

Climax-Scotts Community Schools

Financial Statements

June 30, 2025



YEO & YEO

**BUSINESS SUCCESS
PARTNERS**

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Climax-Scotts Community Schools
Members of the Board of Education and Administration
June 30, 2025

Members of the Board of Education

Mrs. Sue Reichert – President

Mr. Trent Piper – Vice President

Mrs. Terri VandeGiessen – Treasurer/Secretary

Mr. Matt Birkam – Trustee

Mrs. Lori Bagwell – Trustee

Ms. Jackie Longman – Trustee

Mr. Steve Wurtzel – Trustee

Administration

Mr. Doug Newington – Superintendent

Mr. Phillip Heasley – Business Manager

Independent Auditors' Report

Management and the Board of Education
Climax-Scotts Community Schools
Climax, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Climax-Scotts Community Schools, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise Climax-Scotts Community Schools' basic financial statements as listed in the table of contents.

In our opinion, based on our audit, 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, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Climax-Scotts Community Schools, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Adoption of New Accounting Standard

As discussed in Note 15 to the financial statements, during the year ended June 30, 2025, the School District adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Climax-Scotts Community Schools' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Climax-Scotts Community Schools' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Climax-Scotts Community Schools' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the school district's proportionate share of the net pension liability, and schedule of the school district's pension contributions, schedule of the school district's proportionate share of the net OPEB liability (asset), and schedule of the school district's OPEB contributions identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Climax-Scotts Community Schools' basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplementary information, as identified in the table of contents, 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, as identified in the table of contents, 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 September 8, 2025 on our consideration of Climax-Scotts Community Schools' 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 solely 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 the effectiveness of Climax-Scotts Community Schools' 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 Climax-Scotts Community Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
September 8, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS

Climax-Scotts Community Schools
Management's Discussion and Analysis
June 30, 2025

This section of Climax-Scotts Community Schools' (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2025. It is to be read in conjunction with the School District's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and is intended to provide the financial results for the fiscal year ending June 30, 2025.

Climax-Scotts Community Schools (the District) is a PreK-12 school district covering areas throughout Kalamazoo and Calhoun Counties, Michigan. The School District 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, two social workers, 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.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Climax-Scotts Community Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund – the General Fund, with all other funds presented in one column as non-major funds. The annual report is arranged as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Climax-Scotts Community Schools

Management's Discussion and Analysis

June 30, 2025

Reporting the School District as a Whole – District-wide Financial Statements

One of the most important questions asked about the School District is, “As a whole, what is the School District’s financial condition as a result of the year’s activities?” The statement of net position and the statement of activities, which appear first in the School District’s financial statements, report information about the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District’s net position – the difference between assets and liabilities, as reported in the statement of net position – is one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net position – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the School District.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District’s Most Significant Funds – Fund Financial Statements

The School District’s fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service Fund is an example) or to show that it’s meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District’s services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District’s programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliation.

The basic financial statements also include the notes to the financial statements that explain the information in the basic financial statements and provide more detailed data. Supplementary information follows and includes combining and individual fund statements as well as a budgetary comparison schedule for the general fund.

Climax-Scotts Community Schools
Management's Discussion and Analysis
June 30, 2025

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2025 and 2024.

Table 1

	Governmental Activities	
	June 30	
	2025	2024
Assets		
Current and other assets	\$ 11,217,221	\$19,113,959
Property and equipment	23,282,183	14,413,791
Net OPEB asset	1,503,462	181,151
Deferred outflows of resources	3,195,419	4,052,025
Totals assets	39,198,285	37,760,926
Liabilities		
Current liabilities	2,815,034	1,372,286
Noncurrent liabilities	34,699,625	36,890,536
Deferred inflows of resources	4,602,755	3,235,707
Total liabilities	42,117,414	41,498,529
Net Position		
Net investment in capital assets	3,410,834	3,121,243
Restricted	1,729,778	410,987
Unrestricted (deficit)	(8,059,741)	(7,269,833)
Total net position	\$ (2,919,129)	\$ (3,737,603)

The preceding analysis focuses on the net position. The change in net position (see Table 2) of the School District's governmental activities is discussed below. The net position was \$(2,919,129) at June 30, 2025. Capital assets, net of related debt totaling \$3,410,834 compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Net position that was restricted for the net OPEB asset was \$3,006,924, and restricted for food service fund totaled \$226,316. The remaining amount of net position of \$(9,563,203) was unrestricted.

Climax-Scotts Community Schools
Management's Discussion and Analysis
June 30, 2025

Approximately \$(9,563,203) in unrestricted net position of governmental activities represents the *accumulated* results of all past year's operations. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years 2025 and 2024.

Table 2

	Governmental Activities	
	June 30	
	2025	2024
Revenue		
Program revenue:		
Charges for services	\$ 250,089	\$ 253,981
Operating grants and contributions	3,883,900	3,266,341
General Revenue:		
Property taxes	1,652,543	1,520,483
State foundation allowance	5,675,214	5,498,743
Other	656,097	779,773
Total revenue	12,117,843	11,319,321
Functions/Program Expenses		
Instruction	4,989,814	4,887,050
Support services	4,456,651	4,204,075
Food services	413,991	436,236
Community services	29,577	27,946
Interest and other charges on long-term debt	1,044,555	963,879
Total functions/program expenses	10,934,588	10,519,186
Change in Net Position	1,183,255	800,135

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$10,934,588. Certain activities were partially funded from charges for services of \$250,089 from those who benefited from the programs or by other governments and organizations that subsidized

Climax-Scotts Community Schools
Management's Discussion and Analysis
June 30, 2025

certain programs with grants and contributions of \$3,883,900. We paid for the remaining "public benefit" portion of our governmental activities with \$1,652,543 in taxes, \$5,675,214 in State foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The School District experienced an increase in net position of \$1,183,255. The main component for the change in net position is the change in the value of the net pension liability and net OPEB asset with the related changes in deferred inflows and outflows.

Fund Financial Statements

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds - not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs.

The School District utilizes *Governmental funds* within this report. Most of the School District's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can readily be converted to cash flow in and out and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Since the district-wide financial statements and the fund financial statements use different methods of accounting to report the School District's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$8,776,128, which is a decrease of \$9,314,599 from last year.

In the General Fund, our principal operating fund, the fund balance decreased from \$2,283,336 to \$2,259,982 primarily as a result of an increase in wages and benefits.

The Food Service Fund is a special revenue fund and was established to account for all revenue and expenses of the food service program of the District. The Food Service fund balance increased \$35,042 from June 30, 2024 to June 30, 2025 due mainly to an increase in the number of meals served.

The Student and School Activity Fund is a special revenue fund established to account for all revenue and expenses associated with the various clubs, booster groups, class funds, etc. of the District.

Climax-Scotts Community Schools

Management's Discussion and Analysis

June 30, 2025

Combined, the Debt Service Funds showed a fund balance decrease of \$145,926. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds balances are reserved since they can only be used to pay debt service obligations.

The 2023 Building and Site Fund was established in FY 2024 to account for capital expenditures using the proceeds from the sale of tax exempt bonds totaling \$16,403,698. The fund decreased \$9,183,676 during 2024-2025.

Fund balance that was restricted for debt service totaled \$73,963, restricted for capital projects totaled \$7,391,396, committed for Student and School Activities totaled \$122,300, and restricted for the food service fund totaled \$223,970. Fund balance of \$153,302 was assigned to fund 2025-2026 budget appropriations. Fund balance of \$39,756 is non-spendable. Fund balance of \$400,000 is committed for future strategic initiatives. The remaining amount of fund balance of \$1,869,270 was unassigned.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted just before year-end. A schedule showing the School District's original and final budget amounts, compared with amounts actually paid and received, is provided in required supplementary information of these financial statements.

