|--|-----------|-------------------|
| Deferred amount related to other postemployment benefits | | 630,717 |
| Deferred amount related to pensions | | 1,985,189 |
| Total Deferred Outflows of Resources | | 2,615,906 |
| Total Assets and Deferred Outflows of Resources | \$ | 20,599,096 |

LIABILITIES

| | | |
|---|----|------------|
| Current Liabilities | | |
| Accounts payable | \$ | 641,145 |
| Unearned revenue | | 11,605 |
| Accrued payroll and related withholdings | | 490,783 |
| State aid note payable | | 423,812 |
| Due to other governmental units | | 73,757 |
| Current maturities of long-term debt | | 33,090 |
| Current maturities of bonds payable | | 490,000 |
| Total Current Liabilities | | 2,164,192 |
| Long-Term Debt, net of current maturities | | 33,898 |
| Bonds Payable, net of current maturities | | 11,185,729 |
| Net Postemployment Benefits Liability | | 1,653,162 |
| Net Pension Liability | | 10,324,243 |
| Accrued Interest | | 955 |
| Total Liabilities | | 25,362,179 |

DEFERRED INFLOWS OF RESOURCES

| | | |
|--|-----------|-------------------|
| Deferred amount related to other postemployment benefits | | 1,270,341 |
| Deferred amount related to pensions | | 133,014 |
| Total Deferred Inflows of Resources | | 1,403,355 |
| Total Liabilities and Deferred Inflows of Resources | \$ | 26,765,534 |

NET POSITION

| | | |
|----------------------------------|-----------|--------------------|
| Net investment in capital assets | | 2,527,616 |
| Restricted for: | | |
| Debt | | 364,872 |
| Food service | | 152,229 |
| Student activities | | 90,177 |
| Unrestricted | | (9,301,332) |
| Total Net Position | \$ | (6,166,438) |

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Statement of Activities
For the Year Ended June 30, 2021**

| | Program Revenue | | | Governmental Activities Net (Expense) | |
|--|------------------------|----------------------------|--|--|--------------------------------|
| | Expenses | Charges for Service | Operating Grants/ Contributions | Revenue and | Changes in Net Position |
| Functions/Programs | | | | | |
| Governmental activities: | | | | | |
| Instruction & instructional support | \$ (4,115,171) | \$ 22,507 | \$ 2,050,240 | \$ (2,042,424) | |
| Support services | (2,575,493) | - | - | (2,575,493) | |
| Capital Outlay | (106,712) | - | - | (106,712) | |
| Food services | (267,056) | 16,398 | 332,212 | 81,554 | |
| Student Activities | (62,843) | - | - | (62,843) | |
| Interest on long-term debt | (438,801) | - | - | (438,801) | |
| Depreciation (unallocated) | (439,479) | - | - | (439,479) | |
| Total Governmental Activity | \$ (8,005,555) | \$ 38,905 | \$ 2,382,452 | \$ (5,584,198) | |
| General Revenues: | | | | | |
| Taxes: | | | | | |
| Property taxes, levied for general obligations | | | | 507,015 | |
| Property taxes, levied for debt service | | | | 970,250 | |
| State of Michigan aid, unrestricted | | | | 4,352,917 | |
| Interest and investment earnings | | | | 10,454 | |
| Miscellaneous revenue | | | | 165,438 | |
| Total General Revenues | | | | 6,006,074 | |
| Change in Net Position | | | | 421,876 | |
| Net Position, Beginning of Year | | | | (6,588,314) | |
| Net Position, End of Year | | | | \$ (6,166,438) | |

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Balance Sheet - Governmental Funds and the Reconciliation of the
Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2021**

