
GALIEN TOWNSHIP SCHOOLS

FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION

June 30, 2018

Galien Township Schools
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Independent Auditor's Report

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, 2018, 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, 2018, 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 October 5, 2018, 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,



Certified Public Accountants

St. Joseph, Michigan
October 5, 2018

Galien Township Schools, a closed 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 a discussion and analysis of the financial results for the fiscal year ended June 30, 2018, 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 programs 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 net position of \$67,703 as of June 30, 2018. The net position of the District is summarized in the table below as of June 30:

	<u>2018</u>	<u>2017</u>
Assets:		
Cash	\$ 109,839	\$ 335,491
Due from other governmental units	217,681	-
Total Assets	<u>\$ 327,520</u>	<u>\$ 335,491</u>
Deferred Outflows of Resources:		
Deferred interest charges on bond issuance	\$ 6,309	\$ 12,619
Total Assets and Deferred Outflows of Resources	<u>\$ 333,829</u>	<u>\$ 348,110</u>
Liabilities:		
Accounts payable and other accrued liabilities	\$ 626	\$ 760
Due to other governmental units	10,500	-
Bonds payable	255,000	465,000
Total Liabilities	<u>\$ 266,126</u>	<u>\$ 465,760</u>
Net Position (Deficit):		
Net investment in capital assets	\$ (248,691)	\$ (452,381)
Restricted for debt service	234,488	234,450
Unrestricted	81,906	100,281
Total Net Position (Deficit)	<u>\$ 67,703</u>	<u>\$ (117,650)</u>

Analysis of Financial Position

During fiscal year ended June 30, 2018, the District’s net position increased by \$185,353. 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 \$18,509 for the fiscal year ended June 30, 2018. The District was awarded a State of Michigan Section 22g District/ISD Consolidated Grant of \$217,681 to pay the District’s 2005/2015 Refunding Bond principal and interest payments. See results of operations for the District’s activity on the full accrual basis of accounting.

B. Debt Activity

The District made \$210,000 of principal payments on the 2005/2015 Refunding Bonds. The District has \$255,000 of outstanding debt at year end. In the 2014 audit 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, 2018 and 2017 are summarized in the table below:

	<u>2018</u>	<u>2017</u>
Revenues:		
Operating grants/contributions:		
State of Michigan restricted grant	\$ 217,681	\$ 215,980
General revenues:		
Earnings on investments	352	349
Other general revenues	-	258
Total revenues	<u>\$ 218,033</u>	<u>\$ 216,587</u>
Expenses:		
Support services	\$ 19,106	\$ 20,024
Interest on long-term debt	13,574	15,382
Total expenses	<u>\$ 32,680</u>	<u>\$ 35,406</u>
Change in Net Position	\$ 185,353	\$ 181,181
Beginning Net Position	(117,650)	(298,831)
Ending Net Position (Deficit)	<u>\$ 67,703</u>	<u>\$ (117,650)</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.

	Governmental Activities
Assets and Deferred Outflows of Resources	
Current assets	
Cash	\$ 109,839
Due from other governmental units	217,681
Total current assets	<u>\$ 327,520</u>
Deferred outflows of resources	
Deferred interest charges on bond issuance	\$ 6,309
Total Assets and Deferred Outflows of Resources	<u>\$ 333,829</u>
Liabilities	
Current liabilities	
Accrued interest	\$ 626
Due to other governmental units	10,500
Bonds payable, due within one year	215,000
Total current liabilities	<u>\$ 226,126</u>
Noncurrent liabilities	
Bonds payable, due in more than one year	40,000
Total Liabilities	<u>\$ 266,126</u>
Net Position	
Net investment in capital assets	\$ (248,691)
Restricted for debt service	234,488
Unrestricted	81,906
Total Net Position	<u><u>\$ 67,703</u></u>

GALIEN TOWNSHIP SCHOOLS

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

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	\$ 19,106	\$ -	\$ 204,107	\$ -	\$ 185,001
Interest on long-term debt	13,574	-	13,574	-	-
	<u>\$ 32,680</u>	<u>\$ -</u>	<u>\$ 217,681</u>	<u>\$ -</u>	<u>\$ 185,001</u>
General revenues:					
Interest and investment earnings					\$ 352
Total general revenues					<u>\$ 352</u>
Change in Net Position					\$ 185,353
Net Position (Deficit) - Beginning of Year					<u>(117,650)</u>
Net Position - End of Year					<u><u>\$ 67,703</u></u>

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The Notes to Financial Statements are an integral part of this statement.

GALIEN TOWNSHIP SCHOOLS

BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2018

	2005/2015 School Refunding Bonds - Debt Retirement		
	General Fund	Fund	Total
Assets			
Cash	\$ 87,903	\$ 21,936	\$ 109,839
Due from other funds	-	213,052	213,052
Due from other governmental units	217,681	-	217,681
Total Assets	\$ 305,584	\$ 234,988	\$ 540,572
Liabilities and Fund Balances			
Liabilities			
Due to other funds	\$ 213,052	\$ -	\$ 213,052
Due to other governmental units	10,000	500	10,500
Total Liabilities	\$ 223,052	\$ 500	\$ 223,552
Fund Balances			
Restricted for debt service	\$ -	\$ 234,488	\$ 234,488
Unassigned	82,532	-	82,532
Total Fund Balances	\$ 82,532	\$ 234,488	\$ 317,020
Total Liabilities and Fund Balances	\$ 305,584	\$ 234,988	\$ 540,572

The Notes to Financial Statements are an integral part of this statement.

