

**GALETON AREA SCHOOL DISTRICT**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**FISCAL YEAR ENDED JUNE 30, 2016**

**WITH REPORT OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**GALETON AREA SCHOOL DISTRICT**

**2016 FINANCIAL STATEMENTS**

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**TRANSMITTAL LETTER**

**Pennsylvania Department of Education  
Bureau of Budgets and Fiscal Management  
Bureau Director  
333 Market Street – 4<sup>th</sup> Floor  
Harrisburg, PA 17126-0333**

Gentlemen:

Enclosed you will find the audit package for the ***Galeton Area School District*** for the year ended June 30, 2016.

We have audited the financial statements of the ***Galeton Area School District*** for the year ended June 30, 2016 and have issued our report thereon dated December 13, 2016. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In addition, we have issued a management letter dated December 13, 2016, which is included in the audit package.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
December 13, 2016**

**GALETON AREA SCHOOL DISTRICT**  
**SCHEDULE OF REPORT DISTRIBUTION**

<u>Agency</u>	<u>No. of Copies</u>
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Commonwealth of Pennsylvania Bureau of Audits Verizon Tower – 6 <sup>th</sup> Floor 303 Walnut Street Harrisburg, Pennsylvania 17101-1830 .....	1

**INDEPENDENT AUDITOR'S REPORT**

**To the President and Members of  
The Board of Education  
Galeton Area School District  
Galeton, Pennsylvania**

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of **Galeton Area School District** as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the **Galeton Area School District's** basic financial statements as listed in the accompanying table of contents. We have also audited the fiduciary fund types of the **Galeton Area School District** as of June 30, 2016 as displayed in the District's basic financial statements.

**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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks 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 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 financial position of the governmental activities, business-type activities and each major fund of the **Galeton Area School District** as of June 30, 2016, and the respective changes in financial position and the respective budgeting comparison of the General Fund and the cash flows of the business-type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited the **Galeton Area School District's** June 30, 2015 financial statements and our report dated December 16, 2015, expressed unmodified opinions on the respective financial statements of the governmental activities and each major fund financial statement. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with audited financial statements from which it has been derived.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, Schedule of Funding Progress on page 41, Schedule of the District's Proportionate Share of the Net Pension Liability on page 42 and the Schedule of District Contributions on page 43 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Galeton Area School District's** basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not required as part of the basic financial statements.

The supplementary information including the Comparative Statements of Revenue and Expenditures - General Fund and Statement of Cash Receipts and Disbursements - Activity Fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Comparative Statements of Revenue and Expenditures - General Fund and Statement of Cash Receipts and Disbursements- Activity Fund are fairly stated in all material respects in relation to the basic financial statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016 on our consideration of **Galeton Area School District 's** internal control over financial reporting and 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 the 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 **Galeton Area School District's** internal control over financial reporting and compliance.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
December 13, 2016**

**I. Discussion and Analysis**

The following is a discussion and analysis of the **Galeton Area School District's** financial performance for the year ended June 30, 2016. The section is a summary of the District's financial activities based on currently known facts, decisions, or conditions. It is based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the District's financial statements, which follows this section.

**II. Financial Highlights**

The following items are the financial highlights experienced by the **Galeton Area School District** during the fiscal year ended June 30, 2016:

- Overall net position from operations of the District increased \$117,000 during the fiscal year ended June 30, 2016. This consisted of an decrease in governmental activities in the amount of \$146,000 and a increase in business-type activities of \$29,000.
- The District's enrollment was 355 students as compared with 346 during the prior year.
- The District's total revenue increased approximately 2% from \$6,899,000 during the year ended June 30, 2015 to \$7,043,000 during the year ended June 30, 2016. This increase was primarily related to increases in real estate tax revenue, basic education funding and retirement subsidy revenue.
- The District's total expenses decreased approximately 4% from \$7,435,000 during the year ended June 30, 2015 to \$7,160,000 during the year ended June 30, 2016. This decrease was primarily related to a decrease in salaries due to several retirements which caused decreases in employee benefits.

**III. Overview of the Financial Statements**

This annual report consists of three parts: MD&A (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of **Galeton Area School District**.

**III. Overview of the Financial Statements (continued)**

**A. Reporting the School District as a Whole (District-wide Financial Statements):**

The district-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. Activities that are fiduciary in nature are not included in these statements.

**1. Statement of Net Position (Deficit)**

The Statement of Net Position (Deficit) (page 13) shows the School District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and the net position (deficit). The Statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in "fixed" or "capital" assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.

**2. Statement of Activities**

The Statement of Activities (page 14) shows amounts of program-specific and general District revenue used to support the various functions.

The Statement of Net Position (Deficit) and Statement of Activities divide the activities of the District into two categories: governmental activities (the school functions, including instruction, support services, non-instructional services, etc.; property taxes, state and federal revenue usually support most of these functions) and proprietary activities.

The two district-wide statements report the School District's net position (deficit) and how they have changed. Net position (deficit) – the difference between the District's assets and deferred outflows of resources and the District's liabilities and deferred inflows of resources – is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position (deficit) are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

**III. Overview of the Financial Statements  
(continued)**

**B. Reporting the District's Most Significant Funds (Fund Financial Statements):**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or major funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the District's operations, and the existence of legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate column.

The District has two kinds of funds:

**1. Governmental Funds**

Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently the governmental funds statements provide a detailed short-term

**III. Overview of the Financial Statements  
(continued)**

**B. Reporting the District's Most Significant Funds (Fund Financial Statements) (continued):**

**1. Governmental Funds (continued)**

view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

**2. Fiduciary Funds**

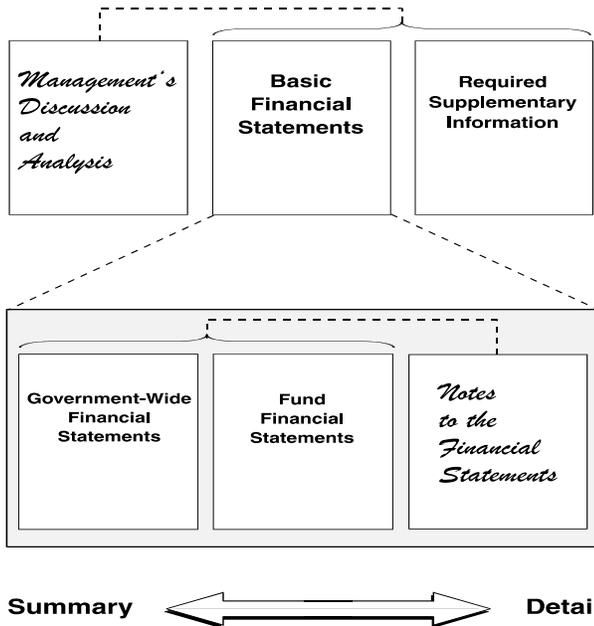
The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

**Figure A-1 - Major Features of the District-Wide Statements and Fund Financial Statements**

	Fund Financial Statements		
	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	Statement of Net Position (Deficit) Statement of Activities	Balance Sheet Statement of Revenue, Expenditures, and Changes in Fund Balances	Statement of Net Position Statement of Changes in Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/deferred outflows of resources /liability/deferred inflows of resources information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any) both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

**GALETON AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**Figure A-2 - Required Components of the District's Annual Financial Report**



**IV. Financial Analysis of the School District as Whole**

Net Position - Deficit

The District's total reporting entity net deficit was approximately \$7,791,000 as of June 30, 2016. The components of net deficit include: invested in capital assets, net of related debt of \$1,294,000; unrestricted net position/board designated for capital reserve and debt service in the amount of \$394,000 and unrestricted undesignated net deficit of \$9,479,000.

Changes in Net Position (Deficit)

The District's total government-wide revenue increased by 2% to \$7,043,000. Approximately 44%, 22% and 33% of total revenue is derived from the property taxes, operating grants and state sources, respectively. The remaining 1% comes from federal aid, interest earned, local sources, charges for services and other sources.

The total cost of all programs and services of the District decreased 4% to \$7,160,000. The District's expenses cover a range of services, with 63% related to instruction and 30% related to support services.

**Figure A-3 – Condensed Statement of Net Position (Deficit)**

<b>Galeton Area School District</b>									
<b>Condensed Statement of Net Position (in thousands of dollars)</b>									
	Governmental Activities			Business-type Activities			Total		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
<b>Assets</b>									
Current and other assets	\$ 1,722	\$ 1,700	1%	\$ 76	\$ 22	245%	\$ 1,798	\$ 1,722	4%
Capital assets	4,105	4,358	-6%	3	3	100%	4,108	4,361	-6%
Total assets	<u>5,827</u>	<u>6,058</u>	-4%	<u>79</u>	<u>25</u>	215%	<u>5,906</u>	<u>6,083</u>	-3%
Deferred outflows of resources	854	794	8%	-	-	n/a	854	794	8%
Assets and deferred outflows of resources	<u>\$ 6,681</u>	<u>\$ 6,852</u>	-3%	<u>\$ 79</u>	<u>\$ 25</u>	215%	<u>\$ 6,760</u>	<u>\$ 6,877</u>	-2%
<b>Liabilities</b>									
Other liabilities	\$ 761	\$ 575	32%	\$ 79	\$ 55	43%	\$ 840	\$ 630	33%
Long-term debt outstanding	13,308	13,219	1%	-	-	n/a	13,308	13,219	1%
Total liabilities	<u>14,069</u>	<u>13,794</u>	2%	<u>79</u>	<u>55</u>	43%	<u>14,148</u>	<u>13,849</u>	2%
Deferred inflows of resources	403	702	-43%	-	-	n/a	403	702	-43%
<b>Net position (deficit)</b>									
Invested in capital assets, net of related debt	1,291	1,114	16%	3	3	100%	1,294	1,117	16%
Unrestricted									
Board designated	394	683	-42%	-	-	n/a	394	683	-42%
Unreserved	(9,476)	(9,441)	0%	(3)	(33)	-89%	(9,479)	(9,474)	0%
Total net position (deficit)	<u>(7,791)</u>	<u>(7,644)</u>	2%	<u>-</u>	<u>(30)</u>	-100%	<u>(7,791)</u>	<u>(7,674)</u>	2%
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$ 6,681</u>	<u>\$ 6,852</u>	-3%	<u>\$ 79</u>	<u>\$ 25</u>	211%	<u>\$ 6,760</u>	<u>\$ 6,877</u>	-2%

**Figure A-4 – Changes in Net Position (Deficit) from Operating Results**

<i>Galeton Area School District</i>									
<i>Changes in Net Position (Deficit) from Operating Results (in thousands of Dollars)</i>									
	Governmental Activities			Business-type activities			Total		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
<b>Revenue</b>									
Program revenue									
Charges for services	\$ -	\$ -	n/a	\$ 31	\$ 29	7%	\$ 31	\$ 29	7%
Operating grants and contributions	1,413	1,343	5%	167	129	30%	1,580	1,472	7%
General revenue									
Taxes	3,066	3,023	1%	-	-	n/a	3,066	3,023	1%
Interest earned	4	5	-22%	-	-	n/a	4	5	-22%
Local sources	15	23	-34%	-	-	n/a	15	23	-34%
State sources	2,301	2,260	2%	-	-	n/a	2,301	2,260	2%
Federal sources/ Transfers	-	-	n/a	46	87	-47%	46	87	-47%
Total revenue	<u>6,799</u>	<u>6,654</u>	<u>2%</u>	<u>244</u>	<u>245</u>	<u>0%</u>	<u>7,043</u>	<u>6,899</u>	<u>2%</u>
<b>Expenses</b>									
Instruction	4,493	4,556	-1%	-	-	n/a	4,493	4,556	-1%
Support services	2,138	2,255	-5%	-	-	n/a	2,138	2,255	-5%
Non-instructional services	184	170	9%	-	-	n/a	184	170	9%
Transfer to business-type funds	46	87	-48%	-	-	n/a	46	87	-48%
Refund of prior year revenue	-	7	n/a	-	-	n/a	-	7	n/a
Debt service - interest	84	118	-29%	-	-	n/a	84	118	-29%
Business-type (food service fund)	-	-	n/a	215	242	-11%	215	242	-11%
Total expenses	<u>6,945</u>	<u>7,193</u>	<u>-3%</u>	<u>215</u>	<u>242</u>	<u>-11%</u>	<u>7,160</u>	<u>7,435</u>	<u>-4%</u>
<b>Change in net position</b>	<u>\$ (146)</u>	<u>\$ (539)</u>		<u>\$ 29</u>	<u>\$ 3</u>		<u>\$ (117)</u>	<u>\$ (536)</u>	

**IV. Financial Analysis of the School District as a Whole (continued)**

Figure A-5 through figure A-8 and the narrative that follows considers the operations of governmental activities, along with revenue and net costs percentages for governmental activities.

