



# GALIEN TOWNSHIP SCHOOLS

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## FINANCIAL REPORT WITH SUPPLEMENTARY INFORMATION

June 30, 2014

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## Independent Auditor's Report

To the Board of Education  
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 "School District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School 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, 2014, 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.

### *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 on pages 3 through 10 and 28 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.

David Schaffer, CPA  
Michael Layher, CPA  
*Founding Partners:*  
Morris McMurray, CPA  
Raymond Marks, CPA  
Jeff Edmunds, CPA

## Independent Auditor's Report, Concluded

### *Emphasis of a Matter*

We draw attention to Note 9 to the financial statements which discuss the School District's discontinued operations. Our opinion is not qualified in respect of these matters.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2014, 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.

A handwritten signature in cursive script that reads "Schaffer & Layher".

Schaffer & Layher  
November 5, 2014

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, 2014 of the management of Galien Township Schools (the "School District").

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 financial 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 School 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 School 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 School District are reported in the Statement of Net Position of the District-wide financial statements.

**Summary of Net Position**

The School District had net position of \$(857,698) as of June 30, 2014. The net position of the School District is summarized in the table below as of June 30:

	<u>2014</u>	<u>2013</u>
<b>Assets:</b>		
Cash and investments	\$ 311,277	\$ 220,998
Due from other governmental units	3,295	48,427
Net capital assets	284,000	284,000
<b>Total Assets</b>	<u>\$ 598,572</u>	<u>\$ 553,425</u>
<b>Liabilities:</b>		
Accounts payable and other accrued liabilities	\$ 11,588	\$ 9,216
Other liabilities	9,682	118,102
Bonds payable	1,435,000	1,650,000
<b>Total Liabilities</b>	<u>\$ 1,456,270</u>	<u>\$ 1,777,318</u>
<b>Net Position:</b>		
Net investment in capital assets	\$(1,151,000)	\$(1,366,000)
Restricted for debt service	43,873	83,877
Unrestricted	249,429	58,230
<b>Total Net Position</b>	<u>\$ (857,698)</u>	<u>\$ (1,223,893)</u>

**Analysis of Financial Position**

During fiscal year ended June 30, 2014, the District’s net position increased by \$366,195. A few of the significant factors affecting net position during the year are discussed below:

A. General Fund Operations

The School District’s revenues from General Fund operations exceeded expenditures by \$192,766 for the fiscal year ended June 30, 2014. See the section entitled Results of Operations, below, for further discussion of General Fund operations.

B. Debt Payments

The School District made principal payments on bonded, long-term debt obligations which reduced the amount of the School District’s long-term liabilities. Principal payments made during the year ended June 30, 2014 totaled \$215,000. This reduced the 2005 refunding and 2001 School Improvement Bonds by \$215,000.

**Analysis of Financial Position, Concluded**

C. Net Investment in Capital Assets

The School District's net investments in capital assets did not change from the prior year. The net activity for the year is summarized in the following table:

	Balance 7/1/2013	Additions	Deletions	Balance 6/30/2014
Capital Assets	\$ 5,290,042	\$ -	\$ (340,685)	\$ 4,949,357
Less: accumulated depreciation	(5,006,042)	-	340,685	(4,665,357)
Net investment in capital assets	<u>\$ 284,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 284,000</u>

In the current year, the School District had no capital asset additions. Most of the schools furniture and equipment has been sold or scrapped. In the prior year, assets were impaired and written down to their fair market value. Thus, the School District recognized no depreciation expense during the current year. The School District owns no infrastructure assets.

D. Debt Activity

In 2001, the District received \$500,000 from Q.Z.A.B. issues for new capital equipment purchases and remodeling of the existing school facilities. This bond was paid off in the current year.

During fiscal year 2005, the School District issued \$2,310,000 of unlimited tax refunding bonds to provide resources to place in escrow for the purpose of generating resources for future debt service payments of \$2,325,000. As of June 30, 2014, \$1,435,000 of these bonds were still outstanding.