| | General Fund | 2018 Capital Projects | 2018 Debt Service | Other Non-Major Governmental | Total Governmental |
|--|---------------------|-----------------------|-------------------|------------------------------|-----------------------|
| ASSETS | | | | | |
| Cash | \$ 1,326,865 | \$ 954,663 | \$ 364,642 | \$ 221,429 | \$ 2,867,599 |
| Investments | - | 382 | - | - | 382 |
| Due from other funds | - | - | - | 253 | 253 |
| Due from other governments | 1,240,190 | - | 230 | 27,460 | 1,267,880 |
| Prepaid expenses | 5,940 | - | - | - | 5,940 |
| Inventory | - | - | - | 2,265 | 2,265 |
| Total Assets | \$ 2,572,995 | \$ 955,045 | \$ 364,872 | \$ 251,407 | \$ 4,144,319 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 113,832 | \$ 523,836 | \$ - | \$ 3,477 | \$ 641,145 |
| Due to other funds | 253 | - | - | - | 253 |
| Due to other governmental units | 73,757 | - | - | - | 73,757 |
| Salaries payable and related withholdings | 490,783 | - | - | - | 490,783 |
| Accrued interest | 955 | - | - | - | 955 |
| State aid note payable | 423,812 | - | - | - | 423,812 |
| Total Liabilities | \$ 1,103,392 | \$ 523,836 | \$ - | \$ 3,477 | \$ 1,630,705 |
| Deferred Inflows of Resources | | | | | |
| Unearned revenue | 6,081 | - | - | 5,524 | 11,605 |
| Total Liabilities and Deferred Inflows of Resources | \$ 1,109,473 | \$ 523,836 | \$ - | \$ 9,001 | \$ 1,642,310 |
| Fund Balances | | | | | |
| Nonspendable | 5,940 | - | - | 2,265 | 8,205 |
| Restricted for: | | | | | |
| Debt | - | - | 364,872 | - | 364,872 |
| Food service | - | - | - | 149,964 | 149,964 |
| Student activities | - | - | - | 90,177 | 90,177 |
| Capital Projects | - | 431,209 | - | - | 431,209 |
| Unassigned | 1,457,582 | - | - | - | 1,457,582 |
| Total Fund Balances | \$ 1,463,522 | \$ 431,209 | \$ 364,872 | \$ 242,406 | \$ 2,502,009 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | | | | | |
| | \$ 2,572,995 | \$ 955,045 | \$ 364,872 | \$ 251,407 | \$ 4,144,319 |
| Reconciliation of the balance sheet - governmental funds to the statement of net position: | | | | | |
| Total governmental fund balances | | | | | \$ 2,502,009 |
| 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 | | | | 19,640,458 | |
| Accumulated depreciation is | | | | (5,801,334) | 13,839,124 |
| Deferred inflows related to other postemployment benefits | | | | | (1,270,341) |
| Deferred inflows related to pensions | | | | | (133,014) |
| Deferred outflows related to other postemployment benefits | | | | | 630,717 |
| Deferred outflows related to pensions | | | | | 1,985,189 |
| Long term liabilities that are not due and payable in the current period and are not reported in the funds: | | | | | |
| Net other postemployment liability | | | | | (1,653,162) |
| Net pension liability | | | | | (10,324,243) |
| Bonds payable | | | | | (11,675,729) |
| Long-term debt | | | | | (66,988) |
| Net Position of Governmental Activities | | | | | \$ (6,166,438) |

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2021**

| | General Fund | 2018 Capital Projects | 2018 Debt Service | Other Non-Major Governmental | Total Governmental |
|--|-------------------------|----------------------------------|------------------------------|---|-------------------------------|
| Revenues | | | | | |
| Local sources | \$ 416,233 | \$ 38,847 | \$ 970,250 | \$ 85,888 | \$ 1,511,218 |
| Intermediate sources | 646,022 | - | - | - | 646,022 |
| State sources | 5,335,474 | - | - | 9,106 | 5,344,580 |
| Federal sources | 602,505 | - | - | 323,106 | 925,611 |
| Total Revenues | 7,000,234 | 38,847 | 970,250 | 418,100 | 8,427,431 |
| Expenditures | | | | | |
| Education | | | | | |
| Instruction | 3,687,890 | - | - | - | 3,687,890 |
| Support services | 2,575,493 | - | - | - | 2,575,493 |
| Capital outlay | 196,003 | 3,772,002 | - | - | 3,968,005 |
| Food service | - | - | - | 267,056 | 267,056 |
| Student activities | - | - | - | 62,843 | 62,843 |
| Debt service | 36,406 | - | 944,920 | - | 981,326 |
| Total Expenditures | 6,495,792 | 3,772,002 | 944,920 | 329,899 | 11,542,613 |
| Excess (Deficiency) of Revenues Over Expenditures | 504,442 | (3,733,155) | 25,330 | 88,201 | (3,115,182) |
| Other Financing Sources (Uses) | | | | | |
| Operating transfers in | - | - | - | 253 | 253 |
| Operating transfers out | (253) | - | - | - | (253) |
| Total Other Financing Sources | (253) | - | - | 253 | - |
| Net Change in Fund Balances | 504,189 | (3,733,155) | 25,330 | 88,454 | (3,115,182) |
| Fund Balances, Beginning of Year | 959,333 | 4,164,364 | 339,542 | 153,952 | 5,617,191 |
| Fund Balances, End of Year | \$ 1,463,522 | \$ 431,209 | \$ 364,872 | \$ 242,406 | \$ 2,502,009 |