**Governmental Activities - Revenue**

Revenue of the District's governmental activities increased 2% while total expenses decreased 3%. The District's total net position from operations decreased approximately \$146,000 during the fiscal year ended June 30, 2016.

Figure A-4 presents the major sources of revenue of the District's governmental activities. Revenue of the District totaled \$6,799,000 for the fiscal year ended June 30, 2016. The most significant changes in the District's governmental revenue are more thoroughly discussed as follows:

- Tax revenue which represents approximately 44% of the District's total revenue for governmental activities increased 1% during the year ended June 30, 2016.

**IV. Financial Analysis of the School District as a Whole (continued)**

**Governmental Activities - Revenue (continued)**

- The District's state sources which represent \$2,301,000 or 33% of total governmental revenue increased approximately 2% in comparison with the prior year.
- During the year ended June 30, 2016, the District saw an increase of \$70,000 in program revenue, which mostly resulted from an increase in retirement subsidy, transportation subsidy and Title I funding.

**Governmental Activities - Expenses**

Figure A-8 presents the cost of each of the District's largest expenditure-type, which include; instruction, support services, non-instructional services, debt service and other financing uses; as well as each expenditure-type's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the District's taxpayers and Commonwealth of Pennsylvania by each of these functions. Total costs of the District's governmental activities were \$6,945,000.

**IV. Financial Analysis of the School District as a Whole (continued)**

Governmental Activities - Expenses (continued)

The most significant changes in the District's governmental expenses are more thoroughly discussed as follows:

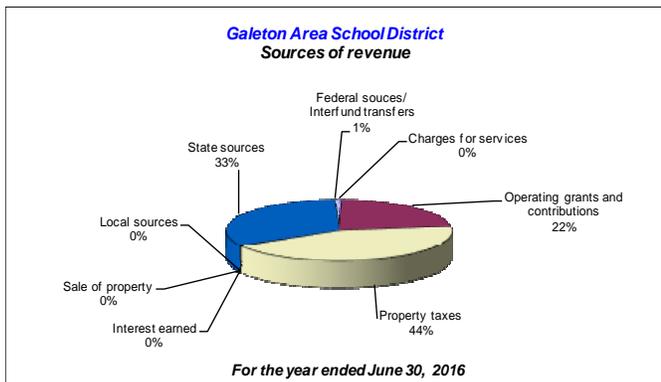
- The District's instruction costs decreased by approximately \$63,000 or 1% which was primarily due to a decrease in salaries due to retirements.
- The District's support service costs decreased by approximately \$117,000 or 5% during the year ended June 30, 2016, which primarily resulted from a decrease in salaries due to retirements.
- Non-instructional costs of the District increased approximately \$14,000 or 8% during the year ended June 30, 2016.

**IV. Financial Analysis of the School District as a Whole (continued)**

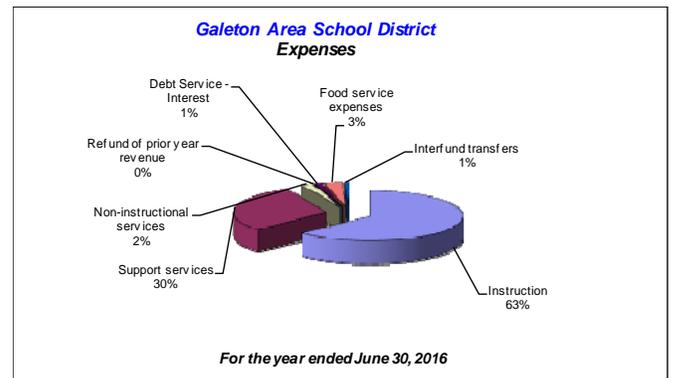
Governmental Activities - Expenses (continued)

- Debt service costs decreased approximately \$34,000 as a result of a decrease in the District's scheduled payments on outstanding long-term debt obligations.
- For governmental activities, the District received approximately \$1,413,000 of operating grants and charges for services from its state and federal grants which subsidized certain programs of the District.
- Most of the District's net costs (\$5.5 million) were financed by real property taxes and state aid.

**Figure A-5 – District-wide Sources of Revenue**



**Figure A-6 – District-wide Expenses**



**Figure A-7 – Expenditures Supported with Program Revenue**

<i>Galeton Area School District</i>												
<i>Expenditures supported with program revenue (in thousands of dollars)</i>												
	Governmental Activities				Business-type Activities				Total			
	2016		2015		2016		2015		2016		2015	
Expenditures supported with general revenue (from taxes & other sources)	\$ 5,532	80%	\$ 5,850	81%	\$ 17	8%	\$ 84	35%	\$ 5,549	78%	\$ 5,934	80%
Expenditures supported with program revenue	1,413	20%	1,343	19%	198	92%	158	65%	1,611	23%	1,501	20%
<b>Total expenditures related to governmental activities</b>	<b>\$ 6,945</b>	<b>100%</b>	<b>\$ 7,193</b>	<b>100%</b>	<b>\$ 215</b>	<b>100%</b>	<b>\$ 242</b>	<b>100%</b>	<b>\$ 7,160</b>	<b>100%</b>	<b>\$ 7,435</b>	<b>100%</b>

**Figure A-8 – Net Cost of Governmental Activities**

<i>Galeton Area School District</i>									
<i>Net Cost of District-wide expenses (in thousands of dollars)</i>									
	Total cost of services			Net cost of services					
	2016	2015	Change	2016	2015	Change			
Instruction	\$ 4,493	\$ 4,556	\$ (63)	\$ 3,492	\$ 3,622	\$ (130)			
Support services	2,138	2,255	(117)	1,918	2,038	(120)			
Non-instructional services	184	170	15	164	153	11			
Refund of prior year revenue	-	7	(7)	-	6	(6)			
Debt service - interest	84	118	(34)	(87)	(56)	(31)			
Interfund transfers	46	87	(41)	46	87	(41)			
Food service	215	242	(27)	16	84	(68)			
<b>Total</b>	<b>\$ 7,160</b>	<b>\$ 7,435</b>	<b>\$ (274)</b>	<b>\$ 5,549</b>	<b>\$ 5,934</b>	<b>\$ (385)</b>			

**V. Financial Analysis of the School District's Funds**

It is important to note that variances between years for the governmental fund financial statements (Balance Sheets and Statement of Revenue, Expenditures and Changes in Fund Equity) are not the same as variances between years for the District-wide financial statements (Statement of Net Position (Deficit) and Statement of Activities). The District's governmental funds are presented on the current financial resources measurement focus and the modified accrual basis of accounting, while the statement of Net Position (Deficit) are presented on the full accrual method of accounting. Therefore, governmental funds do not include long-term debt liabilities for the funds' projects and capital assets purchased by the funds.

Governmental funds will include the proceeds received from the issuance of debt, the current payments for capital assets, and the current payments for debt. Below is a description of the most significant changes to the fund financial statements from that reported in the previous year.

**V. Financial Analysis of the School District's Funds (continued)**

**General Fund**

- The District's general fund expenditures and other uses exceeded its revenue and other sources by approximately \$178,000.
- The District's general fund unassigned fund balance equated to approximately \$251,000 as of June 30, 2016.
- The District had committed fund balance as of June 30, 2016 in the amount of approximately \$364,000.
- The District had an assigned fund balance as of June 30, 2016 in the amount of approximately \$49,000.
- The District's total assets increased approximately \$22,000 while liabilities and deferred inflows of resources increased \$201,000 during the year ended June 30, 2016. The increase in assets was primarily due to an increase in amounts due from other funds while the increase in liabilities and deferred inflows of resources was associated with an increase in accrued retirement.
- Total revenue in the District's general fund increased \$143,000 which was primarily related to an increase in retirement subsidy and transportation subsidy, while total expenditures decreased \$149,000, which resulted from decreases in salaries due to retirements which caused a decrease in employee benefits and retirement expense.

**GALETON AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**VI. General Fund Budgetary Highlight**

Over the course of the year, the District makes many budget transfers. After such transfers, the revised budget presents actual expenditures being approximately \$101,000 above the revised budget. The most significant variance was in the area of instruction which totaled \$210,000 above that budgeted. On the other hand, resources available for appropriations were approximately \$66,000 below the final budgeted amount. The most significant variance of revenue items consisted of variances in local sources in the amount of \$72,000 below that budgeted.

**Figure A-9 – General Fund Budget vs. Actual**

<i>Galeton Area School District</i>				
<i>General Fund - Budget vs Actual Comparison (in thousands of dollars)</i>				
	Revised Budget	Actual	Difference	%
<b>Revenue</b>				
Local sources	\$ 3,376	\$ 3,304	\$ (72)	-2%
State sources	3,347	3,331	(16)	0%
Federal sources	128	151	23	18%
<b>Total revenue</b>	<b>\$ 6,851</b>	<b>\$ 6,786</b>	<b>\$ (66)</b>	<b>-1%</b>
<b>Expenditures</b>				
Instruction	\$ 3,985	\$ 4,195	\$ (210)	-5%
Support services	2,130	2,024	106	5%
Non-instructional services	198	184	14	7%
Debt service	550	515	35	6%
Operating transfers	-	46	(46)	n/a
<b>Total expenditures</b>	<b>\$ 6,863</b>	<b>\$ 6,964</b>	<b>\$ (101)</b>	<b>-1%</b>

**VII. Capital Asset and Debt Administration**

Capital Assets

As depicted in Figure A-10, as of June 30, 2016, the District had invested \$4,108,000 in a broad range of capital assets, including reconstruction projects, transportation vehicles and other various equipment. Capital additions made during the year ended June 30, 2016, totaled approximately \$12,000 and was related to the purchase of exercise equipment and fencing. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Long-term Debt

As depicted in Figure A-11, as of June 30, 2016, the District had approximately \$13,307,000 in bonds, notes outstanding, net pension liability, other post-employment benefits and compensated absences, an increase of approximately 1% as compared with the previous year. This increase was primarily the result of an increase in the net pension liability of the State's pension system offset by a decrease in bonds payable. The increase in post-employment benefit liability is the result of recording one year's worth of amortization of the District's unfunded actuarial accrued liability in accordance with GASB 45.