There were revisions made to the 2024-2025 General Fund original budget. Budgeted revenues were increased \$575,817 to reflect additional State revenues and actual student count. Budgeted expenditures were increased \$691,277 reflecting increases related to staffing additions/changes and additional capital expenditures. Actual expenditure variances were relatively consistent with the budget as noted on page 5-1 of the financial statements.

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

Approximately 63% of the School District's general fund 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 the School District receives is established by the State of Michigan annually. For the fiscal year ended June 30, 2025, the allowance was \$9,608 per student FTE. There was no increase in the per pupil foundation allowance from the 2023-2024 fiscal year.

Climax-Scotts Community Schools
Management's Discussion and Analysis
June 30, 2025

Student Enrollment

Climax-Scotts Community Schools' blended membership count for the 2024-2025 school year was 637.68 students, which includes students enrolled in our online alternative education program. The student FTE for the previous five years was as follows:

2019-2020	553.01
2020-2021	573.68
2021-2022	564.58
2022-2023	580.52
2023-2024	614.25
2024-2025	637.68

Our blended student enrollment for the 2024-2025 school year of 637.68 students was based on 90% of the October 2024 count and 10% of the February 2025 count.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2025, the School District had \$23,282,183 invested in net capital assets. This included a net increase during the past fiscal year of \$8,868,392 consisting of depreciation charges of \$736,867, capital asset purchases/additions of \$5,173,847, additional construction in progress of \$4,431,412, and net capital asset disposals of \$0. More detailed information about the School District's capital assets can be found in the notes to the financial statements section of this document.

Long-term Debt

At year end, the School District had total long-term debt of \$26,725,041. The School District continued to pay down its debt, retiring \$600,000 of outstanding bonds during the year. In addition, \$58,395 was amortized for bond premium. \$333,712 was borrowed from the State of Michigan's School Loan Revolving Fund program. These funds are used to pay down bond debt. New long-term lease obligations totaled \$118,039. \$24,560 was paid on long-term lease obligations. The School District paid \$39,959 on the outstanding balance of installment purchase agreements. The long-term liability associated with compensated absences totaled \$426,413 at June 30, 2025.

The School District's general obligation bond long term rating is AA and its underlying rating is A+. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budget and Rates

Many factors were considered when setting the School District's 2025-2026 fiscal year budget. 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 2022-2023 and 2023-2024, the blended pupil count increased by 3.8%. The state of Michigan budget for the 2025-2026 fiscal year has not yet been finalized.

Climax-Scotts Community Schools
Management's Discussion and Analysis
June 30, 2025

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, 2025, is \$2,259,982 or approximately 22.9% of its operating expenditures. The recommended fund equity for school districts is at least 15% of operating expenditures.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

Climax-Scotts Community Schools
Statement of Net Position
June 30, 2025

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,217,885
Accounts receivable	9,967
Due from other governmental units	1,656,611
Inventory	2,346
Investments	8,293,002
Prepaid items	37,410
Capital assets not being depreciated	5,587,940
Capital assets - net of accumulated depreciation	17,694,243
Net OPEB asset	<u>1,503,462</u>
 Total assets	 <u>36,002,866</u>
 Deferred Outflows of Resources	
Deferred amount relating to the net pension liability	2,717,610
Deferred amount relating to the net OPEB asset	<u>477,809</u>
 Total deferred outflows of resources	 <u>3,195,419</u>

See Accompanying Notes to the Financial Statements

Climax-Scotts Community Schools
Statement of Net Position
June 30, 2025

	<u>Governmental Activities</u>
Liabilities	
Accounts payable	1,635,639
Due to other governmental units	88,021
Accrued expenditures	592,331
Accrued salaries payable	395,445
Unearned revenue	103,598
Long-term liabilities	
Net pension liability	7,974,584
Due within one year	783,341
Due in more than one year	<u>25,941,700</u>
 Total liabilities	 <u>37,514,659</u>
 Deferred Inflows of Resources	
Deferred amount relating to the net pension liability	2,659,093
Deferred amount relating to the net OPEB asset	<u>1,943,662</u>
 Total deferred inflows of resources	 <u>4,602,755</u>
 Net Position	
Net investment in capital assets	3,410,834
Restricted for:	
Food service	226,316
Net OPEB asset	1,503,462
Unrestricted (deficit)	<u>(8,059,741)</u>
 Total net position	 <u><u>\$ (2,919,129)</u></u>

See Accompanying Notes to the Financial Statements

Climax-Scotts Community Schools
Statement of Activities
For the Year Ended June 30, 2025

		<u>Program Revenues</u>		Net (Expense)
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
Functions/Programs				
Governmental activities				
Instruction	\$ 4,989,814	\$ 8,080	\$ 3,271,868	\$ (1,709,866)
Supporting services	4,456,651	181,513	160,084	(4,115,054)
Food services	413,991	36,564	451,948	74,521
Community services	29,577	23,932	-	(5,645)
Interest and fiscal charges on long-term debt	<u>1,044,555</u>	<u>-</u>	<u>-</u>	<u>(1,044,555)</u>
Total governmental activities	<u>\$ 10,934,588</u>	<u>\$ 250,089</u>	<u>\$ 3,883,900</u>	<u>(6,800,599)</u>
General revenues				
Property taxes, levied for general purposes				435,389
Property taxes, levied for debt service				1,217,154
State aid - unrestricted				5,675,214
Interest and investment earnings				572,642
Gain on sale of capital assets				20,160
Other				<u>63,295</u>
Total general revenues				<u>7,983,854</u>
Change in net position				1,183,255
Net position - beginning, as previously reported				(3,737,603)
Change in accounting principle (GASB 101)				<u>(364,781)</u>
Net position - beginning, as restated				<u>(4,102,384)</u>
Net position - ending				<u>\$ (2,919,129)</u>

See Accompanying Notes to the Financial Statements

Climax-Scotts Community Schools
Governmental Funds
Balance Sheet
June 30, 2025

	General Fund	Debt Service Funds	2023 Building & Site Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash	\$ 318,263	\$ 73,963	\$ 434,166	\$ 391,493	\$ 1,217,885
Accounts receivable	9,967	-	-	-	9,967
Due from other funds	48,366	-	-	539	48,905
Due from other governmental units	1,646,131	-	-	10,480	1,656,611
Inventory	-	-	-	2,346	2,346
Investments	1,335,772	-	6,957,230	-	8,293,002
Prepaid items	37,410	-	-	-	37,410
Total assets	\$ 3,395,909	\$ 73,963	\$ 7,391,396	\$ 404,858	\$ 11,266,126
Liabilities					
Accounts payable	\$ 330,335	\$ -	\$ 1,282,829	\$ 22,475	\$ 1,635,639
Due to other funds	539	-	15,000	33,366	48,905
Due to other governmental units	88,021	-	-	-	88,021
Accrued expenditures	170,847	-	-	-	170,847
Accrued salaries payable	395,044	-	-	401	395,445
Unearned revenue	103,598	-	-	-	103,598
Total liabilities	1,088,384	-	1,297,829	56,242	2,442,455
Deferred Inflows of Resources					
Unavailable revenue					
Grants received	47,543	-	-	-	47,543
Fund Balances					
Non-spendable					
Inventory	-	-	-	2,346	2,346
Prepaid items	37,410	-	-	-	37,410
Restricted for					
Food service	-	-	-	223,970	223,970
Debt service	-	73,963	-	-	73,963
Arbitrage liability	-	-	245,157	-	245,157
Capital projects	-	-	5,848,410	-	5,848,410
Committed for					
Student/school activities	-	-	-	122,300	122,300
Strategic initiatives	400,000	-	-	-	400,000
Assigned for 2025-2026 budget appropriations	153,302	-	-	-	153,302
Unassigned	1,669,270	-	-	-	1,669,270
Total fund balances	2,259,982	73,963	6,093,567	348,616	8,776,128
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,395,909	\$ 73,963	\$ 7,391,396	\$ 404,858	\$ 11,266,126