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

**Climax-Scotts Community Schools
 Kalamazoo and Calhoun Counties Michigan
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
 Balances - Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2021**

| | |
|--|--------------------------|
| Net change in fund balances - total governmental funds | \$ (3,115,182) |
| 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: | |
| Loss on disposal | - |
| Depreciation expense | (439,479) |
| Capital outlay | <u>3,861,293</u> |
| | 3,421,814 |
| Governmental funds report proceeds from debt as revenue, but not in the statement of activities (where it increases long-term debt payable). - | |
| 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). | 510,708 |
| 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). | 31,817 |
| 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). | 257,913 |
| 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>(685,194)</u> |
| Change in Net Position of Governmental Activities | \$ <u>421,876</u> |

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

NOTE A – Summary of Significant Accounting Policies

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

Reporting Entity

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

District-Wide Financial Statements

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

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

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

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

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.

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

The District reports the following non-major governmental funds:

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

NOTE A – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Position or Equity

Deposits and Investments

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

Receivables and Payables

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

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

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

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

Property Taxes

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

For the year ended June 30, 2021, the District's non-homestead property tax collections were approximately \$507,000. This is a 4.9% decrease from the prior year.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

NOTE A – Summary of Significant Accounting Policies (Continued)

The District levies 7.3 mills of property taxes on all classes of property located within the District for bonded debt retirement. This levy is not subject to rollback provisions and is used to pay the principal and interest on bond obligations. The total amount collected for debt retirement during the year ended June 30, 2021 was approximately \$970,000. This is a 3.0% increase from the prior year.

Inventories and Prepaid Costs

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

Capital Assets

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

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

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

Compensated Absences (Vacation and Sick Leave)

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

Deferred Outflows/Inflows of Resources

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

NOTE A – Summary of Significant Accounting Policies (Continued)

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

Long-Term Obligations

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

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

Pension and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension and the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (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.

Comparative Data

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

Estimates

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

NOTE A – Summary of Significant Accounting Policies (Continued)

Fund Balance

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

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

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

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

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

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

NOTE B – Stewardship, Compliance, and Accountability

Budgetary Information

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

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

Excess of Expenditures Over Appropriations in Budgeted Funds

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

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

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

| | Amended Budget | Actual | Variance |
|---|---------------------------|---------------|-----------------|
| General Fund - Support Services – Business Services | \$ 147,620 | \$ 147,987 | \$ (367) |

NOTE C – Deposits and Investments

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

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

| | Governmental Activities |
|-------------|------------------------------------|
| Cash | \$ 2,867,599 |
| Investments | 382 |
| Total | <u><u>\$ 2,867,981</u></u> |

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

| | |
|--|----------------------------|
| Deposits (checking, savings accounts, money markets, certificates of deposits) | \$ 2,867,599 |
| Investments in cash management funds | 382 |
| | <u><u>\$ 2,867,981</u></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, 2021, \$2,626,000 of the District's bank balance of \$2,876,334 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

NOTE C – Deposits and Investments (Continued)

Custodial Credit Risk of Investments

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

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

| Issuer | Investment Type | Reported Amount | Rating by Standard & Poor's |
|--------|-------------------------------------|-----------------|-----------------------------|
| MILAF | MILAF+ Cash Mgmt Class (short-term) | \$ 382 | AAAm |

Foreign Currency Risk

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

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, 2021:

| | Level 1 | Level 2 | Level 3 |
|-------------------------|---------|---------|---------|
| Cash Funds (short-term) | \$ - | \$ 382 | \$ - |

NOTE D – Receivables and Unearned Revenue

At June 30, 2021, the District's receivables were reported in the basic financial statements as follows:

| Type | General Fund | Other Funds | Total |
|----------------------------|--------------|-------------|--------------|
| Due from other governments | \$ 1,240,190 | \$ 27,690 | \$ 1,267,880 |

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, 2021, grant and categorical aid payments received prior to meeting all eligibility requirements were \$11,605.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

NOTE E – Interfund Receivables, Payables and Transfers

The composition of interfund balances is as follows:

| Payable Fund | Receivable Fund | Amount |
|---------------------|------------------------|---------------|
| General Fund | Food Service Fund | \$ 253 |

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.