**Figure A-10 – Capital Assets**

<i>Galeton Area School District</i>			
<i>Capital Assets (net of depreciation)</i>			
	Governmental Activities & Total District-wide		
	2016	2015	Change
Land	\$ 3,787	\$ 3,787	0%
Building and Improvements	8,482,751	8,480,258	0%
Furniture and equipment	1,813,539	1,803,543	1%
Accumulated depreciation	(6,191,896)	(5,926,123)	4%
<b>Total Capital Assets, net</b>	<b>\$ 4,108,181</b>	<b>\$ 4,361,465</b>	<b>-6%</b>

**Figure A-11 – Outstanding Long-term Debt**

<i>Galeton Area School District</i>			
<i>Outstanding Long-Term Debt and Liabilities</i>			
	Governmental Activities & Total District-wide		
	2016	2015	Change
Bonds payable	\$ 2,805,000	\$ 3,235,000	-13%
Other post employment benefits	111,448	99,933	12%
Net pension liability	10,309,000	9,816,000	5%
Compensated absences	81,952	68,204	20%
<b>Total Long-Term Debt</b>	<b>\$ 13,307,400</b>	<b>\$ 13,219,137</b>	<b>1%</b>

**VIII. Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect the financial health in the future:

- Concerned over continuing decreases in state funding in education.
- During prior years the District lost a number of students to a home cyber school program. If cyber school enrollment continues to increase, this could result in additional operating losses similar to those experienced in the current fiscal year. This has a significant impact on the District's budget and is anticipated to have a similar impact in future years.
- Expected increase of District share retirement rate over the upcoming years.

**IX. Contacting the District's Financial Management**

This financial report is designed to provide citizens, taxpayers, customers and investors and creditors with a general overview of the finances of the District and to demonstrate our accountability with the money we receive. If you have any questions about this report or need additional financial information, please contact:

Galeton Area School District  
District Administrative Offices  
Attention: Ms. Penny Crowell  
Business Manager  
27 Bridge Street  
Galeton, Pennsylvania 16922

**GALETON AREA SCHOOL DISTRICT**  
**STATEMENTS OF NET POSITION (DEFICIT)**  
**AS OF JUNE 30,**

	2016			2015 Total
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash				
Unrestricted	\$ 772,246	\$ 63,819	\$ 836,065	\$ 341,876
Investments	-	-	-	533,258
Receivables				
Taxes, net	365,029	-	365,029	320,359
State and federal aid	393,541	2,096	395,637	354,260
Other receivables	256	2,946	3,202	13,249
Due from business-type activities	74,021	-	74,021	26,500
Due from other fiduciary funds	87,051	154	87,205	98,110
Inventories	30,000	6,891	36,891	34,075
Capital assets, net	4,105,461	2,720	4,108,181	4,361,465
Total assets	5,827,605	78,626	5,906,231	6,083,152
<b>Deferred Outflows of Resources</b>				
Deferred outflows related to pensions	853,896	-	853,896	793,765
Total assets and deferred outflows of resources	\$ 6,681,501	\$ 78,626	\$ 6,760,127	\$ 6,876,917
<b>Liabilities</b>				
Current liabilities				
Accounts payable and retainage payable	\$ 41,304	\$ 327	\$ 41,631	\$ 75,315
Accrued liabilities	710,866	5,036	715,902	517,593
Accrued interest	9,000	-	9,000	9,900
Due to governmental activities	-	74,021	74,021	26,500
Unearned revenue	-	-	-	163
Long-term liabilities				
Portion due or payable within one year				
Bonds payable	440,000	-	440,000	430,000
Portion due or payable after one year				
Bonds payable	2,365,000	-	2,365,000	2,805,000
Net pension liability	10,309,000	-	10,309,000	9,816,000
Other post employment benefits	111,448	-	111,448	99,933
Compensated absences	81,952	-	81,952	68,204
Total liabilities	14,068,570	79,384	14,147,954	13,848,608
<b>Deferred Inflows of Resources</b>				
Deferred inflows related to pensions	403,000	-	403,000	702,000
<b>Net Position (Deficit)</b>				
Net investment in capital assets	1,291,461	2,720	1,294,181	1,116,565
Unrestricted				
Board designated	394,050	-	394,050	682,792
Undesignated (deficit)	(9,475,580)	(3,478)	(9,479,058)	(9,473,048)
Total net position (deficit)	(7,790,069)	(758)	(7,790,827)	(7,673,691)
Total liabilities, deferred inflows and net position	\$ 6,681,501	\$ 78,626	\$ 6,760,127	\$ 6,876,917

**GALETON AREA SCHOOL DISTRICT  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30,**

	2016							2015
	Expenses	Indirect Expenses Allocation	Program Revenues		Net (Expense) Revenue and Changes in Net Position (Deficit)		Net (Expense) Revenue and Changes in Net Position	
			Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities	Total	
<b>Functions/Programs</b>								
<b>Governmental Activities:</b>								
Instruction	\$ 4,319,125	\$ 173,582	\$ -	\$ 1,000,935	\$ (3,491,772)	\$ -	\$ (3,491,772)	\$ (3,622,108)
Instructional student support	361,347	14,733	-	37,496	(338,584)	-	(338,584)	(356,526)
Administrative and financial support services	868,998	35,659	-	56,492	(848,165)	-	(848,165)	(915,080)
Operation and maintenance of plant services	451,907	18,490	-	22,378	(448,019)	-	(448,019)	(462,653)
Pupil transportation	324,680	13,586	-	104,398	(233,868)	-	(233,868)	(256,130)
Other support services	46,927	1,964	-	-	(48,891)	-	(48,891)	(46,388)
Student activities	173,263	7,143	-	19,877	(160,529)	-	(160,529)	(143,129)
Community services	3,472	357	-	79	(3,750)	-	(3,750)	(9,541)
Refunds of prior year revenue	1	-	-	-	(1)	-	(1)	(6,465)
Transfer to other business type funds	45,599	-	-	-	(45,599)	-	(45,599)	(86,755)
Debt service	84,262	-	-	171,026	86,764	-	86,764	55,566
Depreciation	265,514	(265,514)	-	-	-	-	-	-
Total governmental activities	6,945,095	-	-	1,412,681	(5,532,414)	-	(5,532,414)	(5,849,209)
<b>Business-type activities:</b>								
Food services	214,588	-	31,364	166,430	-	(16,794)	(16,794)	(83,921)
Total functions and programs	\$ 7,159,683	\$ -	\$ 31,364	\$ 1,579,111	(5,532,414)	(16,794)	(5,549,208)	(5,933,130)

**General Revenues**

Real property taxes	2,792,082	-	2,792,082	2,740,567
Property taxes, levied for general purposes	274,564	-	274,564	282,082
Interest earnings	3,921	26	3,947	5,047
Other local sources	14,953	-	14,953	22,663
State sources	2,300,927	-	2,300,927	2,259,907
Transfers from other governmental type funds	-	45,599	45,599	86,755
	<hr/>			
Total general revenues	5,386,447	45,625	5,432,072	5,397,021
	<hr/>			
<b>Change in net position (deficit)</b>	(145,967)	28,831	(117,136)	(536,109)
Net position (deficit)- beginning of year	(7,644,102)	(29,589)	(7,673,691)	2,315,995
Prior period adjustment	-	-	-	(9,453,577)
	<hr/>			
<b>Net position (deficit) - end of year</b>	<b>\$ (7,790,069)</b>	<b>\$ (758)</b>	<b>\$ (7,790,827)</b>	<b>\$ (7,673,691)</b>
	<hr/>			

**See accompanying independent auditor's report and notes to financial statements.**

**GALETON AREA SCHOOL DISTRICT  
 COMBINED BALANCE SHEETS - ALL GOVERNMENTAL FUNDS  
 AS OF JUNE 30,**

	<u>2016</u>	<u>2015</u>
	General	Total
<b>Assets</b>		
Unrestricted cash and cash equivalents	\$ 772,246	\$ 325,270
Investments	-	533,258
Taxes receivable	371,029	326,359
Intergovernmental receivables	393,541	354,260
Due from other funds	161,072	124,456
Other receivables	256	12,154
Inventories	30,000	30,000
Total assets	<u>\$ 1,728,144</u>	<u>\$ 1,705,757</u>
 <b>Liabilities, Deferred Inflows of Resources and Fund Equity</b>		
<b>Liabilities</b>		
Accounts payable	\$ 41,304	\$ 52,238
Accrued salaries and benefits	710,866	512,835
Total liabilities	<u>752,170</u>	<u>565,073</u>
 <b>Deferred Inflows of Resources</b>		
Unavailable revenue - delinquent taxes	<u>282,097</u>	<u>268,504</u>
 <b>Fund Equity</b>		
Fund Equity:		
Nonspendable	30,000	30,000
Committed	364,050	652,792
Assigned	49,321	11,691
Unassigned	250,506	177,697
Total fund equity	<u>693,877</u>	<u>872,180</u>
Total liabilities, deferred inflows of resources and fund equity	<u>\$ 1,728,144</u>	<u>\$ 1,705,757</u>

**GALETON AREA SCHOOL DISTRICT**  
**COMBINED STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN FUND**  
**EQUITY - ALL GOVERNMENTAL FUNDS**  
**FOR THE YEARS ENDED JUNE 30,**

	2016 General	2015 Total
<b>Revenue</b>		
Local sources	\$ 3,304,236	\$ 3,267,847
State sources	3,330,604	3,241,035
Federal sources	150,695	133,983
Total revenue and other sources	<u>6,785,535</u>	<u>6,642,865</u>
<b>Expenditures</b>		
Instruction	4,194,838	4,192,069
Support services	2,023,658	2,133,616
Noninstructional services	184,580	158,501
Other financing uses		
Debt service	515,162	535,934
Refund of prior year's receipts	1	6,465
Interfund transfers	45,599	86,755
Total expenditures and other financing uses	<u>6,963,838</u>	<u>7,113,340</u>
<b>Excess (deficiency) of revenue and other sources over expenditures over expenditures and other financing uses</b>	(178,303)	(470,475)
Fund equity, beginning of year	<u>872,180</u>	<u>1,342,655</u>
<b>Fund equity, end of year</b>	<u>\$ 693,877</u>	<u>\$ 872,180</u>

**GALETON AREA SCHOOL DISTRICT**  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND EQUITY -**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Page 17