See Accompanying Notes to the Financial Statements

Climax-Scotts Community Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2025

Total fund balances for governmental funds	\$ 8,776,128
Total net position for governmental activities in the statement of net position is different because:	
Certain receivables are not available to pay for current period expenditures and, therefore, are unavailable in the funds.	
Other governmental units	47,543
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	5,587,940
Capital assets - net of accumulated depreciation	17,694,243
Net OPEB asset is not recorded as an asset in the governmental funds	1,503,462
Deferred outflows (inflows) of resources	
Deferred outflows of resources resulting from the net pension liability	2,717,610
Deferred outflows of resources resulting from the net OPEB asset	477,809
Deferred inflows of resources resulting from the net pension liability	(2,659,093)
Deferred inflows of resources resulting from the net OPEB asset	(1,943,662)
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(176,327)
Arbitrage	(245,157)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Net pension liability	(7,974,584)
Compensated absences	(426,413)
Bonds payable	(25,740,546)
School bond loan payable	(333,712)
Other loans payable and liabilities	<u>(224,370)</u>
Net position of governmental activities	<u>\$ (2,919,129)</u>

See Accompanying Notes to the Financial Statements

Climax-Scotts Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2025

	General Fund	Debt Service Funds	2023 Building & Site Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Local sources	\$ 654,531	\$ 1,219,979	\$ 525,030	\$ 158,409	\$ 2,557,949
State sources	7,666,924	-	-	164,178	7,831,102
Federal sources	146,703	-	-	287,280	433,983
Interdistrict sources	1,247,266	-	-	-	1,247,266
	<u>9,715,424</u>	<u>1,219,979</u>	<u>525,030</u>	<u>609,867</u>	<u>12,070,300</u>
Total revenues					
Expenditures					
Current					
Education					
Instruction	5,084,034	-	-	-	5,084,034
Supporting services	4,422,699	-	-	117,086	4,539,785
Food services	-	-	-	421,381	421,381
Community services	29,577	-	-	-	29,577
Facilities acquisition	-	-	9,708,706	-	9,708,706
Capital outlay	280,698	-	-	-	280,698
Debt service					
Principal	64,519	600,000	-	-	664,519
Interest and other expenditures	8,333	1,089,807	-	-	1,098,140
	<u>9,889,860</u>	<u>1,689,807</u>	<u>9,708,706</u>	<u>538,467</u>	<u>21,826,840</u>
Total expenditures					
Excess (deficiency) of revenues over expenditures	<u>(174,436)</u>	<u>(469,828)</u>	<u>(9,183,676)</u>	<u>71,400</u>	<u>(9,756,540)</u>
Other Financing Sources (Uses)					
Proceeds from school loan revolving fund	-	323,902	-	-	323,902
Proceeds from issuance of leases	118,039	-	-	-	118,039
Transfers in	33,208	-	-	165	33,373
Transfers out	(165)	-	-	(33,208)	(33,373)
	<u>151,082</u>	<u>323,902</u>	<u>-</u>	<u>(33,043)</u>	<u>441,941</u>
Total other financing sources (uses)					
Net change in fund balances	(23,354)	(145,926)	(9,183,676)	38,357	(9,314,599)
Fund balances - beginning	<u>2,283,336</u>	<u>219,889</u>	<u>15,277,243</u>	<u>310,259</u>	<u>18,090,727</u>
Fund balances - ending	<u>\$ 2,259,982</u>	<u>\$ 73,963</u>	<u>\$ 6,093,567</u>	<u>\$ 348,616</u>	<u>\$ 8,776,128</u>

See Accompanying Notes to the Financial Statements

Climax-Scotts Community Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2025

Net change in fund balances - Total governmental funds	\$ (9,314,599)
Total change in net position reported for governmental activities in the statement of activities is different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Operating grants	47,543
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation and amortization expense	(850,030)
Capital outlay	9,718,422
Expenses are recorded when incurred in the statement of activities.	
Interest	(4,810)
Arbitrage	(77,430)
Compensated absences	(45,793)
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	2,330,322
Net change in deferrals of resources related to the net pension liability	(1,475,176)
The statement of net position reports the net OPEB liability (asset) and deferred outflows of resources and deferred inflows related to the net OPEB liability (asset) and OPEB changes. However, the amount recorded on the governmental funds equals actual OPEB contributions.	
Net change in net OPEB liability (asset)	1,322,311
Net change in deferrals of resources related to the net OPEB liability (asset)	(748,478)
Bond and note proceeds and leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	(441,941)
Repayments of long-term debt	664,519
Amortization of premiums	58,395
Change in net position of governmental activities	\$ <u>1,183,255</u>

See Accompanying Notes to the Financial Statements

Climax-Scotts Community Schools
Notes to the Financial Statements
June 30, 2025

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Climax-Scotts Community Schools (School 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 School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of 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 School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all non-fiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted assets. The School District first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by

general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

Fund Financial Statements

Major individual governmental funds are reported as separate columns in the 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 available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District 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 claims and judgments, 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 so have been recognized as revenue of the current fiscal period. All other revenue items are considered available only when cash is received by the government.

Climax-Scotts Community Schools
Notes to the Financial Statements
June 30, 2025

The School District reports the following major governmental funds:

General Fund - The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Debt Service Fund - Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

2023 Building & Site Fund - The 2023 Building & Site Fund is used to record bond and other revenues and the payments for related expenditures by the School District.

Additionally, the School District reports the following nonmajor funds:

Special Revenue 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 District's Special Revenue Funds include the Food Service Fund and the Student/School Activity Fund.

Assets, Liabilities, and Equity

Receivables and Payables - Generally, outstanding amounts owed between funds are classified as "due from/to other funds." These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property taxes and other receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2025, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non-principal residence exemption	17.44570
Commercial personal property	5.44570
Debt Service Funds	7.30000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by Kalamazoo County and remitted to the School District by May 15.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets - Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000 and an estimated useful life of five years or greater. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets.

Climax-Scotts Community Schools
Notes to the Financial Statements
June 30, 2025

Buildings, 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 equipment	5 - 20 years

Deferred Outflows of Resources - A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions and experience differences relating to the net pension and OPEB liabilities (assets) are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. The School District also reported deferred outflows of resources for pension and OPEB contributions made after the measurement date. This amount will reduce the net pension and OPEB liabilities (assets) in the following year.

Compensated Absences - The accrued compensated absence liability consists of earned leave that is more likely than not to be utilized by employees, or unutilized but paid in cash. The amount anticipated to be paid out over the next year is included within the amounts listed as due within one year.

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 position. Bond premiums and discounts 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. In the fund financial statements, governmental fund types recognize bond premiums and discounts.

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

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

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

Deferred Inflows of Resources - A deferred inflow of resources is an acquisition of net position by the government 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. Deferred inflow for leases is related to leases receivable and is being amortized to recognize lease revenue in a systematic and rational manner over the term of the lease. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be

Climax-Scotts Community Schools
Notes to the Financial Statements
June 30, 2025

amortized over the next four years and included in pension and OPEB expense. Changes in assumptions and experience differences relating to the net pension and OPEB liabilities (assets) are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Fund Balance - In the fund financial statements, governmental funds report fund balances in the following categories:

Non-spendable - amounts that are not available in a spendable form.