NOTE F – Capital Assets

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

| | Balance July 1, 2020 | Additions | Transfers | Deletions | Balance June 30, 2021 |
|---|-------------------------------------|----------------------------|--------------------|--------------------|--------------------------------------|
| Capital assets not depreciated: | | | | | |
| Construction in process | \$ 742,687 | \$ - | \$ (742,687) | \$ - | \$ - |
| Capital assets being depreciated: | | | | | |
| Buildings and improvements | 12,607,075 | 3,861,293 | 742,687 | - | 17,211,055 |
| Outdoor equipment | 1,015,674 | - | - | - | 1,015,674 |
| Equipment | 604,679 | - | - | - | 604,679 |
| Vehicles and tractors | 809,050 | - | - | - | 809,050 |
| Total | <u>15,036,478</u> | <u>3,861,293</u> | <u>742,687</u> | <u>-</u> | <u>19,640,458</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | 4,071,133 | 313,692 | - | - | 4,384,825 |
| Outdoor equipment | 375,197 | 36,103 | - | - | 411,300 |
| Equipment | 514,307 | 7,049 | - | - | 521,356 |
| Vehicles and tractors | 401,218 | 82,635 | - | - | 483,853 |
| | <u>5,361,855</u> | <u>439,479</u> | <u>-</u> | <u>-</u> | <u>5,801,334</u> |
| Total capital assets being depreciated, net | <u>9,674,623</u> | <u>3,421,814</u> | <u>742,687</u> | <u>-</u> | <u>13,839,124</u> |
| Net Capital Assets | <u>\$10,417,310</u> | <u>\$ 3,421,814</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$13,839,124</u> |

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

NOTE G – Long-Term Debt and Bond Compliance

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

Long-term obligation activity is summarized as follows:

| | Balance July 1, 2020 | Additions | Reductions | Balance June 30, 2021 | Amount due within one year |
|-------------------------------|-------------------------|--------------|---------------------|-----------------------------|----------------------------------|
| Government obligation bonds | \$ 11,335,000 | --- | \$ (450,000) | \$ 10,885,000 | \$ 490,000 |
| Bond issuance premium | 851,437 | --- | (60,708) | 790,729 | 60,708 |
| Bus and vehicle notes payable | 98,805 | --- | (31,817) | 66,988 | 33,090 |
| | <u>\$ 12,285,242</u> | <u>\$ --</u> | <u>\$ (542,525)</u> | <u>\$ 11,742,717</u> | <u>\$ 583,798</u> |

Bond Compliance

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

State Aid Anticipation Note

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

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

| | Balance July 1, 2020 | Proceeds | Accrued Interest | Repayments | Balance June 30, 2021 |
|-----------------------------|-------------------------|-------------------|---------------------|---------------------|-----------------------------|
| State Aid Anticipation Note | <u>\$ 94,064</u> | <u>\$ 740,000</u> | <u>\$ 955</u> | <u>\$ (411,207)</u> | <u>\$ 423,812</u> |

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

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

Long-term debt consisted of the following at June 30, 2021:

| | |
|---|-----------------------------|
| 2018 school building and site bond issue with annual payments ranging \$155,000 to \$850,000 plus interest of 4% | \$ 10,370,000 |
| Refunding bond issue of 2018 with annual payments ranging from \$235,000 to \$260,000 plus interest of 4% | 515,000 |
| Bus note payables with one yearly payment ranging from \$29,332 to \$33,898 plus interest at 4%. | 66,988 |
| Bond issuance premium | 790,729 |
| Total principal payable | <u>11,742,717</u> |
| Interest payable | 4,455,286 |
| Total long-term debt payable | <u>\$ 16,198,003</u> |

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

| | Principal | Interest | Total |
|-----------|----------------------|---------------------|----------------------|
| 2022 | \$ 523,090 | \$ 474,679 | \$ 997,769 |
| 2023 | 568,898 | 448,857 | 1,017,755 |
| 2024 | 480,000 | 420,750 | 900,750 |
| 2025 | 500,000 | 396,750 | 896,750 |
| 2026 | 525,000 | 371,750 | 896,750 |
| 2027-2031 | 3,020,000 | 1,456,900 | 4,476,900 |
| 2032-2036 | 3,665,000 | 784,800 | 4,449,800 |
| 2037-2038 | 1,670,000 | 100,800 | 1,770,800 |
| | <u>\$ 10,951,988</u> | <u>\$ 4,455,286</u> | <u>\$ 15,407,274</u> |

