



GALIEN TOWNSHIP SCHOOLS

FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION

June 30, 2016

Galien Township Schools
Table of Contents
June 30, 2016

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
District-wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet – Governmental Funds	10
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position	11
Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds	12
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement of Activities	13
Notes to Financial Statements	14-23
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	24
Management Compliance Letter	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25-26
Schedule of Findings and Responses	27-30



To the Superintendent of the
Berrien Regional Education Service Agency
Acting Superintendent for
Galien Township Schools

Report to the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Galien Township Schools (the “District”), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Galien Township Schools as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, Concluded

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in blue ink that reads "Kruegel, Lawton & Company, LLC". The signature is written in a cursive style.

Certified Public Accountants

St. Joseph, Michigan
February 13, 2017

Galien Township Schools, a school district located in Berrien County, Michigan, follows the provisions of Governmental Accounting Standards Board Statement 34 ("GASB 34") with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be discussion and analysis of the financial results for the fiscal year ended June 30, 2016 of the management of Galien Township Schools (the "District").

During the fiscal year of 2011-2012, the Board of Education voted to cease all instructional program going forward. The District continued to exist for three years. Effective August 2014, the Berrien Regional Education Services Agency (the "RESA") Board voted to formally attach the District's territory to the neighboring Districts of River Valley School District and Buchanan Community Schools. The RESA is currently managing the District to ensure the 2005/2015 Refunding Bonds are paid in full. In February of 2016, the RESA applied for a Section 22g District/ISD Consolidation Grant, under the District's name, which will hold harmless the District's taxpayers from three of the four remaining tax years of bonded debt for the District's 2005/2015 Refunding Bonds. This grant will cover the principal and interest costs for the tax years 2016-2018. For the tax year 2019, payable in 2020, the RESA will collect the remaining property taxes that associated with the District's 2005/2015 Refunding Bonds.

Generally accepted accounting principles ("GAAP") and GASB 34 requires the reporting of two types of financial statements: District-Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current economic resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their debt service funds.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

District-wide Financial Statements

The District-wide financial statements are full accrual basis statements. They report all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources both short and long term, regardless if they are "currently available" or not. Capital assets and long-term obligations of the District are reported in the Statement of Net Position of the District-wide financial statements.

Summary of Net Position

The District had deficit net position of \$298,831 as of June 30, 2016. The net position of the District is summarized in the table below as of June 30:

	<u>2016</u>	<u>2015</u>
Assets:		
Cash and investments	\$ 353,478	\$ 555,764
Due from other governmental units	-	48,966
Net capital assets	-	175,000
Total Assets	<u>\$ 353,478</u>	<u>\$ 779,730</u>
Deferred Outflows of Resources:		
Deferred interest charges on bond issuance	18,928	25,237
Total Assets and Deferred Outflows of Resources	<u>\$ 372,406</u>	<u>\$ 804,967</u>
Liabilities:		
Accounts payable and other accrued liabilities	\$ 1,237	\$ 2,998
Bonds payable	670,000	1,270,000
Total Liabilities	<u>\$ 671,237</u>	<u>\$ 1,272,998</u>
Net Position (Deficit):		
Net investment in capital assets	\$ (651,072)	\$(1,069,763)
Restricted for debt service	234,220	29,558
Unrestricted	118,021	572,174
Total Net Position (Deficit)	<u>\$ (298,831)</u>	<u>\$ (468,031)</u>

Analysis of Financial Position

During fiscal year ended June 30, 2016, the District’s net position increased by \$169,200. A few of the significant factors affecting net position during the year are discussed below:

A. General Fund Operations

The District’s expenditures and other financing uses from General Fund operations exceeded revenues and other financing sources by \$455,914 for the fiscal year ended June 30, 2016. The District was awarded a State of Michigan Section 22g District/ISD Consolidated Grant of \$213,474 to pay the District’s 2005/2015 Refunding Bond principal and interest payments. The District also sold all of the District’s assets for a net proceeds of \$159,689. These funds were transferred to the 2005/2015 School Refunding Bonds – Debt Retirement Fund to pay down the District’s 2005/2015 Refunding Bonds. See results of operations for the District’s activity on the full accrual basis of accounting.

Analysis of Financial Position, Concluded

B. Net Investment in Capital Assets

All of the District’s assets were sold during the year. The Districted received \$159,689 (net of costs) which resulted in a net loss from disposal of \$15,315.