Restricted - amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed - amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned - amounts intended to be used for specific purposes, as determined by the Board of Education. The Board of Education has granted the finance committee and Superintendent the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned - all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

Statement No. 102, *Certain Risk Disclosures*, requires organizations to provide users of the financial statements with essential information about risks related to the organization's vulnerabilities due to certain concentrations or constraints.

Upcoming Accounting and Reporting Changes

Statement No. 103, *Financial Reporting Model Improvements*, improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision

Climax-Scotts Community Schools
Notes to the Financial Statements
June 30, 2025

making and assessing an organization's accountability while also addressing certain application issues. This statement includes changes to management's discussion and analysis, unusual or infrequent items, presentation of the proprietary fund statements of revenues, expenses, and changes in fund net position, major component unit information, and budgetary comparison information. This statement is effective for the year ending June 30, 2026.

Statement No. 104, *Disclosure of Certain Capital Assets*, requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital as-sets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. This statement is effective for the year ending June 30, 2026.

The School District is evaluating the impact that the above pronouncements will have on its financial reporting.

Note 2 - 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 yearend, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the

function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education. Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year.

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Added needs	\$ 1,008,330	\$ 1,016,675	\$ 8,345
Pupil	518,365	518,668	303
Community services	28,392	29,577	1,185
Capital outlay	186,236	280,698	94,462
Debt service	39,960	64,519	24,559

Compliance – Bond Proceeds

The 2023 Building & Site Fund includes capital project activities funded with bonds. For this capital project, the school district has complied with the applicable provisions of Section 1351a of the Revised School Code. The fund is not yet considered substantially complete, and a subsequent year audit is expected.

Climax-Scotts Community Schools
Notes to the Financial Statements
June 30, 2025

The following is a summary of the revenue and expenditures for the and the 2023 School Building & Site Bonds, which are included in the 2023 Building & Site Fund, from the inception of the funds through the current fiscal year:

	<u>2023 Building & Site Fund</u>
Revenues and other financing sources	\$ 17,634,439
Expenditures and other financing uses	11,540,872

Note 3 - Deposits and Investments

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash	\$ 1,217,885
Investments	<u>8,293,002</u>
	<u>\$ 9,510,887</u>

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 1,216,985
Investments in securities, mutual funds, and similar vehicles	8,293,002
Petty cash and cash on hand	<u>900</u>
Total	<u>\$ 9,510,887</u>

As of year end, the School District had the following investments:

<u>Investment</u>	<u>Carrying Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Organization</u>
External investment pools:				
Michigan Liquid Asset Fund (MILAF):				
MILAF + Portfolio				
Cash Management Class	\$ 2	< 60 days	AAAm	S&P
MAX Class	<u>8,293,000</u>	< 60 days	AAAm	S&P
	<u>\$ 8,293,002</u>			

As of June 30, 2025, the net asset value of the School District's investment in MILAF + Portfolio was \$8,293,002. Participation in the investment pool has not resulted in any unfunded commitments. Shares are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made provided the District has sufficient shares to meet the redemption request. In the event of an emergency that would make the determination of net asset value not reasonably practical, the Trust's Board of Trustee's may suspend the right of withdrawal or postpone the date of payment. The net asset value ("NAV") per share of the MILAF+ Portfolio is calculated as of the close of business each business day by dividing the net position of that Portfolio by the number of its outstanding shares. It is the MILAF+ Portfolio's objective to maintain a NAV of \$1.00 per share, however,

Climax-Scotts Community Schools
Notes to the Financial Statements
June 30, 2025

there is no assurance that this objective will be achieved. The exact price for share transactions will be determined based on the NAV next calculated after receipt of a properly executed order. The number of shares purchased or redeemed will be determined by the NAV.

Interest rate risk - The School 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 and the School District's investment policy authorize the School 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 School 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 that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk - The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk - deposits - In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, \$1,811,231 of the School District's bank balance of \$2,061,231 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Construction-in-progress	\$ 1,156,528	\$ 9,191,054	\$4,759,642	\$ 5,587,940
Capital assets being depreciated				
Buildings and improvements	17,624,407	4,759,642	-	22,384,049
Outdoor equipment	1,015,674	-	-	1,015,674
Equipment	829,817	409,329	-	1,239,146
Vehicles and tractors	1,309,034	-	-	1,309,034
Right to use asset	113,163	118,039	113,163	118,039
Total capital assets being depreciated	20,892,095	5,287,010	113,163	26,065,942
Less accumulated depreciation for				
Buildings and improvements	5,815,385	666,852	-	6,482,237
Outdoor equipment	511,241	37,069	-	548,310
Equipment	561,018	26,418	-	587,436
Vehicles and tractors	640,119	89,989	-	730,108
Right to use asset	107,069	29,702	113,163	23,608
Total accumulated depreciation	7,634,832	850,030	113,163	8,371,699
Net capital assets being depreciated	13,257,263	4,436,980	-	17,694,243
Net capital assets	\$ 14,413,791	\$ 13,628,034	\$4,759,642	\$ 23,282,183

Depreciation expense of capital assets and amortization expense of right to use assets were charged to activities of the School District as follows:

Governmental activities	
Instruction	\$ 433,515
Supporting services	382,514
Food services	34,001
Total governmental activities	<u>\$ 850,030</u>

Climax-Scotts Community Schools
Notes to the Financial Statements
June 30, 2025

Note 5 - Leases

Lease Liabilities

The School District has financing lease arrangements for office equipment. Future payments are due through 2030 and are approximately \$2,100 per month. Expenditures related to leasing this equipment were approximately \$24,500 for the year ended June 30, 2025.

Future minimum lease payments are as follows:

Year ending June 30,	Principal	Interest	Total
2026	\$ 22,776	\$ 2,676	\$ 25,452
2027	23,469	1,983	25,452
2028	24,183	1,269	25,452
2029	24,919	533	25,452
2030	<u>4,226</u>	<u>16</u>	<u>4,242</u>
Subtotal	<u>\$ 99,573</u>	<u>\$ 6,477</u>	<u>\$ 106,050</u>

Right of use assets recognized on the district-wide financial statements are as follows:

Right of use asset	\$ 118,039
Less accumulated amortization	<u>(23,608)</u>
Total	<u>\$ 94,431</u>

Note 6 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

Grant and categorical aid payments received prior to meeting all eligibility requirements	<u>\$ 103,598</u>
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Note 7 - Interfund Receivables, Payables, and Transfers

At June 30, 2025, the School District had the following interfund receivables and payables:

Receivable Fund	Payable Fund	Amount
Nonmajor Funds	General Fund	\$ 539
General Fund	Nonmajor Funds	33,366
General Fund	2023 Building & Site	<u>15,000</u>
		<u>\$ 48,905</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made. Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers consist of the following:

	Transfers Out		
	General Fund	Nonmajor Funds	Total
Transfers in			
General Fund	\$ -	\$ 33,208	\$ 33,208
Nonmajor Funds	<u>165</u>	<u>-</u>	<u>165</u>
	<u>\$ 165</u>	<u>\$ 33,208</u>	<u>\$ 33,373</u>

Transfers of \$33,208 were made to reimburse indirect costs incurred in the General Fund on behalf of the Food Service Fund. Transfers of \$165 were made from the General Fund to the Food Service Fund.

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Note 8 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th. The School District is required to pledge 100% of their state school aid, October through August, or until the note is repaid, whichever is longer. The State has discretion to accelerate repayment terms if they have cause for concern. If the note is in default status, there is a penalty interest rate that may apply.

There was no short-term debt activity for the year ended June 30, 2025.