NOTE H – Net Investment in Capital Assets

The composition of the District's net investment in capital assets as of June 30, 2021 is as follows:

| | |
|---|---------------------|
| Capital Assets | |
| Capital assets, net of accumulated depreciation | \$ 13,839,124 |
| Related Debt | |
| Total principal payable | (11,742,717) |
| Unspent bond proceeds | 431,209 |
| Total Related Debt | <u>(11,311,508)</u> |
| Net Investment in Capital Assets | <u>\$ 2,527,616</u> |

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

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

Plan Description

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

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

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

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 and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

**NOTE I – 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 and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

**NOTE I – 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, 2018, valuation will be amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

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

Pension Contribution Rates

| Benefit Structure | Member | Employer |
|------------------------|------------|----------|
| Basic | 0.0 - 4.0% | 19.41% |
| Member Investment Plan | 3.0 - 7.0 | 19.41 |
| Pension Plus | 3.0 - 6.4 | 16.46 |
| Pension Plus 2 | 6.2 | 19.59 |
| Defined Contribution | 0.0 | 13.39 |

OPEB Contribution Rates

| Benefit Structure | Member | Employer |
|--------------------------------|--------|----------|
| Premium Subsidy | 3.0% | 8.09% |
| Personal Healthcare Fund (PHF) | 0.0 | 7.57 |

Required contributions to the pension and OPEB plan from the District were \$825,952 and \$218,022, respectively, for the year ended September 30, 2020.

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

**NOTE I – 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, 2021, the District reported a liability of \$10,324,243 and \$1,653,162 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, 2020, and the total liabilities used to calculate the net pension and OPEB liabilities was determined by an actuarial valuation rolled forward from September 2019. 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, 2020, the District's proportion was .03%, which is the same as its proportion measured as of September 30, 2019.

For the year ended June 30, 2021, the District recognized pension expense of \$1,547,427 and OPEB expense of \$(36,747). At June 30, 2021, 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 | \$ 157,746 | \$ 22,036 | - | \$ 1,231,760 |
| Changes of Assumptions | 1,144,026 | - | 545,080 | - |
| Net difference between projected and actual earnings on plan investments | 43,378 | - | 13,797 | - |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 61,472 | 110,978 | 50,802 | 38,581 |
| District contributions subsequent to the measurement date | 578,567 | - | 21,038 | - |
| Total | <u>\$ 1,985,189</u> | <u>\$ 133,014</u> | <u>\$ 630,717</u> | <u>\$ 1,270,341</u> |

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

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

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

**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> |
|---------------------------------------|---------------------------|------------------------|
| 2021 | \$ 616,492 | \$ (173,765) |
| 2022 | 407,723 | (154,564) |
| 2023 | 194,415 | (132,024) |
| 2024 | 54,978 | (113,574) |
| 2025 | - | (86,735) |
| | <u>\$1,273,608</u> | <u>\$ (660,662)</u> |

Actuarial Assumptions

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

**NOTE I – 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, 2019 |
| Actuarial Cost Method: | Entry Age, Normal |
| Wage Inflation Rate: | 2.75% |
| Investment Rate of Return: | 6.95% |
| - MIP and Basic Plans (Non-Hybrid): | 6.80% |
| - Pension Plus Plan (Hybrid): | 6.80% |
| - 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: | 7.0% Year 1 graded to 3.5% Year 15; 3.0% Year 120 |
| 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 and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

**NOTE I – 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 and OPEB valuations beginning with the September 30, 2017 valuation. The total pension and OPEB liability as of September 30, 2020, 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: 4.4892 for pension and 5.9870 for OPEB*
- *Recognition period for assets in years is 5.0000*
- *Full actuarial assumptions are available in the 2019 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, 2020, are summarized in the following table:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return* |
|--------------------------------------|-------------------|---|
| Domestic Equity Pools | 25.0% | 5.6% |
| Private Equity Pools | 16.0 | 9.3 |
| International Equity Pools | 15.0 | 7.4 |
| Fixed Income Pools | 10.5 | 0.5 |
| Real Estate and Infrastructure Pools | 10.0 | 4.9 |
| Absolute Return Pools | 9.00 | 3.2 |
| Real Return/Opportunistic Pools | 12.5 | 6.6 |
| Short Term Investment Pools | 2.0 | 0.1 |
| TOTAL | 100.0% | |