	Balance 7/1/2015	Additions	Deletions	Balance 6/30/2016
Capital Assets	\$ 4,840,357	\$ -	\$ (4,840,357)	\$ -
Less: accumulated depreciation	(4,665,357)	-	4,665,357	-
Net investment in capital assets	<u>\$ 175,000</u>	<u>\$ -</u>	<u>\$ (175,000)</u>	<u>\$ -</u>

C. Debt Activity

The District made \$600,000 of principal payments on the 2005/2015 Refunding Bonds. The District has \$670,000 of outstanding debt at year end. During the year the District received a State of Michigan Section 22g District/ISD Consolidation Grant which will hold harmless the District’s taxpayers from three of the four years remaining debt payments. For the tax year 2019, payable in 2020, the District’s taxpayer’s property will be levied at .36 mills in order to satisfy the remaining principal and interest costs and will retire the bonded debt.

Results of Operations

The District-wide results of operations for the fiscal years ended June 30, 2016 and 2015 are summarized in the table below:

	<u>2016</u>	<u>2015</u>
Revenues:		
General Revenues:		
Property taxes levied for general operations	\$ -	\$ 365,100
Property taxes levied for debt service	-	240,512
State of Michigan unrestricted foundation aid	-	1,339
State of Michigan restricted grant	213,474	-
Earnings on investments	276	4,881
Other general revenues	23,990	68,285
Loss on sale of capital assets	(15,315)	-
Total general revenues	<u>\$ 222,425</u>	<u>\$ 680,117</u>
Expenses:		
Support services	\$ 26,182	\$ 123,457
Interest on long-term debt	27,043	57,993
Impairment loss (unallocated)	-	109,000
Total expenses	<u>\$ 53,225</u>	<u>\$ 290,450</u>
Change in Net Position	<u>\$ 169,200</u>	<u>\$ 389,667</u>
Beginning Net Position	<u>(468,031)</u>	<u>(857,698)</u>
Ending Net Position (Deficit)	<u><u>\$ (298,831)</u></u>	<u><u>\$ (468,031)</u></u>

Expected Future Results

On February 3, 2016, the District was awarded a three-year State of Michigan Section 22g District/ISD Consolidation Grant for full funding in the amount of \$647,135. Funding for this program has been authorized by Section 22g of Public Act 85 of 2015, Competitive Assistance Grants to Districts and Intermediate School Districts. This grant was submitted to hold harmless the District’s taxpayers from three of the four remaining tax years of bonded debt for the District’s 2005/2015 Refunding Bonds. Specifically, this grant will cover the total principal and interest costs for the tax years 2016-2018. Tax payments are due the years after the property is assessed. For the tax year 2019, payable in 2020, property will be levied at .36 mills in order to satisfy the remaining principal and interest costs. At this time, the District will be officially closed.

Contacting the District's Financial Management

The financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, please contact the Business Office at RESA.

	<u>Governmental Activities</u>
Assets and Deferred Outflows of Resources	
Current assets	
Cash and investments	\$ 353,478
Total current assets	<u>\$ 353,478</u>
Deferred outflows of resources	
Deferred interest charges on bond issuance	\$ 18,928
Total Assets and Deferred Outflows of Resources	<u>\$ 372,406</u>
 Liabilities	
Current liabilities	
Accrued interest	\$ 1,237
Bonds payable, due within one year	210,000
Total current liabilities	<u>\$ 211,237</u>
Noncurrent liabilities	
Bonds payable, due in more than one year	460,000
Total Liabilities	<u>\$ 671,237</u>
Net Position (Deficit)	
Net investment in capital assets	\$ (651,072)
Restricted for debt service	234,220
Unrestricted	118,021
Total Net Position (Deficit)	<u><u>\$ (298,831)</u></u>

The accompanying notes are an integral part of these financial statements.

GALIEN TOWNSHIP SCHOOLS

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:					
Support services	\$ 26,182	\$ -	\$ 186,431	\$ -	\$ 160,249
Interest on long-term debt	27,043	-	27,043	-	-
	<u>\$ 53,225</u>	<u>\$ -</u>	<u>\$ 213,474</u>	<u>\$ -</u>	<u>\$ 160,249</u>
General revenues:					
Interest and investment earnings					\$ 276
Other					23,990
Loss on sale of capital assets					(15,315)
Total general revenues					<u>\$ 8,951</u>
Change in Net Position					\$ 169,200
Net Position (Deficit) - Beginning of Year					(468,031)
Net Position (Deficit) - End of Year					<u>\$ (298,831)</u>

The accompanying notes are an integral part of these financial statements.