**Results of Operations**

The District-wide results of operations for the fiscal years ended June 30, 2014 and 2013 are summarized in the table below:

	<u>2014</u>	<u>2013</u>
<b>Revenues:</b>		
General Revenues:		
Property taxes levied for general operations	\$ 336,468	\$ 344,925
Property taxes levied for debt service	242,373	238,354
State of Michigan unrestricted foundation aid	6,630	363,245
Earnings on investments	244	8,350
Other general revenues	49,837	36,067
Total general revenues	<u>\$ 635,552</u>	<u>\$ 990,941</u>
Operating Grants:		
State of Michigan	\$ -	\$ 7,267
Interdistrict sources	-	20,267
Total operating grants	<u>\$ -</u>	<u>\$ 27,534</u>
Total revenues	<u>\$ 635,552</u>	<u>\$ 1,018,475</u>
<b>Expenses:</b>		
Instruction	\$ -	\$ 6,497
Support services	201,190	294,414
Food services	-	509
Interest on long-term debt	68,167	74,047
Total expenses	<u>\$ 269,357</u>	<u>\$ 375,467</u>
<b>Change in Net Position</b>	<u>\$ 366,195</u>	<u>\$ 643,008</u>
<b>Beginning Net Position</b>	(1,223,893)	(1,866,901)
<b>Ending Net Position</b>	<u><u>\$ (857,698)</u></u>	<u><u>\$ (1,223,893)</u></u>

**A. State of Michigan Unrestricted Aid (Net State Foundation Grant)**

The State of Michigan unrestricted aid is determined by the following variables:

1. State of Michigan State Aid Act per student foundation allowance,
2. Student Enrollment - Blended at 90 percent of current year fall count and 10 percent of prior year winter count, and
3. The District's non-homestead levy.

**Per Student Foundation Allowance**

Annually, the State of Michigan sets the per student foundation allowance. The Galien Township Schools' net foundation allowance for the fiscal year 2014 was \$7,026 per student.

**Student Enrollment**

The District's student enrollment for the fall count of 2013-2014 was 43.99 students. The District's enrollment decreased from the prior year count by 47.19 students. These figures are only used for student foundation allowance purposes and do not represent current figures. The following summarizes fall student enrollments in the past five years:

<u>Fiscal Year</u>	<u>Student F.T.E.</u>	<u>F.T.E. Change from Prior Year</u>
2013-2014	43.99	(47.19)
2012-2013	91.18	(46.78)
2011-2012	137.96	(28.93)
2010-2011	166.89	27.20
2009-2010	139.69	51.69

**B. Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes)**

The District levies approximately 18 mills of property taxes for operations (General Fund) on Non-Personal Residence exemption properties and 6 mills on Commercial Personal Property. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property levy for the 2013-2014 fiscal year was \$336,468. The non-homestead tax levy has decreased by 2.45 percent from the prior year.

**B. Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes), Concluded**

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

Fiscal Year	Non-Homestead Levy	% Change from Prior Year
2013-2014	\$ 336,468	-2.45%
2012-2013	344,925	8.53%
2011-2012	317,814	10.00%
2010-2011	288,920	-6.68%
2009-2010	309,616	7.59%
Five Year Average		3.40%

**C. Debt Fund Property Taxes**

The School District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2013-2014, the School District's debt millage levy was 2.6 mills that generated a levy of \$242,373.

**D. General Fund Expenditures Budget vs. Actual Five Year History**

Fiscal Year	Expenditures Preliminary Budget	Expenditures Final Budget	Expenditures Final Audit	Final Audit as a % of Prelim. Budget	Final Audit as a % of Final Budget
2013-2014	\$ 194,668	\$ 219,418	\$ 200,312	102.90%	91.29%
2012-2013	262,517	324,279	317,428	120.92%	97.89%
2011-2012	1,602,922	1,444,797	1,493,813	93.19%	103.39%
2010-2011	1,823,035	1,810,972	1,815,689	99.60%	100.26%
2009-2010	1,969,682	1,994,582	1,896,841	96.30%	95.10%
Five Year Average				102.58%	97.59%