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

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

Rate of Return

For the fiscal year ended September 30, 2020, the annual money-weighted rate of return on pension and OPEB plan investment, net of pension and OPEB plan investment expense, was 5.37% and 5.24%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.80% and 6.95% was used to measure the total pension (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan provided through non-university employers only) and OPEB liability, respectively. This discount rate was based on the long term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2) and OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liability.

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

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

| | <u>1% Decrease</u> | <u>Current Single Discount Rate Assumption</u> | <u>1% Increase</u> |
|---------|--------------------|--|--------------------|
| | 5.80 / 5.80 / 5.0% | 6.80 / 6.80 / 6.0% | 7.80 / 7.80 / 7.0% |
| Pension | Pension | Pension | Pension |
| | 5.95% OPEB | 6.95% OPEB | 7.95% OPEB |
| Pension | \$13,362,982 | \$10,324,243 | \$7,805,807 |
| OPEB | \$2,123,675 | \$1,653,162 | \$1,257,030 |

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

**NOTE I – 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:

| | Current Healthcare Cost Trend Rate | |
|--------------------|---|--------------------|
| 1% Decrease | | 1% Increase |
| OPEB | \$1,257,030 | \$1,653,162 |

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

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

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

At June 30, 2021, there were reported payables to MPSERS of \$87,741

NOTE J – Risk Management

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

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

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

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Notes to the Financial Statements
For the Year Ended June 30, 2021**

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, 2021, 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, 2021, appropriate liabilities have been recorded for all claims paid or chargeable by the MESA. However, no provision has been made for future payments that might result from claims in process or unfilled claims.

Other Contingencies

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

NOTE L – Upcoming Accounting Pronouncements

In June 2019, the GASB issued Statement No. 87, *Leases*, effective for periods beginning after June 15, 2021. 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 2021-2022 fiscal year.

NOTE M – Subsequent Events

Management has evaluated subsequent events through October 25, 2021, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Budget Comparison Schedule - General Fund
For the Year Ended June 30, 2021

| | Budgeted Amounts | | | Variance with Final Budget Fav (Unfav) |
|---------------------------------------|----------------------------|-------------------------|--------------------------|---|
| | Original | Final | Actual | |
| REVENUES | | | | |
| Local sources | | | | |
| Property taxes | \$ 322,963 | \$ 327,115 | \$ 326,178 | \$ (937) |
| Earnings on investments | 3,600 | 3,800 | 4,500 | 700 |
| Other local revenue | 90,954 | 94,854 | 85,555 | (9,299) |
| Intermediate sources | 568,830 | 611,645 | 646,022 | 34,377 |
| State sources | | | | |
| Unrestricted school aid | 3,912,270 | 4,491,046 | 4,444,318 | (46,728) |
| Restricted school aid | 721,034 | 834,938 | 891,156 | 56,218 |
| Federal sources | 194,434 | 646,284 | 602,505 | (43,779) |
| Total Revenues | <u>5,814,085</u> | <u>7,009,682</u> | <u>7,000,234</u> | <u>(9,448)</u> |
| EXPENDITURES | | | | |
| Instruction | | | | |
| Basic programs | 2,906,535 | 3,343,208 | 3,091,512 | 251,696 |
| Added needs | 605,459 | 663,576 | 596,378 | 67,198 |
| Total Instruction | <u>3,511,994</u> | <u>4,006,784</u> | <u>3,687,890</u> | <u>318,894</u> |
| Support services | | | | |
| Pupil services | 221,961 | 287,000 | 269,562 | 17,438 |
| Instructional | 206,606 | 225,569 | 207,313 | 18,256 |
| General administration | 266,694 | 268,376 | 255,826 | 12,550 |
| Schools administration | 403,545 | 445,809 | 432,426 | 13,383 |
| Business services | 124,047 | 147,620 | 147,987 | (367) |
| Operations/maintenance | 534,471 | 586,950 | 568,451 | 18,499 |
| Transportation | 428,282 | 426,689 | 374,756 | 51,933 |
| Other support services | 217,916 | 316,005 | 296,643 | 19,362 |
| Community services | 10,920 | 25,669 | 22,529 | 3,140 |
| Total Support Services | <u>2,414,442</u> | <u>2,729,687</u> | <u>2,575,493</u> | <u>154,194</u> |
| Capital outlay | 2,800 | 204,894 | 196,003 | 8,891 |
| Debt service | <u>80,183</u> | <u>44,221</u> | <u>36,406</u> | <u>7,815</u> |
| Total Expenditures | <u>6,009,419</u> | <u>6,985,586</u> | <u>6,495,792</u> | <u>480,903</u> |
| Excess of Revenues | | | | |
| Over Expenditures | <u>(195,334)</u> | <u>24,096</u> | <u>504,442</u> | <u>471,455</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers in | 15,000 | 15,000 | - | (15,000) |
| Operating transfers out | - | - | (253) | (253) |
| Net Change in Fund Balance | <u>\$ (180,334)</u> | <u>\$ 39,096</u> | <u>\$ 504,189</u> | <u>\$ 456,202</u> |