Note 9 - Long-Term Debt

The School 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 School District. The State can withhold state aid if it has to make a bond payment on behalf of the School District related to qualified bonds. For the School Loan Revolving Fund, the State may withhold state aid if the School District is in default or apply late charges in an instance of default or fails to appropriately levy debt mills. Other long-term obligations include leases and compensated absences.

Long-term obligation activity is summarized as follows:

	Beginning Balance, as Restated	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds and notes payable					
General obligation bonds	\$25,495,000	\$ -	\$ 600,000	\$24,895,000	\$ 625,000
Bond premiums	<u>903,941</u>	<u>-</u>	<u>58,395</u>	<u>845,546</u>	<u>-</u>
Total bonds payable	<u>26,398,941</u>	<u>-</u>	<u>658,395</u>	<u>25,740,546</u>	<u>625,000</u>
Notes from direct borrowings and direct placements					
Buses and vehicles notes	164,756	-	39,959	124,797	41,819
School Loan Revolving Fund	-	323,902	-	323,902	-
Accrued interest - SLRF	<u>-</u>	<u>9,810</u>	<u>-</u>	<u>9,810</u>	<u>-</u>
Total notes from direct borrowings and direct placements	<u>164,756</u>	<u>333,712</u>	<u>39,959</u>	<u>458,509</u>	<u>41,819</u>
Other liabilities					
Leases	6,094	118,039	24,560	99,573	22,776
Compensated absences	<u>380,620</u>	<u>45,793</u>	<u>-</u>	<u>426,413</u>	<u>93,746</u>
Total other liabilities	<u>386,714</u>	<u>163,832</u>	<u>24,560</u>	<u>525,986</u>	<u>116,522</u>
Total	<u>\$26,950,411</u>	<u>\$ 497,544</u>	<u>\$ 722,914</u>	<u>\$26,725,041</u>	<u>\$ 783,341</u>

For governmental activities, leases are primarily liquidated by the General Fund. Compensated absences additions and deductions are reported net.

General obligation bonds payable at year end, consist of the following:

2018 Building and Site Bonds due in annual installments of \$525,000 to \$850,000 through May 1, 2038, interest at 4.00-5.00%	\$ 8,880,000
2023 Building and Site Bonds due in annual installments of \$100,000 to \$1,000,000 through May 1, 2053, interest at 4.00-5.00%	<u>16,015,000</u>
Total	<u>\$24,895,000</u>

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Future principal and interest requirements for bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2026	\$ 625,000	\$ 1,057,962	\$ 1,682,962
2027	650,000	1,026,712	1,676,712
2028	680,000	994,212	1,674,212
2029	710,000	960,212	1,670,212
2030	735,000	930,762	1,665,762
2031-2035	4,180,000	4,168,560	8,348,560
2036-2040	4,755,000	3,223,010	7,978,010
2041-2045	4,660,000	2,197,710	6,857,710
2046-2050	4,900,000	1,229,454	6,129,454
2051-2053	<u>3,000,000</u>	<u>247,500</u>	<u>3,247,500</u>
Total	<u>\$24,895,000</u>	<u>\$16,036,094</u>	<u>\$40,931,094</u>

The general obligation bonds are payable from the Debt Service Fund. As of year-end, the fund had a balance of \$73,963 to pay this debt. Future debt and interest will be payable from future tax levies.

Interest and related expenditures for the fiscal year in the Debt Service Fund was \$1,089,807.

Buses and vehicle notes payable are due as follows:

Year Ending June 30,	Principal	Interest	Total
2026	\$ 41,819	\$ 5,907	\$ 47,726
2027	43,766	3,961	47,727
2028	<u>39,212</u>	<u>1,921</u>	<u>41,133</u>
Total	<u>\$ 124,797</u>	<u>\$ 11,789</u>	<u>\$ 136,586</u>

School Loan Revolving Fund

The School Loan Revolving Fund consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities on the School District's bond issues. Since the monies generated by the levied mills are presently not sufficient to cover the entire debt service requirements of the School District, it has been necessary for the School District to borrow a total of \$ 323,902 to meet debt service requirements. Management of the School District anticipates that as the other bonds mature, the revenues provided by the debt millage will be sufficient to satisfy the future debt service requirements of the bonds and all necessary borrowing from the State School Bond Loan Fund. During the year, the School District borrowed \$ 323,902 and had an outstanding balance at year-end of \$ 323,902 from the State School Bond Loan Fund. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer.

Note 10 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. No provision has been made for possible future claims.

Note 11 - Pension Plan

Plan Description

The Michigan Public School Employees' Retirement System (System or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of

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Michigan (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 twelve members - eleven 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 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

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. 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 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.

Contributions

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

Employer 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, 2023 valuation will be amortized over a 15-year period beginning October 1, 2023 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for plan year ended September 30, 2024.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	23.03%
Member Investment Plan	3.0 - 7.0%	23.03%
Pension Plus	3.0 - 6.4%	19.17%
Pension Plus 2	6.2%	20.10%
Defined Contribution	0.0%	13.90%

Required contributions to the pension plan from the School District were \$1,361,839 for the year ending September 30, 2024.

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

At June 30, 2025, the School District reported a liability of \$7,974,584 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2023. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2024, the School District's proportion was .0326 percent, which was an increase of .0007 percent from its proportion measured as of September 30, 2023.

For the plan year ending September 30, 2024, the School District recognized pension expense of \$810,735 for the measurement period. For the reporting period ending June 30, 2025, the School District recognized total pension contribution expense of \$1,417,518.

At June 30, 2025, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Difference between expected and actual experience	\$ 216,356	\$ (86,645)	\$ 129,711
Changes of assumptions	831,398	(584,285)	247,113
Net difference between projected and actual earnings on pension plan investments	-	(1,521,889)	(1,521,889)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	<u>326,826</u>	<u>(72,002)</u>	<u>254,824</u>
Total to be recognized in future	1,374,580	(2,264,821)	(890,241)
School District contributions subsequent to the measurement date	<u>1,343,030</u>	<u>(394,272)</u>	<u>948,758</u>
Total	<u>\$ 2,717,610</u>	<u>\$ (2,659,093)</u>	<u>\$ 58,517</u>

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2026. The District will offset the contribution expense in the year ended June 30, 2026 with the 147c supplemental income received subsequent to the measurement date which is included in the deferred inflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be

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recognized in pension expense as follows during the following plan years:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future Pension Expenses)	
2025	\$ (106,098)
2026	113,394
2027	(523,905)
2028	<u>(373,632)</u>
	<u>\$ (890,241)</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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2023
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return:
 - MIP and Basic Plans: 6.00% net of investment expenses
 - Pension Plus Plan: 6.00% net of investment expenses
 - Pension Plus 2 Plan: 6.00% net of investment expenses
- 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

- Mortality:
 - Retirees: PubT-2010 Male and Female Retiree Mortality Tables, scaled by 116% for males and 116% for females and adjusted for mortality improvements using projection scale MP-2021 from 2010.
 - Active: PubT-2010 Male and Female Employee Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2021 from 2010.

Assumption changes as a result of an experience study for the period 2017 through 2022 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2023 valuation. The total pension liability as of September 30, 2024, is based on the results of an actuarial valuation date of September 30, 2023, and rolled forward using generally accepted actuarial procedures, including the experience study.

The recognition period for liabilities is the average of the expected remaining service lives of all employees is 4.4612 years.

The recognition period for assets in years is 5.0000.

Full actuarial assumptions are available in the 2024 MPSERS Annual Comprehensive 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 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.