**E. General Fund Revenues Budget vs. Actual Five Year History**

Fiscal Year	Revenues Preliminary Budget	Revenues Final Budget	Revenues Final Audit	Final Audit as a % of Prelim. Budget	Final Audit as a % of Final Budget
2013-2014	\$ 358,389	\$ 393,078	\$ 393,078	109.68%	100.00%
2012-2013	338,951	772,662	772,711	227.97%	100.01%
2011-2012	1,622,040	1,508,510	1,607,159	99.08%	106.54%
2010-2011	1,602,417	1,656,782	1,371,112	85.57%	82.76%
2009-2010	1,726,914	1,729,801	1,751,831	101.44%	101.27%
			Five Year Average	124.75%	98.12%

**F. Original vs. Final Budget**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Galien Township Schools amends its budget during the school year. For fiscal year June 30, 2014, the budget was amended in June of 2014. The June 2014 budget amendment was the final budget for the fiscal year.

Change from Original Budget:

General Fund Revenues:

Total Revenues Original Budget	\$ 358,389	100.00%
Total Revenues Final Amended Budget	393,078	109.68%
	<u>\$ 34,689</u>	<u>9.68%</u>

Change from Original Budget:

General Fund Expenditures:

Total Expenditures Original Budget	\$ 194,668	100.00%
Total Expenditures Final Amended Budget	219,418	112.71%
	<u>\$ 24,750</u>	<u>12.71%</u>

**G. Expected Future Results**

The economic climate in Michigan has not been positive. Because education is largely based on various taxes, a slumping economy has a direct and negative impact on education funding. The impact of receiving less state aid causes the School District to rely on fund equity to sustain operations. Unfortunately, the feasibility of doing so led the Board of Education to make the decision to not offer education services effective July 1, 2012. Under the terms of the Michigan School Code, the School District has a three year period, until June 2015, to determine whether it will resume educational programs or to annex or consolidate with neighboring school districts. The District will receive the non-homestead property tax levy to cover any expenses over that time frame.

The Board of Education has entered into agreements with two neighboring school districts to provide education to the Galien Township area students for the 2014-2015 fiscal year. Currently, the School District is in discussions with the two neighboring school districts about annexation of the Galien Township School District. The Board of Education will continue to meet over the next year.

**H. Contacting the School District's Financial Management**

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

	<u>Governmental Activities</u>
<b>Assets</b>	
<b>Current assets</b>	
Cash and investments	\$ 311,277
Due from other governmental units	3,295
Total current assets	<u>\$ 314,572</u>
<b>Noncurrent assets</b>	
Capital assets	\$ 4,949,357
Less: accumulated depreciation	(4,665,357)
Total noncurrent assets	<u>\$ 284,000</u>
<b>Total Assets</b>	<u>\$ 598,572</u>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable	\$ 11,588
Accrued interest	9,640
Due to other governmental units	42
Bonds payable, due within one year	180,000
Total current liabilities	<u>\$ 201,270</u>
<b>Noncurrent liabilities</b>	
Bonds payable, due in more than one year	1,255,000
<b>Total Liabilities</b>	<u>\$ 1,456,270</u>
<b>Net Position</b>	
Net investment in capital assets	\$ (1,151,000)
Restricted for debt service	43,873
Unrestricted	249,429
<b>Total Net Position</b>	<u>\$ (857,698)</u>

*See accompanying notes to the financial statements.*

**GALIEN TOWNSHIP SCHOOLS**

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants/ Contributions</b>	<b>Capital Grants/ Contributions</b>	<b>Net (Expense) Revenue and Changes in Net Position</b>
Primary government - Governmental activities:					
Support services	\$ 201,190	\$ -	\$ -	-	\$ (201,190)
Interest on long-term debt	68,167	-	-	-	(68,167)
	<u>\$ 269,357</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (269,357)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes				\$ 336,468	
Property taxes, levied for debt service				242,373	
State aid not restricted to specific purposes				6,630	
Interest and investment earnings				244	
Gain on sale of assets				44,464	
Other				5,373	
Total general revenues				<u>\$ 635,552</u>	
<b>Change in Net Position</b>				\$ 366,195	
<b>Net Position - Beginning of Year</b>				(1,223,893)	
<b>Net Position - End of Year</b>				<u>\$ (857,698)</u>	

See accompanying notes to the financial statements.