Climax-Scotts Community Schools

Kalamazoo County, Michigan

Schedule of the Reporting Unit's Proportionate

Share of the Net Pension Liability

Michigan Public School Employees Retirement Plan

Last Seven Years (ultimately ten fiscal years will be displayed)

(Amounts were determined as of 9/30 of each fiscal year)

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------|---------------|--------------|--------------|--------------|--------------|--------------|
| A. Reporting unit's proportion of net pension liability (%) | 0.03006% | 0.03053% | 0.03049% | 0.03034% | 0.02939% | 0.02905% | 0.02950% |
| B. Reporting unit's proportionate share of net pension liability | \$ 10,324,243 | \$ 10,111,404 | \$ 9,166,304 | \$ 7,780,404 | \$ 7,332,155 | \$ 7,096,220 | \$ 6,497,525 |
| C. Reporting unit's covered - employee payroll | \$ 2,767,027 | \$ 2,726,909 | \$ 2,694,895 | \$ 2,567,051 | \$ 2,540,127 | \$ 2,481,895 | \$ 2,533,142 |
| D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%) | 373.12% | 370.80% | 340.14% | 303.09% | 288.65% | 285.92% | 256.50% |
| E. Plan fiduciary net position as a percentage of total pension liability | 59.72% | 60.31% | 62.36% | 64.21% | 63.27% | 63.17% | 66.20% |

Climax-Scotts Community Schools

Kalamazoo County, Michigan

Schedule of the Reporting Unit's Pension Contributions

Michigan Public School Employees Retirement Plan

Last Six Years (ultimately ten fiscal years will be displayed)

(Amounts were determined as of 6/30 of each fiscal year)

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

Climax-Scotts Community Schools

Kalamazoo County, Michigan

Schedule of the Reporting Unit's Proportionate

Share of the Net OPEB Liability

Michigan Public School Employees Retirement Plan

Last Four Years (ultimately ten fiscal years will be displayed)

(Amounts were determined as of 9/30 of each fiscal year)

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

Climax-Scotts Community Schools

Kalamazoo County, Michigan

Schedule of the Reporting Unit's OPEB Contributions

Michigan Public School Employees Retirement Plan

Last Four Years (ultimately ten fiscal years will be displayed)

(Amounts were determined as of 6/30 of each fiscal year)

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

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Notes to Required Supplementary Information
For the Year Ended June 30, 2021**

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 applicable.

Benefit Changes

There were no changes in benefit terms for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30, except for the following:

- 2019: The discount rate used in the September 30, 2018, actuarial valuation decreased by 0.25 percentage points.
- 2018: The discount rate used in the September 30, 2017, actuarial valuation decreased by 0.45 percentage points. The valuation also includes the impact of an updated experience study for periods from 2012 to 2017.
- 2017: The discount rate used in the September 30, 2016, actuarial valuation decreased by 0.50 percentage points.

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 applicable.

Benefit Changes

There were no changes in benefit terms for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30, except for the following:

- 2020: The health care cost trend rate used in the September 30, 2019, actuarial valuation decreased by 0.50 percentage points.
- 2019: The discount rate used in the September 30, 2018, actuarial valuation decreased by 0.20 percentage points.
- 2018: The discount rate used in the September 30, 2017, actuarial valuation decreased by 0.35 percentage points. The valuation also includes the impact of an updated experience study for periods from 2012 to 2017.