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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, 2024 are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.3%
Private Equity Pools	16.0	9.0%
International Equity	15.0	6.5%
Fixed Income Pools	13.0	2.2%
Real Estate and Infrastructure Pools	10.0	7.1%
Absolute Return Pools	9.0	5.2%
Real Return/Opportunistic Pools	10.0	6.9%
Short Term Investment Pools	2.0	1.4%
	<u>100.0%</u>	

*Long-term rates of return are net of administrative expenses and 2.3% inflation.

Rate of Return

For the plan year ended September 30, 2024, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 15.47%. 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 6.00% was used to measure the total pension liability (6.00% for the Pension Plus plan, 6.00% for the Pension Plus 2, hybrid plans provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.00% (6.00% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan). 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 pension plan's 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 6.00% (6.00% for the Pension plus plan, 6.00% for the Pension Plus 2 plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease 5.00%	Current Single Discount Rate Assumption 6.00%	1% Increase 7.00%
<u>\$ 11,690,825</u>	<u>\$ 7,974,584</u>	<u>\$ 4,880,097</u>

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS Annual Comprehensive Financial Report, available on the ORS website at www.michigan.gov/orsschools.

Payables to the Michigan Public School Employees' Retirement System (MPERS)

There were no significant payables to the pension plan that are not ordinary accruals to the School District.

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Note 12 - Postemployment Benefits Other Than Pensions (OPEB)

Plan Description

The Michigan Public School Employees' Retirement System (System or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (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 twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning with 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

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and

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retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer 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, 2023 valuation will be amortized over a 15-year period beginning October 1, 2023 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for plan year 2024.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0%	8.31%
Personal Healthcare Fund (PHF)	0.0%	7.06%

Required contributions to the OPEB plan from the School District were \$290,328 for the year ended September 30, 2024.

OPEB Liabilities or Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2025, the School District reported an asset of \$1,503,462 for its proportionate share of the MPSERS net OPEB asset. The net OPEB asset was measured as of September 30, 2024, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation rolled forward from September 2023. The School District's proportion of the net OPEB asset was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable

employers during the measurement period. At September 30, 2024, the School District's proportion was .0349 percent, which was an increase of .0029 percent from its proportion measured as of September 30, 2023.

For the plan year ending September 30, 2024, the School District recognized OPEB expense of \$(519,614) for the measurement period. For the reporting period ending June 30, 2025, the School District recognized total OPEB contribution expense of \$55,274.

At June 30, 2025, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Difference between expected and actual experience	\$ -	\$(1,593,211)	\$(1,593,211)
Changes of assumptions	328,378	(37,744)	290,634
Net difference between projected and actual earnings on OPEB plan investments	-	(284,623)	(284,623)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	127,421	(28,084)	99,337
Total to be recognized in future	455,799	(1,943,662)	(1,487,863)
School District contributions subsequent to the measurement date	22,010	-	22,010
Total	<u>\$ 477,809</u>	<u>\$(1,943,662)</u>	<u>\$(1,465,853)</u>

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Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as an addition to the OPEB asset in the year ended June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows during the following plan years:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future OPEB Expenses)	
2025	\$ (485,660)
2026	(279,627)
2027	(289,837)
2028	(267,571)
2029	(140,402)
Thereafter	<u>(24,766)</u>
	<u><u>\$ (1,487,863)</u></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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2023
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return: 6.00% net of investment expenses

- Projected Salary Increases: 2.75 – 11.55%, including wage inflation of 2.75%
- Healthcare Cost Trend Rate: Pre-65: 7.25% Year 1 graded to 3.5% Year 15; Post-65: 6.50% Year 1 graded to 3.5% Year 15
- Mortality:
 - Retirees: PubT-2010 Male and Female Retiree Mortality Tables, scaled by 116% for males and 116% for females and adjusted for mortality improvements using projection scale MP-2021 from 2010.
 - Active: PubT-2010 Male and Female Employee Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2021 from 2010.

Other Assumptions:

- Opt Out Assumption: 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 1 or more dependents.

Assumption changes as a result of an experience study for the period 2017 through 2022 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2023 valuation. The total OPEB liability as of September 30, 2024, is based on the results of an actuarial valuation date of September 30, 2023, and rolled forward using generally accepted actuarial procedures, including the experience study.

The recognition period for liabilities is the average of the expected remaining service lives of all employees in years is 6.2834.

The recognition period for assets in years is 5.0000.

Climax-Scotts Community Schools
Notes to the Financial Statements
June 30, 2025

Full actuarial assumptions are available in the 2024 MPSERS Annual Comprehensive 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 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 OPEB 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 OPEB plan's target asset allocation as of September 30, 2024, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.3%
Private Equity Pools	16.0	9.0%
International Equity	15.0	6.5%
Fixed Income Pools	13.0	2.0%
Real Estate and Infrastructure Pools	10.0	7.1%
Absolute Return Pools	9.0	5.2%
Real Return/Opportunistic Pools	10.0	6.9%
Short Term Investment Pools	2.0	1.4%
	<u>100.0%</u>	

*Long-term rates of return are net of administrative expenses and 2.3% inflation.

Rate of Return

For the plan year ended September 30, 2024, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 15.45%. 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 6.00% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.00%. 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 OPEB plan's 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability or Asset to Changes in the Discount Rate

The following presents the School District's proportionate share of the net OPEB liability or asset calculated using the discount rate of 6.00%, as well as what the School District's proportionate share of the net OPEB liability or asset would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

Current		
1% Decrease 5.00%	Discount Rate 6.00%	1% Increase 7.00%
<u>\$ (1,161,888)</u>	<u>\$ (1,503,462)</u>	<u>\$ (1,798,789)</u>

Climax-Scotts Community Schools

Notes to the Financial Statements

June 30, 2025

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

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

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ (1,798,793)	\$ (1,503,462)	\$ (1,186,722)

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2024 MPSERS Annual Comprehensive Financial Report, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

There were no significant payables to the OPEB plan that are not ordinary accruals to the School District.

Note 13 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial.

Note 14 - Tax Abatements

The School District may receive reduced property tax revenues as a result of Industrial Facilities Tax exemptions and Brownfield Redevelopment Agreements granted by various municipalities within the area. Industrial facility exemptions are intended to promote

construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2025, the School District's property tax revenues were not reduced by a significant amount under these programs.

There are no significant abatements made by the School District.

Note 15 - Change in Accounting Principle

The District restated net position as the result of adopting GASB Statement No. 101, *Compensated Absences*.

	Governmental Activities
June 30, 2024, as previously presented	\$ (3,737,603)
Change in accounting principle (GASB 101)	(364,781)
July 1, 2024, as restated	<u>\$ (4,102,384)</u>