GALIEN TOWNSHIP SCHOOLSBALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	2015/2005 School Refunding Bonds - Debt Retirement Fund	Total
Assets			
Cash and investments	\$ 119,258	\$ 234,220	\$ 353,478
Total Assets	\$ 119,258	\$ 234,220	\$ 353,478
Liabilities and Fund Balances			
Liabilities			
Fund Balances			
Restricted for debt service	\$ -	\$ 234,220	\$ 234,220
Unassigned	119,258	-	119,258
Total Fund Balances	\$ 119,258	\$ 234,220	\$ 353,478
Total Liabilities and Fund Balances	\$ 119,258	\$ 234,220	\$ 353,478

The accompanying notes are an integral part of these financial statements.

GALIEN TOWNSHIP SCHOOLS

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total Fund Balances - Governmental Funds	\$ 353,478
Amounts reported for governmental activities in the Statement of Net Position (Deficit) are different because:	
Deferred interest charges from bond refunding not capitalized in the governmental funds.	18,928
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(670,000)
Accrued interest payable is not included as a liability in governmental activities.	<u>(1,237)</u>
Total Net Position (Deficit) - Governmental Activities	<u><u>\$ (298,831)</u></u>

The accompanying notes are an integral part of these financial statements.

GALIEN TOWNSHIP SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>2015/2005 School Refunding Bonds - Debt Retirement Fund</u>	<u>Total</u>
Revenues			
Local sources	\$ 23,990	\$ -	\$ 23,990
State sources	213,474	-	213,474
Earnings on investments	111	165	276
Total Revenues	<u>\$ 237,575</u>	<u>\$ 165</u>	<u>\$ 237,740</u>
Expenditures			
Support services	\$ 24,682	\$ 1,500	\$ 26,182
Debt service:			
Principal on long-term debt	-	600,000	600,000
Interest on long-term debt	-	22,499	22,499
Total Expenditures	<u>\$ 24,682</u>	<u>\$ 623,999</u>	<u>\$ 648,681</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 212,893</u>	<u>\$ (623,834)</u>	<u>\$ (410,941)</u>
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	\$ 159,689	\$ -	\$ 159,689
Operating transfers in	-	828,496	828,496
Operating transfers out	(828,496)	-	(828,496)
Total Other Financing Sources (Uses)	<u>\$ (668,807)</u>	<u>\$ 828,496</u>	<u>\$ 159,689</u>
Net Change in Fund Balances	\$ (455,914)	\$ 204,662	\$ (251,252)
Fund Balances - Beginning of year	575,172	29,558	604,730
Fund Balances - End of year	<u>\$ 119,258</u>	<u>\$ 234,220</u>	<u>\$ 353,478</u>

The accompanying notes are an integral part of these financial statements.

GALIEN TOWNSHIP SCHOOLS

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances - Total Governmental Funds	\$ (251,252)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Current year decrease in the deferred interest charges from the issuance of the 2005/2015 refunding bonds.	(6,309)
Repayment of bond principal is an expenditure in the governmental funds, but not in the Statement of Activities (where it reduces long-term debt).	600,000
Net proceeds from sale of capital assets.	(159,689)
Loss on sale of capital assets.	(15,315)
Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid.	<u>1,765</u>
Change in Net Position - Governmental Activities	<u><u>\$ 169,200</u></u>

The accompanying notes are an integral part of these financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Galien Township Schools (the “District”) conform to accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units and with the rules prescribed in the accounting manual by the Michigan Department of Education. The following is a summary of the significant accounting policies used by the District:

Reporting Entity

In August of 2015, the District officially acted to close the District and allocate its boundaries to the neighboring School Districts of River Valley and Buchanan. The District is being managed by the Berrien Regional Education Services (“RESA”) and will be paying off the bonds that are currently outstanding.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (“GASB”) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the District’s reporting entity, and which organizations are legally separate, component units of the District. Based on the application of the criteria, the District does not contain any component units.

District-wide and Fund Financial Statements

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

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

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

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

The District reports the following major governmental funds:

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

2005/2015 School Refunding Bond - Debt Retirement Fund - is the District's debt retirement fund for the 2005/2015 school refunding bonds. It accounts for resources and expenditures relating to the repayment of the bond issue.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity**

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

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

Property Taxes - Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. For the District’s taxpayers, properties are assessed as of July 1st and the related property taxes are levied and become a lien on March 1st. The final collection date is February 28, after which uncollected taxes are added to the Berrien County delinquent tax rolls. For the current audit year, property taxes were not collected since the District received the Section 22g District/ISD Consolidation Grant.