OTHER SUPPLEMENTARY INFORMATION

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Balance Sheet - Non-Major Governmental Funds
June 30, 2021**

| | Food Service Fund | Student Activities Fund | Total |
|---|------------------------------|------------------------------------|-------------------|
| ASSETS | | | |
| Cash | \$ 129,286 | \$ 92,143 | \$ 221,429 |
| Due from other funds | 253 | - | 253 |
| Due from other governments | 27,460 | - | 27,460 |
| Inventory | 2,265 | - | 2,265 |
| Total Assets | \$ 159,264 | \$ 92,143 | \$ 251,407 |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities | | | |
| Accounts payable | \$ 1,511 | \$ 1,966 | \$ 3,477 |
| Due to students | 5,524 | - | 5,524 |
| | 7,035 | 1,966 | 9,001 |
| Fund Balances | | | |
| Nonspendable | 2,265 | - | 2,265 |
| Restricted for: | | | |
| Food service | 149,964 | - | 149,964 |
| Student activities | - | 90,177 | 90,177 |
| Total Fund Balances | 152,229 | 90,177 | 242,406 |
| Total Liabilities and Fund Balance | \$ 159,264 | \$ 92,143 | \$ 251,407 |

**Climax-Scotts Community Schools
 Kalamazoo and Calhoun Counties Michigan
 Statement of Revenues, Expenditures and Changes in Fund
 Balances - Non-Major Governmental Funds
 For the Year Ended June 30, 2021**

| | Food Service Fund | Student Activities Fund | Total |
|---|------------------------------|------------------------------------|-------------------|
| Revenues | | | |
| Local sources | \$ 16,491 | \$ 69,397 | \$ 85,888 |
| State sources | 9,106 | - | 9,106 |
| Federal sources | 323,106 | - | 323,106 |
| Total Revenues | 348,703 | 69,397 | 418,100 |
| Expenditures | | | |
| Food service | 267,056 | - | 267,056 |
| Student activities | - | 62,843 | 62,843 |
| Total Expenditures | 267,056 | 62,843 | 329,899 |
| Excess of Revenues over Expenditures | 81,647 | 6,554 | 88,201 |
| Other Financing Sources | | | |
| Transfers from other funds | 253 | - | 253 |
| Net Change in Fund Balances | 81,900 | 6,554 | 88,454 |
| Fund Balances, Beginning of Year as restated | 70,329 | 83,623 | 153,952 |
| Fund Balances, End of Year | \$ 152,229 | \$ 90,177 | \$ 242,406 |

**Climax-Scotts Community Schools
Kalamazoo and Calhoun Counties Michigan
Schedule of Changes in Long-Term Debt
For the Year Ended June 30, 2021**

| | Balance at July 1, 2020 | | Additions | | Deductions | | Balance at June 30, 2021 |
|---|--|-----------|------------------|-----------------------|-------------------|-------------------|---|
| 2018 Refunding | \$ 775,000 | \$ | - | \$ | (260,000) | \$ | 515,000 |
| Interest related to 2018 current refunding bond issue | 77,250 | | - | (38,750) | | 38,500 | |
| 2018 Bond | 10,560,000 | | - | (190,000) | | 10,370,000 | |
| Interest related to 2018 current refunding bond issue | 4,868,500 | | - | (455,750) | | 4,412,750 | |
| Bond Premium | 851,437 | | - | (60,708) | | 790,729 | |
| Bus note payables | 98,805 | | - | (31,817) | | 66,988 | |
| Interest related to buses | 7,988 | | - | (3,952) | | 4,036 | |
| Total | \$ 17,238,980 | \$ | - | \$ (1,040,977) | \$ | 16,198,003 | |

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedules of Maturities of Bonded Debt
June 30, 2021**

| | Principal | Interest | Total |
|---|-------------------------|---------------------|----------------------|
| 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: | | | |
| 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 | \$ 10,370,000 | \$ 4,412,750 | \$ 14,782,750 |

**Climax-Scotts Community Schools
Kalamazoo County, Michigan
Schedules of Maturities of Bonded Debt
June 30, 2021**

| | <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: | | | |
| 2022 | \$ 260,000 | \$ 25,750 | \$ 285,750 |
| 2023 | 255,000 | 12,750 | 267,750 |
| TOTALS | \$ 515,000 | \$ 38,500 | \$ 553,500 |