	Original Budget	Revised Budget	Current Year's Amount	Favorable (Unfavorable) Revised Budget
<b>Revenues</b>				
Local sources	\$ 3,375,709	\$ 3,375,709	\$ 3,304,236	\$ (71,473)
State sources	3,347,603	3,347,603	3,330,604	(16,999)
Federal sources	127,800	127,800	150,695	22,895
Total revenue	<u>6,851,112</u>	<u>6,851,112</u>	<u>6,785,535</u>	<u>(65,577)</u>
<b>Expenditures</b>				
<b>Instruction</b>				
Regular programs	2,943,888	2,943,888	3,064,114	(120,226)
Special programs	656,279	656,279	794,165	(137,886)
Vocational education programs	150,600	150,600	110,511	40,089
Other instructional programs	26,979	26,979	3,209	23,770
Pre-kindergarten program	207,015	207,015	222,839	(15,824)
Total instruction	<u>3,984,761</u>	<u>3,984,761</u>	<u>4,194,838</u>	<u>(210,077)</u>
<b>Support Services</b>				
Pupil personnel	146,179	146,179	159,648	(13,469)
Instructional staff	78,849	78,849	85,422	(6,573)
Administration	746,604	746,604	742,408	4,196
Pupil health	104,591	104,591	107,036	(2,445)
Business	141,458	141,458	113,157	28,301
Operation and maintenance	551,217	551,217	444,380	106,837
Student transportation services	317,600	317,600	324,680	(7,080)
Other support services	43,278	43,278	46,927	(3,649)
Total support services	<u>2,129,776</u>	<u>2,129,776</u>	<u>2,023,658</u>	<u>106,118</u>
<b>Noninstructional services</b>				
Student activities	185,556	185,556	171,120	14,436
Community services	12,879	12,879	13,460	(581)
Total noninstructional services	<u>198,435</u>	<u>198,435</u>	<u>184,580</u>	<u>13,855</u>
<b>Other financing uses</b>				
Debt service	549,831	549,831	515,162	34,669
Refunds of prior year receipts	-	-	1	(1)
Interfund transfers	-	-	45,599	(45,599)
Total other financing uses	<u>549,831</u>	<u>549,831</u>	<u>560,762</u>	<u>(10,931)</u>
<b>Total expenditures and other financing uses</b>	<u>6,862,803</u>	<u>6,862,803</u>	<u>6,963,838</u>	<u>(101,035)</u>
<b>Deficiency of revenue and other sources over expenditures and other financing uses</b>	<u>\$ (11,691)</u>	<u>\$ (11,691)</u>	<u>(178,303)</u>	<u>\$ (166,612)</u>
Fund equity, beginning of year			<u>872,180</u>	
<b>Fund equity, end of year</b>			<u>\$ 693,877</u>	

**GALETON AREA SCHOOL DISTRICT**  
**STATEMENTS OF NET POSITION - FIDUCIARY FUNDS**  
**AS OF JUNE 30,**

	Private Purpose Trusts	Agency Fund	2016 Total	2015 Total
<b>Assets</b>				
Cash	\$ 1,710	\$ 200,553	\$ 202,263	\$ 201,678
Total assets	\$ 1,710	\$ 200,553	\$ 202,263	\$ 201,678
<b>Liabilities</b>				
Other liabilities	\$ -	\$ 44,172	\$ 44,172	\$ 36,883
Due to other funds	350	86,855	87,205	98,110
Student extraclassroom activity funds	-	69,526	69,526	65,319
Total liabilities	350	200,553	200,903	200,312
<b>Net position</b>				
Reserved for scholarships	1,360	-	1,360	1,366
Total liabilities and net position	\$ 1,710	\$ 200,553	\$ 202,263	\$ 201,678

**GALETON AREA SCHOOL DISTRICT**  
**STATEMENTS OF CHANGES IN NET POSITION - FIDUCIARY FUNDS**  
**FOR THE YEARS ENDED JUNE 30,**

	2016	2015
<b>Additions</b>		
Gifts and contributions	\$ -	\$ 1,025
Interest earnings	2	6
Total additions	<u>2</u>	<u>1,031</u>
<b>Deductions</b>		
Fees	8	7,639
Scholarships awarded	-	1,500
Total deductions	<u>8</u>	<u>9,139</u>
<b>Change in net position</b>	(6)	(8,108)
Net position - beginning of year	<u>1,366</u>	<u>9,474</u>
<b>Net position - end of year</b>	<u>\$ 1,360</u>	<u>\$ 1,366</u>

**GALETON AREA SCHOOL DISTRICT**  
**STATEMENTS OF NET POSITION - PROPRIETARY FUND**  
**AS OF JUNE 30,**

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 63,819	\$ 16,606
Intergovernmental receivables	2,096	-
Other receivables	2,946	1,095
Due from other funds	154	154
Inventories	6,891	4,075
Capital assets, net	2,720	2,979
<b>Total assets</b>	<b>\$ 78,626</b>	<b>\$ 24,909</b>
<b>Liabilities</b>		
Accounts payable	\$ 327	\$ 23,077
Accrued liabilities	5,036	4,758
Unearned revenue	-	163
Due to other funds	74,021	26,500
<b>Total liabilities</b>	<b>79,384</b>	<b>54,498</b>
<b>Net Position (Deficit)</b>		
Invested in capital assets	2,720	2,979
Unrestricted (deficit)	(3,478)	(32,568)
<b>Total net deficit (deficit)</b>	<b>(758)</b>	<b>(29,589)</b>
<b>Total liabilities and net deficit</b>	<b>\$ 78,626</b>	<b>\$ 24,909</b>

**GALETON AREA SCHOOL DISTRICT**  
**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION -**  
**PROPRIETARY FUND**  
**FOR THE YEARS ENDED JUNE 30,**

	2016	2015
<b>Operating revenue</b>		
Food service revenue	\$ 31,364	\$ 29,305
<b>Operating expenses</b>		
Salaries and benefits	120,773	127,262
Purchased food	89,910	114,033
Depreciation	259	259
Other operating expenses	3,646	233
Total operating expenses	214,588	241,787
Total net operating loss	(183,224)	(212,482)
<b>Non-operating revenues</b>		
State sources	19,830	7,307
Federal sources	146,600	121,254
Interest income	26	18
Interfund transfers	45,599	86,755
Total non-operating revenues	212,055	215,334
<b>Change in net deficit</b>	28,831	2,852
Total net deficit, beginning	(29,589)	(32,441)
<b>Total net deficit, ending</b>	\$ (758)	\$ (29,589)

**GALETON AREA SCHOOL DISTRICT  
STATEMENTS OF CASH FLOWS - PROPRIETARY FUND  
FOR THE YEARS ENDED JUNE 30,**

	2016	2015
<b>Cash flows from operating activities</b>		
Cash received from sale of meals	\$ 29,513	\$ 29,305
Cash paid to vendors	(101,540)	(85,390)
Cash paid to employees	(120,495)	(127,063)
Cash received from (paid to) other funds	47,521	(38,243)
Net cash used in operating activities	<u>(145,001)</u>	<u>(221,391)</u>
<b>Cash flows from non-capital financing activities</b>		
State sources	19,722	7,307
Federal Sources	126,867	112,373
Transfer from general fund	45,599	86,755
Net cash provided by non-capital financing activities	<u>192,188</u>	<u>206,435</u>
<b>Cash flows from investing activities</b>		
Interest received	26	18
Net cash provided by investing activities	<u>26</u>	<u>18</u>
<b>Net increase (decrease) in cash</b>	47,213	(14,938)
Cash balance, beginning of year	16,606	31,544
<b>Cash balance, end of year</b>	<u>\$ 63,819</u>	<u>\$ 16,606</u>
<b>Reconciliation of net operating loss to net cash used in operating activities</b>		
Net operating loss	\$ (183,224)	\$ (212,482)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation	259	259
Donated commodities	17,745	8,881
Changes in assets and liabilities:		
Increase in other receivables	(1,851)	-
Increase in inventory	(2,816)	(3,082)
Increase (decrease) in accounts payable	(22,750)	23,077
Increase in accrued liabilities	278	199
Decrease in unearned revenue	(163)	-
Increase (decrease) in due to other funds	47,521	(38,243)
Net cash used in operating activities	<u>\$ (145,001)</u>	<u>\$ (221,391)</u>
<b>Supplemental Schedule of Non-Cash Activities</b>		
Activities not affecting cash flows are as follows:		
Surplus food	<u>\$ 17,745</u>	<u>\$ 8,881</u>

**GALETON AREA SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET POSITION (DEFICIT)**  
**AS OF JUNE 30, 2016**

<b>Total fund balances - governmental funds</b>		\$ 693,877
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 therefore are not reported as assets in governmental funds. Capital assets consist of the following at year-end:		
Cost of the assets	\$ 10,296,191	
Accumulated depreciation	<u>(6,190,730)</u>	4,105,461
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred inflows of resources in the funds. The District has also reserved approximately 2% or \$6,000 of delinquent taxes receivable.		276,097
Interest on long-term liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(9,000)
Net deferred inflows of resources related to actuarial pension differences are reported on the statement of net position and amortized over the average members' years of service. In the government funds, pensions expense is based on required contributions.		450,896
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of the following:		
Bonds payable	(2,805,000)	
Net pension liability	(10,309,000)	
Other post employment benefits	(111,448)	
Compensated absences	<u>(81,952)</u>	<u>(13,307,400)</u>
<b>Total net deficit - governmental activities</b>		<b><u>\$ (7,790,069)</u></b>

	Total Governmental Funds	Long-term Asset Transactions	Long-term Liability Transactions	Reclassification and Eliminations	Statement of Net Assets
<b>Assets</b>					
Cash	\$ 772,246	\$ -	\$ -	\$ -	\$ 772,246
Taxes receivable	371,029	(6,000)	-	-	365,029
Intergovernmental receivable	393,541	-	-	-	393,541
Due from other funds	161,072	-	-	-	161,072
Other receivables	256	-	-	-	256
Inventories	30,000	-	-	-	30,000
Capital assets, net	-	4,105,461	-	-	4,105,461
Total assets	1,728,144	4,099,461	-	-	5,827,605
<b>Deferred Outflows of Resources</b>					
Deferred outflows related to pensions	-	853,896	-	-	853,896
Total assets and deferred outflows of resources	\$ 1,728,144	\$ 4,953,357	\$ -	\$ -	\$ 6,681,501
<b>Liabilities, Deferred Inflows of Resources and Fund Equity/Net Position (Deficit)</b>					
<b>Liabilities</b>					
Accounts payable	\$ 41,304	\$ -	\$ -	\$ -	\$ 41,304
Accrued liabilities	710,866	-	-	-	710,866
Accrued interest	-	-	9,000	-	9,000
Bonds payable	-	-	2,805,000	-	2,805,000
Net pension liability	-	-	10,309,000	-	10,309,000
Other post employment benefits	-	-	111,448	-	111,448
Compensated absences	-	-	81,952	-	81,952
Total liabilities	752,170	-	13,316,400	-	14,068,570
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - delinquent income taxes	282,097	(282,097)	-	-	-
Deferred inflows related to pensions	-	-	403,000	-	403,000
Total deferred inflows of resources	282,097	(282,097)	403,000	-	403,000
<b>Fund equity &amp; net position (deficit)</b>					
	693,877	5,235,454	(13,719,400)	-	(7,790,069)
Total liabilities, deferred inflows of resources and fund equity/net position (deficit)	\$ 1,728,144	\$ 4,953,357	\$ -	\$ -	\$ 6,681,501

**GALETON AREA SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND EQUITY TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**Total net change in fund balances - governmental funds** \$ (178,303)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Activity for the current fiscal year ended was as follows:

Capital outlays	\$ 12,489	
Depreciation expense	<u>(265,514)</u>	(253,025)

Because some taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources changed by this amount during the year. 13,593

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 430,900

District's proportionate share of actuarial calculated pension expense and net amortization of deferred amounts from changes in proportion are recorded in the statement of activities, whereas in the governmental funds, pension expense is based on the District's contribution to pension plans. (133,869)

In the statement of activities, certain operating expenses - compensated absences and other post employment benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. (25,263)