**GALIEN TOWNSHIP SCHOOLS**

BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 JUNE 30, 2014

	<b>General Fund</b>	<b>2001 School Improvement Bonds-Debt Retirement Fund</b>	<b>2005 School Refunding Bonds - Debt Retirement Fund</b>	<b>Total</b>
<b>Assets</b>				
Cash and investments	\$ 267,404	\$ -	\$ 43,873	\$ 311,277
Due from other governmental units	3,295	-	-	3,295
<b>Total Assets</b>	<b>\$ 270,699</b>	<b>\$ -</b>	<b>\$ 43,873</b>	<b>\$ 314,572</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 11,588	\$ -	\$ -	\$ 11,588
Due to other governmental units	42	-	-	42
<b>Total Liabilities</b>	<b>\$ 11,630</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,630</b>
<b>Fund Balances</b>				
Restricted for debt service	\$ -	\$ -	\$ 43,873	\$ 43,873
Unassigned	259,069	-	-	259,069
<b>Total Fund Balances</b>	<b>\$ 259,069</b>	<b>\$ -</b>	<b>\$ 43,873</b>	<b>\$ 302,942</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 270,699</b>	<b>\$ -</b>	<b>\$ 43,873</b>	<b>\$ 314,572</b>

See accompanying notes to the financial statements.

**GALIEN TOWNSHIP SCHOOLS**

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2014

**Total Fund Balances - Governmental Funds** \$ 302,942

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

Cost of the capital assets 4,949,357  
Accumulated depreciation (4,665,357)

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds payable (1,435,000)

Accrued interest payable is not included as a liability in governmental activities

(9,640)

**Total Net Position - Governmental Activities** \$ (857,698)

*See accompanying notes to the financial statements.*

**GALIEN TOWNSHIP SCHOOLS**

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2014

	General Fund	2001 School Improvement Bonds-Debt Retirement Fund	2005 School Refunding Bonds- Debt Retirement Fund	Total
<b>Revenues</b>				
Property taxes	\$ 336,468	\$ -	\$ 242,373	\$ 578,841
Local sources	49,837	-	-	49,837
State sources	6,630	-	-	6,630
Earnings on investments	143	31	70	244
<b>Total Revenues</b>	<b>\$ 393,078</b>	<b>\$ 31</b>	<b>\$ 242,443</b>	<b>\$ 635,552</b>
<b>Expenditures</b>				
Current:				
Support services	\$ 200,137	\$ 25	\$ 853	\$ 201,015
Debt service:				
Principal on long term-debt	-	40,000	175,000	215,000
Interest and fees on long-term debt	-	-	66,600	66,600
Intergovernmental payments	175	-	-	175
<b>Total Expenditures</b>	<b>\$ 200,312</b>	<b>\$ 40,025</b>	<b>\$ 242,453</b>	<b>\$ 482,790</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>\$ 192,766</b>	<b>\$ (39,994)</b>	<b>\$ (10)</b>	<b>\$ 152,762</b>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	\$ -	\$ -	\$ 267	\$ 267
Operating transfers out	-	(267)	-	(267)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ (267)</b>	<b>\$ 267</b>	<b>\$ -</b>
<b>Net Change in Fund Balances</b>	<b>\$ 192,766</b>	<b>\$ (40,261)</b>	<b>\$ 257</b>	<b>\$ 152,762</b>
<b>Fund Balances - Beginning of year</b>	<b>66,303</b>	<b>40,261</b>	<b>43,616</b>	<b>150,180</b>
<b>Fund Balances - End of year</b>	<b>\$ 259,069</b>	<b>\$ -</b>	<b>\$ 43,873</b>	<b>\$ 302,942</b>

See accompanying notes to the 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, 2014

**Net Change in Fund Balances - Total Governmental Funds** \$ 152,762

Amounts reported for governmental activities in the statement of activities are different because:

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt). 215,000

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid. (1,567)

**Change in Net Position - Governmental Activities** \$ 366,195

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Galien Township Schools (the “School 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 School District:

**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 (“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 School District’s reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School 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 School 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 financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and 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 School District reports the following major governmental funds:

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

**2001 School Improvement Bonds – Debt Retirement Fund** is the School District's debt retirement fund for the 2001 school improvement bonds. It accounts for resources and expenditures relating to the repayment of the bond issue.