GALIEN TOWNSHIP SCHOOLS

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balances - Governmental Funds \$ 317,020

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Deferred interest charges from bond refunding not capitalized in the
governmental funds. 6,309

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

Bonds payable (255,000)

Accrued interest payable is not included as a liability in governmental
activities. (626)

Total Net Position - Governmental Activities \$ 67,703

GALIEN TOWNSHIP SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	2005/2015 School Refunding Bonds - Debt		
	General Fund	Retirement Fund	Total
Revenues			
State sources	\$ 217,681	\$ -	\$ 217,681
Earnings on investments	97	255	352
Total Revenues	\$ 217,778	\$ 255	\$ 218,033
Expenditures			
Support services	\$ 18,606	\$ 500	\$ 19,106
Debt service:			
Principal on long-term debt	-	210,000	210,000
Interest on long-term debt	-	7,398	7,398
Total Expenditures	\$ 18,606	\$ 217,898	\$ 236,504
Excess (Deficiency) of Revenues Over (Under)			
Expenditures	\$ 199,172	\$ (217,643)	\$ (18,471)
Other Financing Sources (Uses)			
Operating transfers in	\$ -	\$ 217,681	\$ 217,681
Operating transfers out	(217,681)	-	(217,681)
Total Other Financing Sources (Uses)	\$ (217,681)	\$ 217,681	\$ -
Net Change in Fund Balances	\$ (18,509)	\$ 38	\$ (18,471)
Fund Balances - Beginning of year	101,041	234,450	335,491
Fund Balances - End of year	\$ 82,532	\$ 234,488	\$ 317,020

The Notes to Financial Statements are an integral part of this statement.

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, 2018

Net Change in Fund Balances - Total Governmental Funds	\$ (18,471)
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).	210,000
Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid.	<u>133</u>
Change in Net Position - Governmental Activities	<u><u>\$ 185,353</u></u>

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 closed and allocated 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.

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".

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

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

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

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. There were no budget amendments for the year ending June 30, 2018.

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, 2018.

NOTE 3. DEPOSITS AND INVESTMENTS

As of June 30, 2018, the District deposits and investments include the following:

	Cash and Cash Equivalents	Investments	Total
Deposits	\$ 109,839	\$ -	\$ 109,839
	<u>\$ 109,839</u>	<u>\$ -</u>	<u>\$ 109,839</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, 2018, none of the District’s bank balance of \$109,839 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 no investments as of June 30, 2018.

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”). The District has no investments as of June 30, 2018.

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. The District has no investments as of June 30, 2018.

NOTE 4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Receivables/payables due between funds as of June 30, 2018, is summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	
General Fund	2005/2015 School Refunding Bonds - Debt Retirement Fund	\$ 213,052

The 2005/2015 School Refunding Bonds – Debt Retirement Fund owes the General Fund for receipt of the State of Michigan Section 22g funds used to pay the District’s debt.

Interfund Transfers:		
<u>Transfer In:</u>	<u>Transfer Out:</u>	<u>Amount</u>
2005/2015 School Refunding Bonds - Debt Retirement Fund	General Fund	\$ 217,681

The General Fund transferred \$217,681 to the 2005/2015 School Refunding Bonds – Debt Retirement Fund to pay down a portion of the 2005/2015 School Refunding Bonds.

NOTE 5. 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	\$ 465,000	\$ -	\$ (210,000)	\$ 255,000	\$ 215,000

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

	<i>Governmental Activities:</i>		
	Principal	Interest	Total
6/30/2019	\$ 215,000	\$ 2,681	\$ 217,681
6/30/2020	40,000	400	40,400
	<u>\$ 255,000</u>	<u>\$ 3,081</u>	<u>\$ 258,081</u>

The District charged \$13,574 of interest expenses to all 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.

\$ 255,000

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, 2018, \$665,000 of bonds considered defeased are still outstanding.

NOTE 6. SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 5, 2018, 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, 2018**

	Original/Final Amended Budget	Actual	Variance
Revenues			
Local sources	\$ 200	\$ -	\$ (200)
State sources	217,681	217,681	-
Earnings on investment	120	97	(23)
Total Revenues	\$ 218,001	\$ 217,778	\$ (223)
Expenditures			
Support services			
Fiscal	\$ 20,100	\$ 18,606	\$ 1,494
Total Expenditures	\$ 20,100	\$ 18,606	\$ 1,494
Excess of Revenues over Expenditures	\$ 197,901	\$ 199,172	\$ 1,271
Other Financing Sources (Uses)			
Operating transfers in (out)	\$ (217,681)	\$ (217,681)	\$ -
Total Other Financing Sources (Uses)	\$ (217,681)	\$ (217,681)	\$ -
Net Change in Fund Balances	\$ (19,780)	\$ (18,509)	\$ 1,271
Fund Balances - Beginning of year	101,041	101,041	-
Fund Balances - End of year	\$ 81,261	\$ 82,532	\$ 1,271

**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 *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, 2018, and the related notes to the financial statements, which collectively comprise Galien Township Schools’ basic financial statements, and have issued our report thereon dated October 5, 2018.

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.

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

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

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

Purpose of this Report

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

Respectfully submitted,

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

Certified Public Accountants

St. Joseph, Michigan
October 5, 2018

SECTION I – STATUS OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

No prior year financial statement findings.

SECTION II – CURRENT YEAR FINANCIAL STATEMENT FINDINGS

No current year financial statement findings.

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.