**Change in net position of governmental activities** \$ (145,967)

	Total Governmental Funds	Long-term Asset Transactions	Long-term Liability Transactions	Reclassification and Eliminations	Statement of Activities Totals
<b>Revenue</b>					
Real property taxes	\$ 2,788,361	\$ 3,721	\$ -	\$ -	\$ 2,792,082
Property taxes, levied for general purposes	264,692	9,872	-	-	274,564
Interest and earnings	3,921	-	-	-	3,921
Other local sources	247,262	-	-	(232,309)	14,953
State sources	3,330,604	-	-	(1,029,677)	2,300,927
Federal sources	150,695	-	-	(150,695)	-
Total revenue	6,785,535	13,593	-	(1,412,681)	5,386,447
<b>Expenditures</b>					
Instruction	4,194,838	173,582	124,287	(1,000,935)	3,491,772
Instructional student support	352,106	14,733	9,241	(37,496)	338,584
Administrative and financial support services	855,565	35,659	13,433	(56,492)	848,165
Operation and maintenance of plant services	444,380	15,997	10,020	(22,378)	448,019
Pupil transportation	324,680	13,586	-	(104,398)	233,868
Other support services	46,927	1,964	-	-	48,891
Student activities	171,120	7,143	2,143	(19,877)	160,529
Community services	13,460	(9,639)	8	(79)	3,750
Refunds of prior years revenues	1	-	-	-	1
Debt service	515,162	-	(430,900)	(171,026)	(86,764)
Total expenditures	6,918,239	253,025	(271,768)	(1,412,681)	5,486,815
Excess (deficiency) of revenue over expenditures	(132,704)	(239,432)	271,768	-	(100,368)
<b>Other sources and uses</b>					
Interfund transfer to food service fund	(45,599)	-	-	-	(45,599)
Total other sources (uses)	(45,599)	-	-	-	(45,599)
<b>Net change for year</b>	\$ (178,303)	\$ (239,432)	\$ 271,768	\$ -	\$ (145,967)

**GALETON AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

**A. Reporting Entity**

The *Galeton Area School District* is governed by the Education Law and other general laws of the State of Pennsylvania. The governing body is the Board of Education. The scope of activities included within the accompanying financial statements are those transactions which comprise School District operations, and are governed by or significantly influenced by, the Board of Education. Essentially, the primary function of the School District is to provide education for pupils. Support services such as transportation of pupils, administration, finance and plant maintenance are also included. The financial reporting entity includes all funds, account groups, functions and organizations over which the School District officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

**B. Basis of Presentation**

**1. District-wide Statements**

The Statement of Net Position (Deficit) and the Statement of Activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize double counting of internal transactions. Governmental activities generally are financed through taxes, state subsidy, intergovernmental revenues, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants. Business-type activities include the District's food service operation which is financed through sales and reimbursements of breakfasts and lunches.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Basis of Presentation (continued)**

**1. District-wide Statements (continued)**

Revenues that are not classified as program revenues, including all taxes, are presented as general revenue.

**2. Fund Financial Statements**

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

**a. Governmental Funds**

Governmental funds are those funds used to account for and report the operations of the School District. The acquisition, use, and balances of financial resources and related assets and liabilities are reported therein. The measurement focus is the determination of changes in financial position rather than net income determination. The following funds and aggregate governmental fund types are employed in accounting for and reporting School District operations. The District reports the following major governmental funds:

**General Fund** - The General Fund is the principal operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

**Capital Projects Fund** - The capital projects funds are used to account for and report financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment. These projects are approved by the Pennsylvania Department of Education and a portion of the costs will be reimbursed with state subsidy in future years.

**b. Proprietary Funds**

Proprietary Funds are used to account and report activities that are similar to business operations in the private sector where the focus is on determining net income and cash flows. Proprietary Funds include the following fund:

**Food Service Fund** - Accounts for all revenue and expenses pertaining to cafeteria operations.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Basis of Presentation (continued)**

**2. Fund Financial Statements (continued)**

**c. Fiduciary Funds**

Fiduciary Funds are used to account for fiduciary activities. Fiduciary activities are those in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the district-wide financial statements, because their resources do not belong to the District, and are not available to be used. Included in the Fiduciary Fund are Expendable Trust Funds and Agency Funds. Agency Funds are custodial in nature (assets equal liabilities) and generally are accounted for on the cash basis which approximates the modified accrual basis of accounting.

**C. Measurement Focus and Basis of Accounting**

The district-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. The District considers all revenue reported in the governmental funds to be available if the revenue is collected within the current period or soon enough thereafter to be used to pay liabilities of the current period, except for property taxes, which are considered to be available if collected within 60 days after year-end.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Budgeting Policies - Governmental Fund Types**

**1. General**

The School District's policy relating to budgetary information as shown in the accompanying financial statements is for the School District administration to culminate a proposed budget for approval by the Board of Education prior to commencement of a new fiscal year. Appropriations established by adoption of the budget constitute a limitation on expenditures which may be incurred.

**2. Encumbrance**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve applicable appropriations, is employed as a control in preventing overexpenditure of established appropriations. Open encumbrances are reported as a reservation of fund equity since such commitments will be honored through budget appropriations in the subsequent year. Encumbrances do not constitute expenditures or liabilities.

**E. Local Taxes**

Real property taxes are levied annually by the Board of Education and received by tax collectors by December 31. Uncollected real property taxes are subsequently enforced by Potter and Tioga Counties. An amount representing uncollected real property taxes transmitted to the Counties for levy is recorded as deferred revenue until collected by the Counties.

Per capita, occupation and realty transfer taxes are levied annually by the Board of Education. Uncollected taxes are subsequently enforced by the tax collectors.

**F. Inventories**

Inventories of food in the Food Service Fund are recorded at cost on a first-in, first-out basis or in the case of surplus food, at stated value which approximates market. Purchase of inventoriable supplies in the General Fund are recorded at estimated cost and an offsetting reservation of fund equity is provided in the financial statements.

**GALETON AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**G. Capital Assets**

During the current fiscal year, the District had an appraisal conducted by independent third-party professionals which estimated historical cost of the District's capital assets. Donated assets are reported at estimated fair market value at the time received. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the district-wide statements as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 1,500	Straight-line	20-50 years
Land improvements	\$ 1,500	Straight-line	25-30 years
Furniture and equipment	\$ 1,500	Straight-line	5-20 years
Transportation vehicles	\$ 1,500	Straight-line	8 years

**H. Deferred Outflows of Resources**

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and governmental fund financial statements. The District has two items that qualify for reporting in this category. The first item is related to pensions reported in the district-wide Statement of Net Position (Deficit). This represents the effect of the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement period between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. The second item is the District's contributions to the pension system subsequent to the measurement date.

**I. Deferred Inflows of Resources**

The District reports increases in net assets that relate to future periods as deferred inflows of resources in a separate section of its government-wide and governmental fund financial statements. The District has two items that qualify for reporting in this category. First arises only under a modified accrual basis of accounting and is reported as unavailable revenue – taxes. The second item is related to pensions reported in the district-wide Statement of Net Position (Deficit).

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**J. General Long-Term Debt**

**1. General Long-Term Indebtedness**

Bonds, capital notes and lease authority obligations are recognized when issued.

**2. Compensated Absences**

The District provides compensated absences benefits for all employees at \$30 per day for each day of accumulated unused sick leave earned prior to 7/1/2004. The District also provides benefits for all employees at \$60 per day for each day of accumulated unused sick leave earned after 7/1/2004.

**K. Pensions**

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

Plan description

The Public School Employees' Retirement System (PSERS) is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at [www.psers.state.pa.us](http://www.psers.state.pa.us).

Benefits provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (continued)**

**K. Pensions (continued)**

Benefits provided (continued)

Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service to attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined by the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

*Member contributions:*

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.5% (Membership Class T-D) of the member's qualifying compensation. Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.5% (Membership Class T-D) of the member's qualifying compensation.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (continued)**

**K. Pensions (continued)**

Contributions (continued)

Members who joined the System after June 30, 2001 and before July 1, 2011 contribute at 7.5% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

*Employer contributions:*

The school districts' contractually required contribution rate for fiscal year ended June 30, 2016 was 25.84% (25% for pensions and .84% for health care benefits) of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$713,710 for the year ended June 30, 2016.

**L. Post-Employment Benefits**

In addition to the retirement benefits in the note above, the district maintains a single-employer defined benefit healthcare plan that's administered by a third party. The plan provides lifetime post-employment medical and dental coverage to its retired employees and their survivors in accordance with the provisions of the employment contracts negotiated between the School District and its employee groups. Substantially all of the District's employees may become eligible for these benefits if they reach a normal retirement age while working for the District. Health care benefits are based on the benefits paid during the year. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure.

**GALETON AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Page 29**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (continued)**

**M. Fund Equity**

**1. Governmental Funds**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be reported within one of the fund balance categories listed below:

**A. Nonspendable**

Fund balance associated with assets that are inherently nonspendable in the current period because of their form or because they must be maintained intact, including inventories, prepaids, long-term loans and notes receivable, and property held for relate (unless the proceeds are restricted, committed, or assigned). The Nonspendable Fund Balance includes the following category:

**1. Inventory Reserve**

This reserve is used to limit the investment in inventory and to restrict that portion of fund balance which is unavailable for appropriation. This reserve is accounted for in the General Fund.

**B. Restricted**

Fund balance amounts that can be spent only for specific purposes stipulated by constitutional, external resource providers including creditors, grantors, contributors, etc., or through enabling legislation. The district did not have any restricted fund balances as of June 30, 2016.

**C. Committed**

Fund balance amounts that can be used only for specific purposes determined by a formal action of the District's Board of Education, which is the District's highest level of decision-making authority. Committed Fund Balance includes the following categories:

**1. Board Designated Fund Balance**

Portions of fund equity are segregated for future use, and are therefore, not available for future appropriation or expenditure. Designation of unreserved fund equity in governmental funds indicates that utilization of these resources in the ensuing year's budget or tentative plans for future use.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (continued)**

**M. Fund Equity (continued)**

**1. Governmental Funds (continued)**

**D. Assigned**

Fund balance intended to be used by the District for specific purposes but does not meet the criteria to be restricted or committed. Along with the District's Board of Education, the Business Manager and Treasurer have been authorized to assign fund balance amounts for specific purposes through the establishment of an encumbrance.

**1. Encumbrance Accounting**

Encumbrance accounting, under which purchase orders, contracts, and other commitments of the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used in the General Fund, Special Revenue Funds, and Capital Projects Fund. If resources have already been restricted or committed for encumbrances, the encumbered amounts will be included with restricted or committed resources. If resources have not already been restricted or committed, amounts encumbered are considered assigned for the purpose of the expected expenditure. The District recorded no encumbrances as of June 30, 2016.

**2. Appropriated Fund Equity**

General Fund - The amount of \$49,321 has been designated as the amount estimated to be appropriated to reduce taxes for the year ending June 30, 2017.

**2. Government-wide financial statements**

**A. Net Investment in Capital Assets**

This designation of net position is used to accumulate the capital asset balance in the statement of net position less accumulated depreciation and outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**M. Fund Equity (continued)**

**2. Government-wide financial statements (continued)**

**B. Restricted**

This category represents amounts that can be spent only for specific purposes stipulated by constitutional, external resource providers including creditors, grantors, contributors, etc., or through enabling legislation.

**C. Unrestricted**

This category represents net position of the District not restricted for any other purpose.

**3. Order of Fund Balance Spending Policy**

When more than one classification of fund balance of the District are eligible to be utilized for an expenditure of the District, the order in which the fund balance classifications will be utilized will be as follows:

- a. Restricted fund balance for which action has been taken by the Board of Education, a designated school official, or by the voters of the District, specifically designating funds to the expenditure;
- b. Committed fund balance for which action has been taken by the Board of Education, a designated school official, or by the voters of the District, specifically designating funds to the expenditure;
- c. Assigned fund balance created specifically for the expenditure (encumbered fund balance);
- d. Assigned fund balance within funds other than the General Fund of the District to which the expenditure relates;
- e. Unassigned fund balance.