**2005 School Refunding Bonds – Debt Retirement Fund** is the School District's debt retirement fund for the 2005 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 Galien Township Schools’ taxpayers, properties are assessed as of July 1<sup>st</sup> and the related property taxes are levied and become a lien on March 1<sup>st</sup>. The final collection date is February 28, after which uncollected taxes are added to the Berrien County delinquent tax rolls.

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

**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 School 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.

**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.

**Compensated Absences** — The liability for compensated absences, if any, reported in the district-wide statements consists of unpaid, accumulated annual and vacation balances. The liability is calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. There was no liability for compensated absences at June 30, 2014.

**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 School District follows the provisions of Governmental Accounting Standards Board Statement 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 School 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 School 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 School 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 School 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 School 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 School 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. There was one amendment during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, 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, 2014.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The School 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	\$ 88,019	\$ 94,552	\$ (6,533)

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and had no impact on the financial results of the School District.

**Net Position Deficit** – As of June 30, 2014, the Government-Wide Statement of Net Position had a cumulative net position deficit of \$857,698.

**NOTE 3. DEPOSITS AND INVESTMENTS**

As of June 30, 2014, the School District deposits and investments include the following:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Cash on hand	\$ 250	\$ -	\$ -
Deposits	291,022	-	291,022
Investments	-	20,005	20,005
	<u>\$ 291,272</u>	<u>\$ 20,005</u>	<u>\$ 311,277</u>

**Bank Deposits:**

All cash of the School 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 School District’s deposits may not be returned to it. As of June 30, 2014, \$41,253 of the District’s bank balance of \$291,253 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 School 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	\$ 20,005	\$ 20,005	\$ -	\$ -	\$ -

**Interest Rate Risk:** In accordance with its investment policy, the School 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 School 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, 2014, the School District’s investment in the investment pool was rated AAAm by Standard & Poor’s.

**Concentration of Credit Risk:** The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School 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 School District’s investments are in investment pools which represent 100% of the School 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 School 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 \$20,005 the School District has a custodial credit risk exposure of \$20,005, because the related securities are uninsured, unregistered, and held by the School District’s brokerage firm which is also the counterparty for these particular securities.

**NOTE 4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

As of June 30, 2014 there no receivables/payables due between funds.

**Interfund Transfers:**

<u>Transfer In:</u>	<u>Transfer Out:</u>	<u>Amount</u>
2005 School Refunding Bonds - Debt Retirement Fund	2001 School Improvement Bonds - Debt Retirement Fund	<u>\$ 267</u>

**NOTE 5. CAPITAL ASSETS**

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

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>
Assets not being depreciated:				
Land	\$ 34,000	\$ -	\$ -	\$ 34,000
Capital assets being depreciated:				
Building and building improvements	\$ 4,681,232	\$ -	\$ -	\$ 4,681,232
Land improvements	234,125	-	-	234,125
Furniture and equipment	340,685	-	(340,685)	-
Subtotal	<u>\$ 5,256,042</u>	<u>\$ -</u>	<u>\$ (340,685)</u>	<u>\$ 4,915,357</u>
Accumulated depreciation:				
Building and building improvements	\$ 4,431,232	\$ -	\$ -	\$ 4,431,232
Land improvements	234,125	-	-	234,125
Furniture and equipment	340,685	-	(340,685)	-
Subtotal	<u>\$ 5,006,042</u>	<u>\$ -</u>	<u>\$ (340,685)</u>	<u>\$ 4,665,357</u>
Net capital assets being depreciated	<u>\$ 250,000</u>			<u>\$ 250,000</u>
Net capital assets	<u>\$ 284,000</u>			<u>\$ 284,000</u>

No depreciation was charged to any function of the School District, as all capital assets were impaired to their fair market and salvage value in prior years.