State Aid – During the 2015 fiscal year, the District applied for a Section 22g District/ISD Consolidation Grant. This grant will hold harmless the District’s taxpayers for three years of the four remaining tax years of bonded debt for the 2005/2015 refunding bonds. The grant will end in the District’s fiscal year June 30, 2019.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The District does not have infrastructure type assets. No depreciation was charged during the year as all capital assets were impaired to fair market value and salvage value in the previous year. In July, all of the District’s assets were sold.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Deferred Outflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one deferred outflow of charges related to the bond refunding.

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, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Inflows of Resources - In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of sources (revenue) until that time. The governmental funds report unavailable revenues, which arise only under a modified accrual basis of accounting, for long-term receivables. These amounts are deferred and recognized as an inflow of resources in the period that amounts become available.

Fund Equity - The District follows the provisions of GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement requires fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The following are the fund balance classifications:

Non-Spendable - This includes those amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)**Assets, Liabilities, and Net Position or Equity (Concluded)**

Restricted - This includes amounts that can be spent only for specific purposes stipulated by what the external resources provide (for example grant providers, constitutionally, or through enabling legislation). These restrictions may be changed or lifted only with the consent of resource providers.

Committed - This includes amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

Assigned - This includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed.

Unassigned - This represents the residual classification for the fund balance that has not met any of the previous classifications.

Fund Equity Flow Assumptions - Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position Flow Assumption - Sometimes the District will fund outlays for particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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 amount of expenditures during the reported period. Actual results may differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and other major funds. All annual appropriations lapse at fiscal year-end.

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

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of yearend; the commitments will be re-appropriated and honored during the subsequent year. There were no encumbrances at June 30, 2016.

Excess of Expenditures Over Appropriations in Budgeted Funds - The District had expenditures that exceeded appropriations in the following major budgeted functions:

<u>Function</u>	<u>Final Budget</u>	<u>Final Actual</u>	<u>Variance</u>
Fiscal	\$ -	\$ 24,682	\$ (24,682)
Operating transfers out	-	828,496	(828,496)

The District's General Fund balance was used to absorb the impact of the excess of expenditures.

Net Position Deficit – As of June 30, 2016, the Government-Wide Statement of Net Position had a cumulative net position deficit of \$298,831.

NOTE 3. DEPOSITS AND INVESTMENTS

As of June 30, 2016, the District deposits and investments include the following:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Deposits	\$ 352,825	\$ -	\$ 352,825
Investments	-	653	653
	<u>\$ 352,825</u>	<u>\$ 653</u>	<u>\$ 353,478</u>

Bank Deposits:

All cash of the District is on deposit with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

NOTE 3. DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2016, \$102,903 of the District’s bank balance of \$352,903 was exposed to custodial credit risk.

Investments: Michigan law permits investments in: 1) Bonds and other obligations of the United States Government, 2) Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively, 3) Certain commercial paper, 4) United States Government repurchase agreements, 5) Banker’s acceptance of the United States Bank, and 6) Certain mutual funds. The District has put further restrictions on those investments through its current policy, and the following investment is permitted by law and policy.

Investment Type	Fair Value	Investment Maturities			
		Current	1 - 5 years	6 - 10 years	More than 10
Investment Pools	\$ 653	\$ 653	\$ -	\$ -	\$ -

Interest Rate Risk: In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

Credit Risk: State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by Nationally Recognized Statistical Rating Organizations (“NRSRO’s”). As of June 30, 2016, the District’s investment in the investment pool was rated BBB+ by Standard & Poor’s.

Concentration of Credit Risk: The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All of the District’s investments are in investment pools which represent 100% of the District’s total investments.

Custodial Credit Risk - Investments: For an Investment, this is the risk that in the event of bank failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investments in the investment pool of \$653 the District has a custodial credit risk exposure of \$653, because the related securities are uninsured, unregistered, and held by the District’s brokerage firm which is also the counterparty for these particular securities.

NOTE 4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of June 30, 2016 there no receivables/payables due between funds.

Interfund Transfers:

Transfer In:	Transfer Out:	Amount
2005/2015 School Refunding Bonds - Debt Retirement Fund	General Fund	\$ 828,496

The General Fund transferred \$828,496 to the 2005/2015 School Refunding Bonds – Debt Retirement Fund to pay down a portion of the 2005/2015 School Refunding Bonds.