**N. Interfund Activity**

The amounts reported on the Statement of Net Position (Deficit) for due to and from other funds represents amounts due between different fund types (governmental activities, business-type and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these notes. During the course of operations, the **Galeton Area School District** has numerous transactions between funds, including expenditures and transfers of revenue to provide services and construct assets. Eliminations have been also made for amounts transferred to and from the same fund type.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**O. Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenditures/expenses.

**P. Cash and Cash Equivalents**

For financial statement purposes, all highly liquid investments with original maturities of three months or less are considered as cash equivalents. This includes certificates of deposit, bank repurchase agreements and investments in the Pennsylvania Local Government Investment Trust (PLGIT).

**Q. Investments**

Investments are carried at market which approximately cost.

**R. Reclassifications**

Certain prior year amounts have been reclassified to conform with the current year presentation.

**NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS**

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the district-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

**A. Total Fund Equity of Governmental Funds vs. Net Position of Governmental Activities**

Total fund equity of the District's governmental funds differs from "Net Position" of governmental activities reported in the Statement of Net Position. This difference primarily results from the additional long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the governmental fund Balance Sheets.

**NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES  
BETWEEN GOVERNMENTAL FUND STATEMENTS  
AND DISTRICT-WIDE STATEMENTS (continued)**

**B. Statement of Revenues, Expenditures and  
Changes in Fund Equity vs. Statement of  
Activities**

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Equity and the Statement of Activities fall into one of three broad categories are summarized below.

**1. Long-term Revenue and Expense Differences**

Long-term revenue differences arise because governmental funds report revenue only when they are considered "measurable" and "available", whereas the Statement of Activities reports revenue when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

**2. Capital Related Differences**

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.

**3. Long-term Debt Transaction Differences**

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

**NOTE 3 - CASH AND INVESTMENTS**

**A. Deposits**

The School District invests excess funds with banks or trust companies authorized to do business in Pennsylvania. During the year ended June 30, 2016, the School District's investments included interest bearing checking accounts (including money market type investments), a certificate of deposit, and deposits to the Pennsylvania Local Government Investment Trust (PLGIT). These consist of permissible investments in obligations of the U.S. Treasury and U.S. Agencies or certificates of deposit, which are fully insured or collateralized as provided by Pennsylvania law. All funds were held by PLGIT and commercial banks authorized by the Board of Education as the official depository for the District's funds.

The District's cash and investments are required to be secured (for funds in excess of the FDIC insurance limitation of \$250,000) by a pledge of governmental securities having a market value at least equal to the amount on deposit. The banks use the pooling method to pledge securities for all public funds that are on deposit. This method allows the depository to pledge securities in one lump sum that covers all public funds on deposit at the bank.

Custodial credit risk is the risk that in the event of a bank failure the District's deposits may not be returned to it. While the District does not have a specific policy with regards to custodial credit risk, State statutes govern the District's investment policies. At June 30, 2016, the District's bank deposits were fully collateralized.

Total financial institution (bank) balances at June 30, 2016, including certificates of deposit, were approximately \$1,075,000 of which \$323,000 were secured by FDIC insurance, \$752,000 were secured by the banks as required by Act 72 of 1971 as well as other collateral.

**GALETON AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE 4 - CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2016 were as follows:

	<u>Beginning Balance 6/30/15</u>	<u>Additions (Disposals)</u>	<u>Ending Balance 6/30/16</u>
Governmental activities:			
Capital assets that are not depreciated:			
Land	\$ 3,787	\$ -	\$ 3,787
Capital assets that are depreciated:			
Buildings and improvements	8,480,258	2,493	8,482,751
Furniture and equipment	<u>1,799,657</u>	<u>9,996</u>	<u>1,809,653</u>
Total depreciable historical cost	10,283,702	<u>\$ 12,489</u>	10,296,191
Less accumulated depreciation:	<u>5,925,216</u>	<u>\$ 265,514</u>	<u>6,190,730</u>
Total net book value	<u>\$ 4,358,486</u>		<u>\$ 4,105,461</u>
Proprietary activities:			
Equipment	\$ 3,886	\$ -	\$ 3,886
Less accumulated depreciation:	<u>907</u>	<u>\$ 259</u>	<u>1,166</u>
Total net book value	<u>\$ 2,979</u>		<u>\$ 2,720</u>
	<u>Governmental</u>	<u>Proprietary</u>	
Depreciation expense:			
Instruction	\$ 173,582	\$ -	
Support services	84,432	-	
Non-instructional services	<u>7,500</u>	<u>259</u>	
	<u>\$ 265,514</u>	<u>\$ 259</u>	

**NOTE 5 - INDEBTEDNESS**

**1. Summary of Short-term Debt**

Tax anticipation notes of \$2,000,000 were authorized and issued during the year ended June 30, 2016, in anticipation of the collection of taxes levied in the current fiscal year. The proceeds were used to fund expenditures of the current year. The law restricts the use of such tax anticipation notes to the purpose for which taxes will be levied. The note had an interest rate of 1.49% and matured on June 30, 2016. Short-term interest on the note was \$195 during the year ended June 30, 2016.

**NOTE 5 – INDEBTEDNESS (continued)**

**2. Summary of Long-term Debt**

General long-term debt obligations changed as follows:

	<u>Balance at June 30, 2016</u>	<u>Balance at June 30, 2015</u>
Serial bonds	\$ 2,805,000	\$ 3,235,000
Compensated absences	81,952	68,204
Net pension liability	10,309,000	9,816,000
Other post-employment benefits	<u>111,448</u>	<u>99,933</u>
	<u>\$ 13,307,400</u>	<u>\$ 13,219,137</u>

During the current year, the District made principal payments of \$430,000. Compensated absences increased \$13,748, other post-employment benefits liability increased \$11,515 and net pension liability increased \$493,000 during the year ended June 30, 2016.

The following is a description of the terms of the long-term bonds issued in connection with the improvement and renovation of the existing building:

	<u>Amount Outstanding</u>
2012 Series with maturity date of May 15, 2022, carry interest of 3.00%-3.60%. Bond issued on 11/12/12 to refund 3/1/2008 issuance.	\$ 2,160,000
2011 Series with maturity date of May 15, 2022, carry interest of 0.80%-3.65%. Bond issued on 5/15/11 to refund 11/15/2003 issuance.	<u>645,000</u>
Total	<u>\$ 2,805,000</u>

**a. Long-term Debt Interest**

Interest expense for the year ended June 30, 2016 amounted to \$81,732 which is related to serial bonds and is recorded in the general fund.

**b. Maturity**

A summary of principal and interest payments on the serial bonds are as follows:

<u>Serial Bonds - Series 2011</u>		
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 100,000	\$ 20,495
2018	105,000	17,995
2019	105,000	15,002
2020	105,000	11,748
2021	110,000	8,230
2022	<u>120,000</u>	<u>4,380</u>
	<u>\$ 645,000</u>	<u>\$ 77,850</u>

**NOTE 5 – INDEBTEDNESS (continued)**

**b. Maturity (continued)**

**Serial Bonds – Series 2012**

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 340,000	\$ 43,200
2018	345,000	36,400
2019	355,000	29,500
2020	365,000	22,400
2021	375,000	15,100
2022	380,000	7,600
	<u>\$ 2,160,000</u>	<u>\$ 154,200</u>

**c. Defeasement of Debt**

In prior years, the District also defeased certain general obligations and other bonds by placing the proceeds of the new bonds in an irrevocable trust to provide future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements.

**NOTE 6 - CONTINGENCIES AND COMMITMENTS**

**A. Federal and State Grants**

The School District participates in both state and federal assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

**B. Litigation**

The School District, in the normal course of its operations, is involved in various litigation and arbitration cases. Management is of the opinion that any unfavorable outcome resulting from these actions would not have a material effect on the School District's financial position.

**NOTE 6 - CONTINGENCIES AND COMMITMENTS (continued)**

**C. Self-Insurance**

The School District is self-insured against unemployment claims. Based upon historical claims and management's anticipated claims, no reserve as of June 30, 2016 is deemed necessary.

**D. Risk Financing and Related Insurance**

**1. General Information**

The *Galeton Area School District* is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

**2. Risk Sharing Pools**

For its employee health and accident coverage, *Galeton Area School District* is a participant in a Blue Cross and Blue Shield Medical Plan consortium, a public entity risk pool operated for the benefit of individual governmental units located within the Seneca Highlands Intermediate Unit 9. The School District pays monthly premiums to the Plan for this health coverage.

The Plan provides health coverage for its members and all claims are paid from the total premiums contributed by the members of the consortium. Excess claims over premiums are funded from a stabilization fund held by the Seneca Highlands Intermediate Unit Insurance Trust, while premiums in excess of the claims are refunded to the Insurance Trust.

**NOTE 7 - RETIREMENT PLAN**

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

At June 30, 2016, the District reported a liability of \$10,309,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was .0238%, which was a decrease of .0010% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$844,000. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ --	\$ 21,000
Difference between expected and actual experience		43,000
Changes in proportions	100,000	339,000
Contributions subsequent to the measurement date	753,596	--
	<u>\$ 853,596</u>	<u>\$ 403,000</u>

\$753,596 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ 642,596
2018	(111,000)
2019	(111,000)
2020	30,000
	<u>\$ 450,596</u>

**NOTE 7 - RETIREMENT PLAN (continued)**

**Actuarial assumptions**

The total pension liability as of June 30, 2015 was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 7.5%, includes inflation at 3%.
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3%, real wage growth of 1%, and merit or seniority increases of 1.5%.
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

**GALETON AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE 7 - RETIREMENT PLAN (continued)**

**Actuarial assumptions (continued)**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	(14.0)%	1.1%
	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

**Discount rate**

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the net pension liability, calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

	<u>1% Decrease 6.5%</u>	<u>Current Discount Rate 7.5%</u>	<u>1% Increase 8.5%</u>
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District's proportionate share of the net pension liability	\$12,207,000	\$10,309,000	\$8,294,000
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**NOTE 7 - RETIREMENT PLAN (continued)**

**Pension plan fiduciary net position**

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at [www.psers.state.pa.us](http://www.psers.state.pa.us).

**NOTE 8 – OTHER POST EMPLOYMENT BENEFITS**

**Plan Description**

The District maintains a single-employer defined benefit healthcare plan (the Plan). The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefit provisions are based on bargaining agreements as negotiated from time to time. The Plan does not issue a publicly available financial report. Eligibility for the Plan is established by the District and specified in the District's employment contracts.

**Funding Policy**

Benefit provisions can be amended by action of the District subject to applicable collective bargaining and employment agreements. The required contribution is based on projected pay-as-you-go financing requirements, with no current funding of actuarially determined liabilities.

**Annual OPEB Cost and Net OPEB Obligation**

The District's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with GASB 45. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize unfunded actuarial liabilities over 30 years.

**GALETON AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE 8 – OTHER POST EMPLOYMENT BENEFITS  
(continued)**

Annual OPEB Cost and Net OPEB Obligation (continued)

The following table summarizes the District's annual OPEB cost for 2016, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 186,027
Estimated interest on net OPEB Obligation	4,497
Estimated adjustment to ARC	<u>(6,135)</u>
OPEB expense (cost)	184,389
Contributions made	<u>(172,874)</u>
Increase in net OPEB obligation	11,515
Net OPEB obligation – beginning of year	99,933
Net OPEB obligation - end of year	<u>\$ 111,448</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016, 2015, and 2014 are as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
6/30/16	\$184,389	93.8%	\$ 111,448
6/30/15	\$146,797	93.3%	\$ 99,933
6/30/14	\$147,008	91.3%	\$ 90,152

Funding Status and Funding Progress

As of June 30, 2016, the actuarial accrued liability for benefits was \$1,631,778, all of which was unfunded. The covered payroll (annual payroll of active employees covered under the plan) was \$2,972,812 and the ratio of unfunded actuarial liability to the covered payroll was 54.9%.