**NOTE 6. LONG-TERM DEBT**

The School 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 School District. Bonded indebtedness of the School 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 consistent principally of property taxes.

**NOTE 6. LONG-TERM DEBT (CONCLUDED)**

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Proceeds	Payments/ Refunded	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Bonds	\$ 1,650,000	\$ -	\$ (215,000)	\$ 1,435,000	\$ 180,000

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

	<i>Governmental Activities:</i>		
	Principal	Interest	Total
6/30/2015	\$ 180,000	\$ 57,850	\$ 237,850
6/30/2016	190,000	50,650	240,650
6/30/2017	195,000	43,050	238,050
6/30/2018	205,000	35,250	240,250
6/30/2019	215,000	27,050	242,050
6/30/2020 to 6/30/2021	450,000	27,880	477,880
	<u>\$ 1,435,000</u>	<u>\$ 241,730</u>	<u>\$ 1,676,730</u>

Interest expense of \$68,167 was not charged to activities as the School District considers its debt and related assets to impact multiple activities and allocation was not practical.

***Governmental Activities:***

*General obligation bonds consist of:*

\$2,310,000-2005 School Refunding Bonds; payable in annual installments of \$20,000 to \$230,000; interest from 3.00% to 5.00%: due 5/1/2021. \$ 1,435,000

**NOTE 7. DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS**

**Plan Description** - The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at the Office of Retirement Services, P.O. Box 30171, Lansing, MI 48909-7671.

**Funding Policy** - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The employer contributions rate totals were as follows of the covered payroll to the plan:

Fiscal Year 2013-2014 Employer Contribution Rate  
Active Members and Qualified Participants - Effective October 1, 2013

	Basic/MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF	Pension Plus to DC with PHF	Basic/MIP to DC with Premium Subsidy	Basic/MIP to DC with PHF	Basic/MIP with PHF
<b>DB CONTRIBUTIONS</b>							
<i>PENSION</i>							
Pension Normal Cost	2.90%	2.67%	2.67%	0.00%	0.00%	0.00%	2.90%
Pension UAAL	14.08%	14.08%	14.08%	14.08%	14.08%	14.08%	14.08%
Pension Early Retirement Incentive	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
Pension Total Rate	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
<i>HEALTH</i>							
Health Normal Cost	0.93%	0.93%	0.00%	0.00%	0.93%	0.00%	0.00%
Health UAAL	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%
Health Total Rate	6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
DB Contribution Total	24.79%	24.56%	23.63%	20.96%	21.89%	20.96%	23.86%
<b>DC CONTRIBUTIONS</b>							
DC Employer Contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%
DC Contribution Total	0.00%	1.00%	3.00%	5.00%	4.00%	6.00%	2.00%

**NOTE 7. DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS (CONCLUDED)**

Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 6.4 percent of gross wages. The School District's contributions to the MPSERS plan for the years ended June 30, 2014, 2013, and 2012 were \$0, \$1,999 and \$142,161, respectively.

**Post-Employment Benefits** - Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverage's contribute an amount equivalent to the monthly cost for Part B Medicare and 20 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

**NOTE 8. RISK MANAGEMENT**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims and participates in the SET/SEG (risk pool) for claims relating to workers' compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**NOTE 9. DISCONTINUED OPERATIONS**

During the fiscal year 2012-2013, the Board of Education voted to cease all instructional programming going forward. The School District will continue to exist up to three years. Pursuant to Section 380.921 of The Revised School Code, if the School District has not begun operating at the end of two years the School District will either be annexed by another school district, consolidate with another district or be split and ceded to other districts by the Intermediate School District Board.