NOTE 5. CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Assets not being depreciated:				
Land	\$ 34,000	\$ -	\$ (34,000)	\$ -
Capital assets being depreciated:				
Building and building improvements	\$ 4,572,232	\$ -	\$ (4,572,232)	\$ -
Land improvements	234,125	-	(234,125)	-
Subtotal	<u>\$ 4,806,357</u>	<u>\$ -</u>	<u>\$ (4,806,357)</u>	<u>\$ -</u>
Accumulated depreciation:				
Building and building improvements	\$ 4,431,232	\$ -	\$ (4,431,232)	\$ -
Land improvements	234,125	-	(234,125)	-
Subtotal	<u>\$ 4,665,357</u>	<u>\$ -</u>	<u>\$ (4,665,357)</u>	<u>\$ -</u>
Net capital assets being depreciated	<u>\$ 141,000</u>			<u>\$ -</u>
Net capital assets	<u>\$ 175,000</u>			<u>\$ -</u>

In July of 2015, the District sold all of their remaining assets.

NOTE 6. LONG-TERM DEBT

The District issues unlimited tax bonds, notes, and other contractual commitments for the governmental activities to provide funds for the acquisition and construction of major capital facilities and purchase of certain equipment. Unlimited tax bonds are direct obligations and pledge the full faith and credit of the District. Bonded indebtedness of the District is reflected in the district-wide financial statements.

Current requirements for principal and interest expenditures are payable solely from future revenues of the debt service funds, which consist principally of property taxes.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Proceeds	Payments	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Bonds	\$ 1,270,000	\$ -	\$ (600,000)	\$ 670,000	\$ 205,000

Annual debt service requirements to maturity for the above Governmental bond and note obligations are as follows:

	<i>Governmental Activities:</i>		
	Principal	Interest	Total
6/30/2017	\$ 205,000	\$ 8,454	\$ 213,454
6/30/2018	210,000	5,980	215,980
6/30/2019	215,000	2,681	217,681
6/30/2020	40,000	400	40,400
	<u>\$ 670,000</u>	<u>\$ 17,515</u>	<u>\$ 687,515</u>

Interest expense of \$27,043 was not charged to activities as the District considers its debt and related assets to impact multiple activities and allocation was not practical.

Governmental Activities:

General obligation bonds consist of:

\$1,270,000 - 2015 School Refunding Bonds; payable in annual installments of \$200,000 to \$215,000; interest from .850% to 2.00%; due 5/1/2020. \$ 670,000

NOTE 6. LONG-TERM DEBT (CONCLUDED)

Advance Refunding - The District has defeased in 2015 certain unlimited tax school refunding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for defeased bonds are not included in the District's financial statements. As of June 30, 2016, \$1,065,000 of bonds considered defeased are still outstanding.

NOTE 7. SUBSEQUENT EVENTS

The District has evaluated subsequent events through February 13, 2017, the date that the financial statements were available to be issued. No events or transactions occurred during this period which requires recognition or disclosure in the financial statements.

**REQUIRED SUPPLEMENTARY
INFORMATION**

GALIEN TOWNSHIP SCHOOLS

REQUIRED SUPPLEMENTARY SCHEDULE
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED JUNE 30, 2016

	Original/Final Amended Budget	Actual	Variance
Revenues			
Local sources	\$ -	\$ 23,990	\$ 23,990
State sources	-	213,474	213,474
Earnings on investment	-	111	111
Total Revenues	\$ -	\$ 237,575	\$ 237,575
Expenditures			
Support services			
Fiscal		\$ 24,682	\$ (24,682)
Total Expenditures	\$ -	\$ 24,682	\$ (24,682)
Excess of Revenues over Expenditures	\$ -	\$ 212,893	\$ 212,893
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	\$ -	\$ 159,689	\$ 159,689
Operating transfers in (out)	-	(828,496)	(828,496)
Total Other Financing Sources (Uses)	\$ -	\$ (668,807)	\$ (668,807)
Net Change in Fund Balances	\$ -	\$ (455,914)	\$ (455,914)
Fund Balances - Beginning of year	575,172	575,172	-
Fund Balances - End of year	\$ 575,172	\$ 119,258	\$ (455,914)

**MANAGEMENT COMPLIANCE
LETTER**



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

To the Superintendent of the
Berrien Regional Education Service Agency
Acting Superintendent for
Galien Township Schools

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 Galien Township Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Galien Township Schools’ basic financial statements, and have issued our report thereon dated February 13, 2017.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the following deficiency described in the accompanying schedule of findings and responses to be a material weakness (2016-001).