REQUIRED SUPPLEMENTARY INFORMATION

Climax-Scotts Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2025

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues				
Local sources	\$ 513,595	\$ 634,402	\$ 654,531	\$ 20,129
State sources	7,382,212	7,670,024	7,666,924	(3,100)
Federal sources	173,314	224,593	146,703	(77,890)
Interdistrict sources	<u>1,102,363</u>	<u>1,218,282</u>	<u>1,247,266</u>	<u>28,984</u>
Total revenues	<u>9,171,484</u>	<u>9,747,301</u>	<u>9,715,424</u>	<u>(31,877)</u>
Expenditures				
Instruction				
Basic programs	3,834,129	4,101,976	4,067,359	(34,617)
Added needs	1,003,169	1,008,330	1,016,675	8,345
Supporting services				
Pupil	465,251	518,365	518,668	303
Instructional staff	498,106	535,745	509,182	(26,563)
General administration	374,586	366,269	342,895	(23,374)
School administration	616,806	623,619	621,208	(2,411)
Business	252,137	265,286	260,536	(4,750)
Operations and maintenance	933,970	999,002	964,125	(34,877)
Pupil transportation services	657,688	654,601	646,158	(8,443)
Central	298,580	294,866	291,475	(3,391)
Athletic activities	273,387	273,387	268,452	(4,935)
Community services	30,167	28,392	29,577	1,185
Capital outlay	-	186,236	280,698	94,462
Debt service				
Principal	-	39,960	64,519	24,559
Interest and fiscal charges	<u>-</u>	<u>33,219</u>	<u>8,333</u>	<u>(24,886)</u>
Total expenditures	<u>9,237,976</u>	<u>9,929,253</u>	<u>9,889,860</u>	<u>(39,393)</u>
Excess (deficiency) of revenues over expenditures	<u>(66,492)</u>	<u>(181,952)</u>	<u>(174,436)</u>	<u>7,516</u>
Other Financing Sources (Uses)				
Proceeds from issuance of leases	-	-	118,039	118,039
Transfers in	-	30,000	33,208	3,208
Transfers out	<u>(49,090)</u>	<u>(260)</u>	<u>(165)</u>	<u>95</u>
Total other financing sources (uses)	<u>(49,090)</u>	<u>29,740</u>	<u>151,082</u>	<u>121,342</u>
Net change in fund balances	<u>(115,582)</u>	<u>(152,212)</u>	<u>(23,354)</u>	<u>128,858</u>
Fund balance - beginning	<u>2,283,336</u>	<u>2,283,336</u>	<u>2,283,336</u>	<u>-</u>
Fund balance - ending	<u>\$ 2,167,754</u>	<u>\$ 2,131,124</u>	<u>\$ 2,259,982</u>	<u>\$ 128,858</u>

Climax-Scotts Community Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th, of Each June Fiscal Year)

	June 30,									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
A. School district's proportion of the net pension liability (%)	0.0326%	0.0318%	0.0322%	0.0309%	0.0301%	0.0305%	0.0305%	0.0303%	0.0294%	0.0291%
B. School district's proportionate share of the net pension liability	\$ 7,974,584	\$ 10,304,906	\$ 12,103,287	\$ 7,304,667	\$ 10,324,243	\$ 10,111,404	\$ 9,166,304	\$ 7,780,404	\$ 7,332,155	\$ 7,096,220
C. School district's covered payroll	\$ 3,785,374	\$ 3,271,218	\$ 3,268,925	\$ 2,988,160	\$ 2,767,027	\$ 2,726,909	\$ 2,694,895	\$ 2,567,051	\$ 2,540,127	\$ 2,481,895
D. School district's proportionate share of the net pension liability as a percentage of its covered payroll	210.67%	315.02%	370.25%	244.45%	373.12%	370.80%	340.14%	303.09%	288.65%	285.92%
E. Plan fiduciary net position as a percentage of total pension liability	74.44%	65.91%	60.77%	72.60%	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%

Note Disclosures

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2024.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2024.

Climax-Scotts Community Schools
Required Supplementary Information
Schedule of the School District's Pension Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30,									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
A. Statutorily required contributions	\$ 1,417,518	\$ 1,351,896	\$ 1,141,271	\$ 926,411	\$ 825,952	\$ 811,113	\$ 830,291	\$ 704,214	\$ 659,931	\$ 560,471
B. Contributions in relation to statutorily required contributions	<u>1,417,518</u>	<u>1,351,896</u>	<u>1,141,271</u>	<u>926,411</u>	<u>825,952</u>	<u>811,113</u>	<u>830,291</u>	<u>704,214</u>	<u>659,931</u>	<u>560,471</u>
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
D. School district's covered payroll	\$ 4,081,227	\$ 3,706,927	\$ 3,319,390	\$ 3,244,298	\$ 2,893,210	\$ 2,781,792	\$ 2,734,873	\$ 2,664,103	\$ 2,537,274	\$ 2,408,532
E. Contributions as a percentage of covered payroll	34.73%	36.47%	34.38%	28.56%	28.55%	29.16%	30.36%	26.43%	26.01%	23.27%

Climax-Scotts Community Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net OPEB Liability (Asset)
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th, of Each June Fiscal Year)

	June 30,									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
A. School district's proportion of the net OPEB liability (asset) (%)	0.0349%	0.0320%	0.0329%	0.0438%	0.0423%	0.0428%	0.0439%	0.0429%		
B. School district's proportionate share of the net OPEB liability (asset)	\$ (1,503,462)	\$ (181,151)	\$ 695,963	\$ 493,320	\$ 1,653,162	\$ 2,219,378	\$ 2,501,443	\$ 2,686,619		
C. School district's covered payroll	\$ 3,785,374	\$ 3,271,218	\$ 3,268,925	\$ 2,988,160	\$ 2,767,027	\$ 2,726,909	\$ 2,694,895	\$ 2,567,051		
D. School district's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	-39.72%	-5.54%	21.29%	16.51%	59.75%	81.39%	92.82%	104.66%		
E. Plan fiduciary net position as a percentage of total OPEB liability (asset)	143.08%	105.04%	83.09%	87.33%	59.44%	48.46%	42.95%	36.39%		

Note Disclosures

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2024.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2024.

Climax-Scotts Community Schools
Required Supplementary Information
Schedule of the School District's OPEB Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30,									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
A. Statutorily required contributions	\$ 55,274	\$ 287,159	\$ 247,044	\$ 239,923	\$ 218,022	\$ 212,301	\$ 204,263	\$ 236,198		
B. Contributions in relation to statutorily required contributions	<u>55,274</u>	<u>287,159</u>	<u>247,044</u>	<u>239,923</u>	<u>218,022</u>	<u>212,301</u>	<u>204,263</u>	<u>236,198</u>		
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
D. School district's covered payroll	\$ 4,081,227	\$ 3,706,927	\$ 3,319,390	\$ 3,244,298	\$ 2,893,210	\$ 2,781,792	\$ 2,734,873	\$ 2,664,103		
E. Contributions as a percentage of covered payroll	1.35%	7.75%	7.44%	7.40%	7.54%	7.63%	7.47%	8.87%		

OTHER SUPPLEMENTARY INFORMATION

Climax-Scotts Community Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2025

	<u>Special Revenue Funds</u>		Total Nonmajor
	<u>Food Service Fund</u>	<u>Student/School Activity Fund</u>	<u>Governmental Funds</u>
Assets			
Cash	\$ 266,449	\$ 125,044	\$ 391,493
Due from other funds	539	-	539
Due from other governmental units	10,480	-	10,480
Inventory	<u>2,346</u>	<u>-</u>	<u>2,346</u>
Total assets	<u>\$ 279,814</u>	<u>\$ 125,044</u>	<u>\$ 404,858</u>
Liabilities			
Accounts payable	\$ 19,731	\$ 2,744	\$ 22,475
Due to other funds	<u>33,366</u>	<u>-</u>	<u>33,366</u>
Total liabilities	<u>53,498</u>	<u>2,744</u>	<u>56,242</u>
Fund Balances			
Non-spendable			
Inventory	2,346	-	2,346
Restricted for			
Food service	223,970	-	223,970
Committed for student/school activities	<u>-</u>	<u>122,300</u>	<u>122,300</u>
Total fund balances	<u>226,316</u>	<u>122,300</u>	<u>348,616</u>
Total liabilities and fund balances	<u>\$ 279,814</u>	<u>\$ 125,044</u>	<u>\$ 404,858</u>