**NOTE 8 – OTHER POST EMPLOYMENT BENEFITS  
(continued)**

Funding Status and Funding Progress (continued)

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and ARC of the District are subject to continual revision as actual results compared with past expectations and new estimates are made about the future.

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

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the Plan as understood by the District and Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the District and Plan members. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Valuation assumptions are as follows:

*Retirement age for active employees* – assumed retirement rates are based on PSERS plan experience and vary by age, service, and gender.

*Marital status* – 40% of teachers and the Support staff and 75% of the administrators electing coverage at retirement are assumed to be married and have a spouse covered by the plan at retirement.

*Mortality* – separate rates are assumed pre-retirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation.

**GALETON AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE 8 – OTHER POST EMPLOYMENT BENEFITS  
(continued)**

Actuarial Methods and Assumptions (continued)

*Turnover* – rates of withdrawal vary by age, gender, and years of service. Rates for new employees start at 14% for both men and women and decrease with age and service.

*Healthcare cost trend rate* – Assumed a rate of 7.5% in 2012 year, decreasing .5% per year to 5.5% in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2018 and later based on Society of Actuaries Long-Run Medical Cost Trend Model.

*Health insurance premiums* – 2012 health insurance premiums are used as the basis for calculation of the present value of total benefits to be paid.

*Salary* – Salary increases is used only for spreading contributions over future pay under the entry age normal cost method. Salary increases are composed of a 3% cost of living adjustment, 1% real wage growth factor and for teachers and administrators a merit increase which ranges from 3% to .25%.

*Discount rate and valuation method* - Based on the historical and expected returns of the District's general assets, a discount rate of 4.5% was used. In addition, the valuation method utilized for this plan is called the Entry Age Normal Method.

*Amortization* - Unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over thirty years.

**NOTE 9- INTERFUND TRANSACTIONS**

Interfund receivable and payable balances at June 30, 2016 and interfund revenue and expenditures for the fiscal year ended June 30, 2016 are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 161,072	\$ -
Agency Fund	-	86,855
Non-Expendable Fund	-	350
Food Service Fund	154	74,021
<b>Total</b>	<b>\$ 161,226</b>	<b>\$ 161,226</b>

	<u>Interfund Revenue</u>	<u>Interfund Expenditure</u>
General Fund	\$ -	\$ 45,599
Food Service Fund	45,599	-
<b>Total</b>	<b>\$ 45,599</b>	<b>\$ 45,599</b>

During the current year, the District transferred \$45,599 from the general fund to the food service fund to help subsidize food service costs.

**NOTE 10- RECEIVABLES**

**Taxes Receivable**

Taxes receivable amounted to \$371,029 at June 30, 2016 and consist of the estimated delinquent real property taxes levied by the District but uncollected during the last three years. The taxes are ultimately collectible either by payment from the property owner or from the proceeds of a public sale of the levied property. The District recorded a \$6,000 reserve for potential uncollectible delinquent real estate taxes on the district-wide financial statements.

**Intergovernmental Receivable**

Included in the intergovernmental receivable balance of \$393,541 as of June 30, 2016 are amounts due from the Federal and State governments related to the reimbursement of retirement, rental subsidy and various grants awarded to the District. Included in the receivable in the current year is a rental receivable in the amount of \$168,042 related to reimbursement from PDE of a portion of debt service payments. PDE has recently issued bonds in order to make payments to districts in Pennsylvania and the District received such payments during November 2016.

**NOTE 11 – UNEARNED REVENUE**

Unearned revenue is reported on the District's combined balance sheet. Unearned revenue arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized. Unearned revenue is also related to donated commodities received by the District which is included as inventory at year-end and is recorded in the business-type funds.

**NOTE 12 – DEFERRED INFLOW OF RESOURCES**

Deferred inflows of resources are reported on the District's combined balance sheet. Deferred inflows of resources revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred inflows of resources also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the District has legal claim to the resources, the liability for deferred inflows of resources is removed and revenue is recognized.

As of June 30, 2016, deferred inflows of resources amounted to \$282,097 which pertains to taxes receivable at the end of the fiscal year less amounts collected within thirty days subsequent to the year end. Deferred inflows of resources are recognized as revenue in the Statement of Activities.

**GALETON AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**NOTE 13 – RELATED PARTY**

The School District is one of various school districts of the Seneca Highland Career and Technical Center (Career and Technical Center). Career and Technical Center is controlled and governed by a joint board which is composed of school board members of the member school district. Direct oversight of Career and Technical Center's operations is the responsibility of the joint board. The School District's share of annual operating and capital costs for the Career and Technical Center fluctuates based on a percentage of enrollment in the School. The Seneca Highlands Intermediate Unit 9 provides several services to the School District. These services include special education, Title I administration, hospitalization, a local area network, and enrichment services.

During the fiscal year ended June 30, 2007, the Career and Technical Center issued long-term debt to finance a building improvement project. ***Galeton Area School District***, along with the component school districts, are committed to pay its allocated portion of the future long-term debt. During the fiscal year ended June 30, 2016, the District incurred principal and interest costs in the amount of \$3,430 and \$3,835, respectively, related to its share of long-term debt issued by the Career and Technical Center for the building improvements project.

The District will receive rental subsidy from the Pennsylvania Department of Education based on payments of principal and interest related to the Career and Technical Center building project. During the current fiscal year, the District recognized \$2,984 for payments made on the project.

On June 23, 2016, the Seneca Highlands Career and Technical Center issued new debt in the amount of \$6,040,000 carrying interest at a rate of 2.38% to 5.50% to refund the previously issued 2007 bonds and provide an additional \$500,000 of proceeds to be utilized towards capital improvements. The bonds mature on November 15, 2028. Below is a schedule of the District's future payments towards the capital project.

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 30,664	\$ 9,415
2018	31,487	8,675
2019	32,173	7,918
2020	32,859	7,144
2021	33,888	6,349
2022-2026	178,291	17,084
2027-2029	71,552	9,253
	<u>\$ 410,914</u>	<u>\$ 65,838</u>

**NOTE 14 - COMPENSATED ABSENCES**

The District does not accrue a liability for accumulating, nonvesting sick leave, since payment is based on an uncontrollable future event (sickness). In accordance with the provisions of Government Accounting Standards Board Statement No. 16, the value of accumulating, nonvesting sick leave is considered a contingent liability. The District reports approximately \$131,000 at June 30, 2016 for accumulating nonvesting sick leave. The District also has recorded an estimated liability in the district-wide financial statements in the amount of \$81,952 to recognize the cost of accumulated unused sick days for those employees eligible for retirement.

**NOTE 15 – DESIGNATED AND RESERVED FUND BALANCE**

The District's designated fund equity is comprised of various components.

<u>Fund</u>	<u>Reservation Purposes</u>	<u>Balance June 30, 2016</u>
<b>Nonspendable</b>		
General	Reserve for inventory	\$ 30,000
Fiduciary Fund	Reserve for endowment Scholarships	\$ 1,360
<b>Committed</b>		
General	Textbooks	\$ 45,406
	Technology	50,000
	Maintenance	268,644
		<u>\$ 364,050</u>
<b>Assigned</b>		
General	Appropriated	\$ 49,321

**NOTE 16 – SUBSEQUENT EVENTS**

Subsequent events were evaluated through December 13, 2016 which is the date the financial statements were available to be issued.

***SUPPLEMENTARY INFORMATION***

**GALETON AREA SCHOOL DISTRICT**  
**COMPARATIVE STATEMENTS OF REVENUE AND EXPENDITURES - GENERAL FUND**

<i>Fiscal years ended June 30,</i>	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
<b>Local sources:</b>		
Taxes:		
Current real estate taxes	\$ 2,436,814	\$ 2,378,313
Per capita	6,348	6,607
Realty transfer and earned income	254,931	255,986
Public utility realty tax	3,413	3,847
Payment in lieu of taxes	143,185	143,653
Delinquent real estate taxes	208,362	223,799
Total tax revenue	<u>3,053,053</u>	<u>3,012,205</u>
Interest earnings	3,921	5,029
Federal revenue received from intermediate and local sources	51,792	62,830
State revenue received from intermediate and local sources	170,000	157,200
Miscellaneous	25,470	30,583
Total local sources	<u>3,304,236</u>	<u>3,267,847</u>
<b>State sources:</b>		
Basic instructional subsidy	2,082,080	2,037,186
Tuition	8,769	12,023
Rental	171,026	173,899
Transportation	104,398	84,282
Special education	266,779	264,275
Social security and retirement	459,664	440,976
Vocational education	-	12
Drivers' education	420	-
Health services	6,350	5,661
Ready to learn grant	53,981	44,821
Property tax relief subsidy	177,137	177,150
Food service equipment assistance	-	750
Total state sources	<u>3,330,604</u>	<u>3,241,035</u>
<b>Federal sources:</b>		
Title I	114,666	99,993
Other restricted federal grants in aid	36,029	33,990
Total federal sources	<u>150,695</u>	<u>133,983</u>
 <b>Total revenue and other sources</b>	 <u><u>\$ 6,785,535</u></u>	 <u><u>\$ 6,642,865</u></u>

<b>Fiscal years ended June 30,</b>	<b>2016</b>	<b>2015</b>
<b>Expenditures</b>		
<b>Instruction:</b>		
Regular programs	\$ 3,064,114	\$ 3,097,914
Special programs	794,165	636,650
Vocational education programs	110,511	237,918
Other instructional programs	3,209	28,464
Pre-kindergarten	222,839	191,123
Total instruction	<u>4,194,838</u>	<u>4,192,069</u>
<b>Support services:</b>		
Pupil personnel	159,648	145,975
Instructional staff	85,422	117,166
<b>Administration:</b>		
Board services	214,916	277,132
Tax collections	77,932	76,917
Legal	28,242	31,637
Superintendent	216,474	187,907
Principals	204,844	202,102
Total administration	<u>742,408</u>	<u>775,695</u>
Pupil health	107,036	98,829
Business	113,157	127,397
Operation and maintenance of plant services	444,380	496,576
Student transportation services	324,680	327,368
Other support services	46,927	44,610
Total other support services	<u>1,036,180</u>	<u>1,094,780</u>
Total support services	<u>2,023,658</u>	<u>2,133,616</u>
<b>Noninstructional services:</b>		
Student activities	171,120	149,147
Community services	13,460	9,354
Total noninstructional services	<u>184,580</u>	<u>158,501</u>
<b>Debt service</b>	<u>515,162</u>	<u>535,934</u>
<b>Other financing uses:</b>		
Refund of prior years' receipts	1	6,465
Interfund transfer to food service fund	45,599	86,755
Total other financing uses	<u>45,600</u>	<u>93,220</u>
Total expenditures and other financing uses	<u>6,963,838</u>	<u>7,113,340</u>
<b>Excess (deficiency) of revenue and other sources over expenditures and other financing uses</b>	<u>\$ (178,303)</u>	<u>\$ (470,475)</u>