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIALS STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, CONCLUDED**

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Galien Township Schools’ financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2016-001 and 2016-002.

Galien Township Schools’ Response to Findings

Galien Township Schools’ response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Galien Township Schools’ response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Respectfully submitted,



Certified Public Accountants

St. Joseph, Michigan
February 13, 2017

SECTION I – STATUS OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS**Finding 2015-001 – Segregation of Incompatible Duties****Finding Type - Material weakness in internal control over financial reporting.**

Criteria - Management is responsible for establishing and maintaining effective internal control over financial reporting and for the safeguarding of the District's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept given the government's unique circumstances.

Condition - As is the case with many organizations of similar size, the District lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. Events of recent years have given rise to heightened awareness of the risks of fraud and abuse, especially in a school district environment, where public accountability is the highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitation on the effectiveness of the District's internal controls carries with it a greater risk of fraud and abuse.

Cause - This condition is a result of the District's limited resources and the small size of its accounting staff.

Effect - As a result of this condition, the District is exposed to an increased risk that material misstatements or misappropriations might occur and not be detected by management on a timely basis.

Recommendation - While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Views of Responsible Officials and Planned Corrective Actions - We are aware of this deficiency; however, given the size of our entity and our available resources, it is difficult to provide for appropriate segregation of incompatible duties for all accounting functions. However, we will evaluate available options to administer limited segregation of duties for key accounting functions given our current resources.

Status – Since the accounting function is under control of the Berrien RESA we feel that this material weakness can be eliminated. The Berrien RESA has the resources to have adequate segregation of duties for the District's financial reporting.

SECTION I – STATUS OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS - CONTINUED**Finding 2015-002 – Preparation of Financial Statements****Finding Type – Material weakness in internal control over financial reporting**

Criteria – All school districts are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the District’s management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records, and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting) and schedules.

Condition – As in the case with many smaller and medium-sized entities, the District has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the District’s ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the District’s internal controls.

Cause – Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it their best interest to outsource the preparation of its annual financial statements and other schedules to the auditors rather than to incur the time and expense of obtaining the necessary and expertise required for the District to perform this task internally.

Effect – As a result of this condition, the District lacks internal controls over the preparation of financial statements and other schedules in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation – The District should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Views of Responsible Officials and Planned Corrective Actions - We are aware of this deficiency, however, given the state of educational funding, it is not cost beneficial for us to develop these processes. We will re-evaluate if additional funding becomes available. We will continue to rely on our independent auditors for such technical assistance.

Status – Since the accounting function is under control of the Berrien RESA we feel that this material weakness can be eliminated. The Berrien RESA has the resources to prepare the District’s financial statements without the complete reliance of the District’s auditors.

SECTION I – STATUS OF PRIOR YEAR FINANCIAL FINDINGS – CONCLUDED

SECTION II – CURRENT YEAR FINANCIAL STATEMENT FINDINGS

2016-001 – Budget Compliance – Budget Adoption

Finding Type – Material weakness in internal control over financial reporting and noncompliance with laws and regulations

Criteria – The District is required to adopt budgets for all required funds per State of Michigan regulations.

Condition – The District did not adopt a budget for the General Fund.

Cause – The Berrien Regional Education Service Agency (the “Berrien RESA”) is performing the administrative duties for the District. The administrators of the Berrien RESA were not aware a budget for the District should be adopted.

Effect – The year-end financial reporting did not show all required supplementary information due to the District not adopting a budget.

Recommendation – The administration and the Board for Berrien RESA will adopt a General Fund budget on behalf of the District.

Views of Responsible Officials and Planned Corrective Actions – We are aware of this deficiency and will adopt a General Fund budget for the District’s 2017 fiscal year.

2016-002 – Audit Submission

Finding Type – Noncompliance with laws and regulations

Criteria – The District is required to submit an audit to the Michigan Department of Education by November 1, 2016.

Condition – The District’s audit was submitted after the November 1, 2016 deadline.

Cause – The District’s administration thought an audit was not needed since the District was closed.

Effect – The District’s audit was submitted late to the Michigan Department of Treasury.

Recommendation – We recommend that the District complete the audit before November 1.

Views of Responsible Officials and Planned Corrective Actions – We are aware of this deficiency. We understand since the District has received the Section 22g District/ISD Consolidation Grant that an audit will be required for the future fiscal years until the District’s 2005/2015 Refunding Bonds are paid off. We have already scheduled our 2017 fiscal year audit in July.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The District spent less than \$750,000 of federal awards. A single audit is not required under the Uniform Guidance and was not performed.