Climax-Scotts Community Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2025

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Food Service Fund	Student/School Activity Fund	
Revenues			
Local sources	\$ 38,008	\$ 120,401	\$ 158,409
State sources	164,178	-	164,178
Federal sources	287,280	-	287,280
Total revenues	489,466	120,401	609,867
Expenditures			
Current			
Education			
Supporting services	-	117,086	117,086
Food services	421,381	-	421,381
Total expenditures	421,381	117,086	538,467
Excess of revenues over expenditures	68,085	3,315	71,400
Other Financing Sources (Uses)			
Transfers in	165	-	165
Transfers out	(33,208)	-	(33,208)
Total other financing sources (uses)	(33,043)	-	(33,043)
Net change in fund balances	35,042	3,315	38,357
Fund balances - beginning	191,274	118,985	310,259
Fund balances - ending	\$ 226,316	\$ 122,300	\$ 348,616

Climax-Scotts Community Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2025

Year Ending June 30,	2018 Building & Site	2023 Building & Site	Total
2026	\$ 525,000	\$ 100,000	\$ 625,000
2027	550,000	100,000	650,000
2028	580,000	100,000	680,000
2029	605,000	105,000	710,000
2030	630,000	105,000	735,000
2031	655,000	115,000	770,000
2032	680,000	120,000	800,000
2033	705,000	130,000	835,000
2034	730,000	140,000	870,000
2035	760,000	145,000	905,000
2036	790,000	155,000	945,000
2037	820,000	165,000	985,000
2038	850,000	175,000	1,025,000
2039	-	880,000	880,000
2040	-	920,000	920,000
2041	-	920,000	920,000
2042	-	920,000	920,000
2043	-	930,000	930,000
2044	-	940,000	940,000
2045	-	950,000	950,000
2046	-	960,000	960,000
2047	-	970,000	970,000
2048	-	975,000	975,000
2049	-	995,000	995,000
2050	-	1,000,000	1,000,000
2051	-	1,000,000	1,000,000
2052	-	1,000,000	1,000,000
2053	-	1,000,000	1,000,000
Total	<u>\$ 8,880,000</u>	<u>\$ 16,015,000</u>	<u>\$ 24,895,000</u>
Principal payments due the first day of	May	May	
Interest payments due the first day of	May and November	May and November	
Interest rate	4.00% - 5.00%	4.00% - 5.00%	
Original issue	<u>\$ 10,715,000</u>	<u>\$ 16,115,000</u>	

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

Management and the Board of Education
Climax-Scotts Community Schools
Climax, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Climax-Scotts Community Schools, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise Climax-Scotts Community Schools' basic financial statements and have issued our report thereon dated September 8, 2025.

Report on Internal Control Over Financial Reporting

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

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

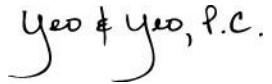
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

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

Purpose of this Report

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



Kalamazoo, Michigan
September 8, 2025

September 8, 2025

This letter hereby certifies that Climax-Scotts Community Schools has engaged an independent auditor to perform bond compliance testing for the subsequently referenced bond projects in accordance with the State of Michigan, Department of Treasury Numbered Letter 2023-1. The auditor has completed such testing with results as summarized below.

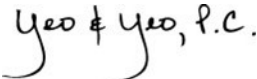
The 2023 Building & Site Fund includes capital project activities funded with bonds. The annual construction activity and related costs for the 2023 School Building and Site Bonds were reported in this fund beginning with the fiscal year ending June 30, 2024. The bonds were issued on July 25, 2023 in the amount of \$16,115,000. The projects were not substantially complete at year end, and therefore, subsequent year compliance testing is expected.

Expenditures for these bond projects were recognized in the annual financial statements as follows:

<u>For the year ended June 30,</u>		<u>Firm Performing Compliance Testing</u>
2024	\$ 1,832,166	Yeo & Yeo
2025	9,708,706	Yeo & Yeo
	<u>\$ 11,540,872</u>	

School District Name	Climax-Scotts Community Schools
Six Digit Code	394020
Fiscal Year Ended	June 30, 2025
Name of bonds	2023 School Building and Site Bonds
Completion date	Not yet complete
Completion date based on	N/A
Bond compliance testing performed on	Annual basis
Compliance testing performed by a firm other than the firm that performed the annual financial statement audit?	No
Bond financial statements audited by a different firm than performed the firm that performed the audit of the remaining financial statements?	No

For this capital project during the time period specified in the table above, the school district has complied with the applicable provisions of Section 1351a of the Revised School Code.


Kalamazoo, Michigan

September 8, 2025

Management and the Board of Education
Climax-Scotts Community Schools
Climax, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Climax-Scotts Community Schools (the School District) as of and for the year ended June 30, 2025. We are required to communicate certain matters to you in accordance with generally accepted auditing standards that are related to internal control and the audit.

Our communication includes the following:

- I. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Matters for Management's Consideration

Matters for management's consideration are not required to be communicated but we believe are valuable for management.

We discussed these matters with various personnel in the School District during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

This information is intended solely for the information and use of the Board of Education and management of the School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Kalamazoo, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 5, 2025. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in the footnotes of the financial statements. The School District has adopted the following Governmental Accounting Standards Board Statements effective July 1, 2024:

- Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.
- Statement No. 102, *Certain Risk Disclosures*, requires governments to provide users of the financial statements with essential information about risks related to the government's vulnerabilities due to certain concentrations or constraints.

We noted no transactions entered into by the School District during the year for which there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the School District's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Net other postemployment benefits (OPEB) liability(asset), and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Compensated Absences. Management's estimate is based pay rates in effect at the end of the reporting period and the likelihood that employees will use or be paid out for earned time.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Disclosures in the financial statements are neutral, consistent and clear.

Auditors are required to use professional judgment to identify areas of the audit that have a significant risk of material misstatement and perform special audit consideration in those areas. Within our audit, we focused additional consideration on the following areas:

- Management override of controls
- Improper revenue recognition
- Implementation of new accounting standard

Accounting Standards and Regulatory Updates

The Governmental Accounting Standards Board has released additional Statements. Details regarding these Statements are described in the footnotes of the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial and communicate them to the appropriate level of management. Management has corrected all such misstatements.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

There were no known uncorrected misstatements that were more than trivial.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Emphasis of Matter in Independent Auditors' Report

Our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standard

As discussed in Note 15 to the financial statements, during the year ended June 30, 2025, the School District adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences*. Our opinions are not modified with respect to this matter.

Other Reports

Other information that is required to be reported to you is included in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Please read all information included in that report to ensure you are aware of relevant information.

Report on Required Supplementary Information

We applied certain limited procedures to management's discussion and analysis and the remaining required supplementary information (RSI) as described in the table of contents of the financial statements that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Report on Other Supplementary Information

We were engaged to report on other supplementary information as described in the table of contents of the financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Appendix II

Matters for Management's Consideration

In planning and performing our audit of the financial statements of the School District as of and for the year ended June 30, 2025, we considered the School District's internal control over financial reporting (internal control) as a basis for designing audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of the following matter for management's consideration that is an opportunity for ensuring compliance with grant regulations. This letter does not affect our report dated September 8, 2025 on the financial statements of the School District.

Net Cash Resources

As a result of the changes in the food service program including the introduction of the Michigan School Meals program, meal claim revenues were in excess of anticipated amounts. A proportional increase to expenditures did not occur, resulting in a growth in net cash resources in an amount that exceeded the three-month average expenditure requirement included in the federal regulations. The noncompliance has not been determined to be material to the federal program or the financial statements, as it has not resulted in questioned costs, or negatively impacted the program; as the District is actively working on using the funds to enhance the program. However, the District must continue to take action to return to compliance. Districts may improve food quality or take other action designed to improve the program. We recommend that the District look at possible enhancements to the program in order to develop a spend down plan to return to compliance with this requirement.