The Board of Education is required to meet every month, pay bills and maintain records and the building and grounds. The School District has the right to levy up to the 18-mill tax on non-homestead property if needed to pay bills.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**GALIEN TOWNSHIP SCHOOLS**

REQUIRED SUPPLEMENTARY SCHEDULE  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 YEAR ENDED JUNE 30, 2014

	Original Budget	Final Amended Budget	Actual	Variance
<b>Revenues</b>				
Property taxes	\$ 338,239	\$ 336,468	\$ 336,468	\$ -
Local sources	20,000	48,609	49,837	1,228
State sources	-	7,859	6,630	(1,229)
Earnings on investment	150	142	143	1
<b>Total Revenues</b>	<b>\$ 358,389</b>	<b>\$ 393,078</b>	<b>\$ 393,078</b>	<b>\$ -</b>
<b>Expenditures</b>				
Support services				
Fiscal	\$ 64,033	\$ 88,019	\$ 94,552	\$ (6,533)
Operations/Maintenance	110,635	111,224	105,585	5,639
Transportation	20,000	20,000	-	20,000
Intergovernmental payments	-	175	175	-
<b>Total Expenditures</b>	<b>\$ 194,668</b>	<b>\$ 219,418</b>	<b>\$ 200,312</b>	<b>\$ 19,106</b>
<b>Net Change in Fund Balances</b>	<b>\$ 163,721</b>	<b>\$ 173,660</b>	<b>\$ 192,766</b>	<b>\$ 19,106</b>
<b>Fund Balances - Beginning of year</b>	<b>66,303</b>	<b>66,303</b>	<b>66,303</b>	<b>-</b>
<b>Fund Balances - End of year</b>	<b>\$ 230,024</b>	<b>\$ 239,963</b>	<b>\$ 259,069</b>	<b>\$ 19,106</b>

**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 Board of Education of 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, 2014, and the related notes to the financial statements, which collectively comprise Galien Township Schools’ basic financial statements, and have issued our report thereon dated November 5, 2014.

**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 certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (2014-1 and 2014-2).

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.

**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**

**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 our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Galien Township School's Response to Findings**

Galien Township School's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Galien Township School's 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.



Schaffer & Layher  
November 5, 2014

**SECTION I – STATUS OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS****Finding 2013-1 – 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 School 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 School 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 School District's internal controls carries with it a greater risk of fraud and abuse.

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

**Effect** - As a result of this condition, the School 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** – No change in status from prior year.

**SECTION I - FINANCIAL STATEMENT AUDITING FINDINGS - CONTINUED****Finding 2013-2 – 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 School 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 School 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 School 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 School District’s internal controls.

**Cause** – Due to the lack of knowledge, expertise and education relative 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 School District to perform this task internally.

**Effect** – As a result of this condition, the School 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 School 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** – No change in status from prior year.

**SECTION I - FINANCIAL STATEMENT AUDITING FINDINGS – CONCLUDED**

**SECTION II – CURRENT YEAR FINANCIAL STATEMENT FINDINGS**

**2014 – 1** – See prior year financial statement finding 2013-1.

**2014 – 2** – See prior year financial statement finding 2013-2.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

The School District spent less than \$500,000 of federal awards. A single audit is not required under OMB Circular A -133 and was not performed.



To the Board of Directors  
Galien Township Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Galien Township Schools for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *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 July 22, 2014.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Galien Township Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year 2014. We noted no transactions during the year for which there is a 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 managements' 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 estimate affecting the financial statements was:

Management's estimate of the useful lives capital assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note 2 – Stewardship, Compliance and Accountability - Net Position Deficit
- Note 9 – Discontinued Operations

The financial statement disclosures are neutral, consistent, and clear.

David Schaffer, CPA  
Michael Layher, CPA  
*Founding Partners:*  
Morris McMurray, CPA  
Raymond Marks, CPA  
Jeff Edmunds, CPA

### *Difficulties Encountered in Performing 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 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 the financial statements taken as a whole.

### *Disagreements with Management*

For the purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's 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 November 5, 2014.

### *Management Consultations with Other Independent 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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standard 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 Galien Township School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Other Audit Findings or Issues*

We applied certain limited procedures to the management discussion analysis and budgetary comparison schedule – General Fund, which are required supplementary information (RSI) 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.

Restriction on Use

This information is intended solely for the use of the finance committee, Board of Directors and management of Galien Township Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Schaffer & Layher".

Schaffer & Layher, PLLC  
November 18, 2014