**GALETON AREA SCHOOL DISTRICT****STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - ACTIVITY FUND**

	Balances June 30, 2015	Total Receipts	Total Receipts & Balances	Total Payments	Balances June 30, 2016
Art Club Fund	\$ 1,708	\$ 8	\$ 1,716	\$ 200	\$ 1,516
Band	618	2,621	3,239	2,599	640
Boys Basketball	965	524	1,489	661	828
Business	595	1,022	1,617	595	1,022
Cheerleader BB (BBCL)	33	-	33	-	33
Chorus - Musical	1,119	1,312	2,431	1,210	1,221
Class of 2011	4,755	-	4,755	-	4,755
Class of 2012	522	-	522	521	1
Class of 2013	2,369	-	2,369	-	2,369
Class of 2014	1,228	-	1,228	-	1,228
Class of 2015	2,284	-	2,284	-	2,284
Class of 2016	1,985	3,293	5,278	4,790	488
Class of 2017	1,350	1,982	3,332	1,466	1,866
Class of 2018	710	1,401	2,111	799	1,312
Class of 2019	119	-	119	-	119
Class of 2020	335	1,699	2,034	1,624	410
Student Activity Fund	-	615	615	400	215
Elementary Fund	12,703	38,088	50,791	40,572	10,219
FHA	4,725	238	4,963	145	4,818
Flag Twirlers	15	-	15	-	15
Girls Softball	872	2,950	3,822	2,679	1,143
Girls Varsity / Jr. Varsity Basketball	(109)	-	(109)	-	(109)
Jr. High Soccer	14	2,143	2,157	2,157	-
Jr. High Volleyball	1,244	951	2,195	1,195	1,000
Jr. High Basketball	51	-	51	-	51
Music Department Fund	358	-	358	-	358
National Honor	(11)	1,515	1,504	933	571
Prom Fund	1,170	990	2,160	990	1,170
PRT	2,427	3,184	5,611	2,846	2,765
Ski Club	1,439	-	1,439	-	1,439
Soccer Cheerleading	206	-	206	-	206
Student Council	7,354	2,553	9,907	5,831	4,076
Tennis	1,514	31	1,545	-	1,545
Baseball	101	-	101	-	101
The Galetonian	2,619	13,919	16,538	7,341	9,197
Travel	781	13,436	14,217	11,301	2,916
Varsity Soccer	1,222	420	1,642	1,198	444
Volleyball	1,819	1,546	3,365	469	2,896
Yellow Ribbon	487	839	1,326	501	825
ELPL- Elementary Play	1,407	1,012	2,419	1,062	1,357
JHBB- Girls Jr. High Basketball	564	-	564	-	564
TENN- Girls Tennis	101	-	101	-	101
5th Grade Account	583	-	583	-	583
NRGG- Student fitness club	282	-	282	-	282
SFCO	686	-	686	-	686
<b>Total activity fund</b>	<b>\$ 65,319</b>	<b>\$ 98,292</b>	<b>\$ 163,611</b>	<b>\$ 94,085</b>	<b>\$ 69,526</b>

**See accompanying independent auditor's report on supplementary information.**

**GALETON AREA SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded Actuarial Accrued Liability ("UAAL")	Funded Ratio	Covered Covered Payroll	Ratio of UAAL to Covered Covered Payroll
January 1, 2015	\$ -	\$ 1,631,778	\$ 1,631,778	0%	\$ 2,972,812	54.89%
January 1, 2012	\$ -	\$ 1,334,592	\$ 1,334,592	0%	\$ 3,043,836	43.85%

**GALETON AREA SCHOOL DISTRICT  
 SCHEDULE OF DISTRICT'S  
 PROPORTIONATE SHARE OF NET PENSION LIABILITY**

Fiscal year ended June 30,	2015	2014	2013
District's proportion of the net pension liability	0.0238%	0.0248%	0.0244%
District's proportionate share of the net pension liability	\$ 10,309,000	\$ 9,816,000	\$ 9,988,000
District's covered-employee payroll	\$ 3,062,106	\$ 3,162,835	\$ 3,136,661
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	336.6637%	310.3545%	318.4278%
Plan fiduciary net position as a percentage of the total pension liability	54.3573%	57.2382%	54.4909%

**GALETON AREA SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS**

Fiscal year ended June 30,	2015	2014	2013
Contractually required contribution	\$ 627,732	\$ 506,054	\$ 360,716
Contributions in relation to the contractually required contribution	(627,732)	(506,054)	(360,716)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 3,062,106	\$ 3,162,835	\$ 3,136,661
Contributions as a percentage of covered-employee payroll	20.5%	16.0%	11.5%

**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 President and  
Members of the Board of Education  
*Galeton Area School District*  
Galeton, Pennsylvania**

We have audited 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, the financial statements of the governmental activities, business-type activities and each major fund of *Galeton Area School District* as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise *Galeton Area School District’s* basic financial statements and have issued our report thereon dated December 13, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered *Galeton Area School District’s* internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of *Galeton Area School District’s* internal control. Accordingly, we do not express an opinion on the effectiveness of *Galeton Area School District’s* 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. There can be no assurance that deficiencies, significant deficiencies and material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified three deficiencies in internal control over financial reporting 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District’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. We consider the deficiencies in the District’s internal control described in the accompanying schedule of findings and questioned costs as items II.A.2016-001, II.A.2016-002 and II.A.2016-003 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether *Galeton Area School District’s* financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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 that is required to be reported under *Government Auditing Standards*.

**Galeton Area School District’s Responses to Findings**

*Galeton Area School District’s* responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. *Galeton Area School District’s* responses were not subjected to auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on them.

**Other**

We noted other matters that we have reported to management of *Galeton Area School District* in a separate letter dated December 13, 2016.

**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 result of that testing, and not provided 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.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
December 13, 2016**

**GALETON AREA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**I. SUMMARY OF AUDIT RESULTS**

1. The independent auditors' report expresses an unmodified opinion on the financial statements of **Galeton Area School District**.
2. Three material weaknesses relating to the audit of the financial statements were reported in the 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*. These weaknesses are described in the accompanying schedule of findings and questioned costs as items II.A.2016-001, II.A.2016-002 and II.A.2016-003.
3. There were no instances of noncompliance material to the financial statements of **Galeton Area School District** reported in the 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*.
4. **Galeton Area School District** did not require a single audit as total expenditures of Federal Awards did not exceed \$750,000.

**GALETON AREA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**II. FINANCIAL STATEMENT AUDIT - FINDINGS**

**A. INTERNAL CONTROL OVER FINANCIAL REPORTING**

**2016-001 Adjusting Journal Entries, Required Disclosures and Draft Financial Statements**

**Year ended June 30, 2016**

*Condition and Criteria:* During the current year, adjusting journal entries, along with footnote disclosures were proposed by the auditors and accepted by the District to properly reflect the financial statements in accordance with generally accepted accounting principles. Some of the adjustments and footnotes were related to converting to the full accrual method for GASB 34 purposes, reclassifying due to/due from accounts and recording various receivables and accrued liabilities. In addition, the financial statements were drafted by the auditor and accepted by the District.

*Effect:* AU-C Section 265, entitled Communicated Internal Control Related Matters Identified in an Audit, issued by the American Institute of Certified Public Accountants (AICPA) considers the need for significant adjusting journal entries and assistance when preparing the financial statements to be indicative of an internal control deficiency. Without this assistance, the potential risk exists of the District's financial statements not conforming with Generally Accepted Accounting Principles (GAAP).

*Auditors' Recommendation:* Although auditors may continue to provide such assistance both now and in the future, under this new pronouncement, the District should continue to review and accept both proposed adjusting journal entries and footnote disclosures, along with the draft financial statements.

*District's Response:* The District has received, reviewed and approved all journal entries, footnote disclosures and draft financial statements proposed for the current year audit and will continue to review similar information in future years. Further, the District believes it has a thorough understanding of these financial statements and the ability to make informed judgments based on these financial statements. Lastly, the District considers such assistance provided by the auditors to be the most cost effective manner to prepare such information.

**Year Ended June 30, 2015**

A similar finding was reported upon during the fiscal year ended June 30, 2015 as finding 2015-001.

**2016-003 Segregation of Duties**

**Year ended June 30, 2016**

*Conditions and Criteria:* We noted that one individual is primarily responsible for the record keeping and financial reporting functions.

*Effect:* A fundamental element of an effective internal control system is the proper segregation of duties. Proper segregation of duties provides for a system of checks and balances and entails assigning responsibilities of authorizing and recording transactions among different people in the District.

*Auditor's recommendation:* The District should attempt to separate many of the ancillary duties of record-keeping including: opening the mail and maintaining a cash receipts log; signing of checks, distribution of payroll checks, and bank reconciliation preparation. In addition, financial information such as check registers, payroll registers and cash receipts journals should be reviewed by someone independent of the preparer or the Board of Education. Lastly, because of the lack of certain segregation of duties, we recommend that those individuals who are responsible for handling financial transactions are appropriately covered by a fidelity bond.

*District's Response:* The District understands the importance of having strong segregation of duties and will attempt to separate certain responsibilities as outlined above.

**Year Ended June 30, 2015**

A similar finding was reported upon during the fiscal year ended June 30, 2015 as finding 2015-002.

**GALETON AREA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**II. FINANCIAL STATEMENT AUDIT – FINDINGS (CONTINUED)**

**A. INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)**

**2016-003 Bank Reconciliations and General Ledger Reconciliation**

**Year ended June 30, 2016**

*Conditions and Criteria:* During the audit we noticed that the business manager prepares the bank reconciliations during the year, however, there is no evidence of review. During the year ended June 30, 2016, we noticed general ledger accounts, specifically interfund receivable and payable were not being reconciled on a regular basis. Differences that existed throughout the fiscal year were specifically related to payroll expenditures and withholdings related to the Food Service Fund and Agency Fund, respectively.

*Effect:* Because the business manager has access to the general ledger throughout the year, evidence of a review is important to demonstrate proper segregation of duties. The effect of not reconciling interfund receivable and payable accounts for all governmental funds on a consistent basis allowed the accounts to not equal in the aggregate. Interfund receivable and payable accounts were reconciled at the time of the audit.

*Auditors' Recommendation:* We recommend that as part of preparing monthly bank reconciliations, the reconciliation should be reviewed by someone independent of the preparer. Both, the individual preparing and reviewing the bank reconciliations should sign or initial and date the reconciliation when completed. We recommend that the District incorporate procedures to ensure that such general ledger accounts are reconciled on a monthly basis. It is important that a dual accounting system is utilized in each individual fund and transactions between funds should be booked through the interfund receivables and payables.

*School District's Response:* The District will have the Superintendent review bank reconciliations. Once completed, the preparer and reviewer will sign and date each reconciliation to evidence their completion. Lastly, the District will reconcile due to/due from accounts on a monthly basis.

**Year Ended June 30, 2015**

A similar finding was reported upon during the fiscal year ended June 30, 2015 as finding 2015-004.

**2015-001 Purchase Order System**

**Year ended June 30, 2016**

This finding is not being reported upon in the current year.

**Year Ended June 30, 2015**

*Condition and criteria:* During the audit, we noticed that documentation was missing to substantiate certain controls in the area of purchasing of goods and services. We noticed various instances where purchases were made during the 2014-15 fiscal year without the documentation of prior authorization or approval from management. Although in most cases purchase orders were prepared, they were sometimes submitted for approval subsequent to the date of the invoice. We should mention that the District continues to make strides and improvements in enhancing its purchasing system.

*Effect:* By not having approval of expenditures prior to the date of purchase, the District could incur expenditures that were not authorized by the Board of Education during the budget process. Also, expenditures may be incurred which do not coincide with management's expectations or philosophy in providing an education to the students of the District.

*Auditors' Recommendations:* An effective internal control system is necessary in the purchasing of goods and services to provide better control over expenditures. The District should attempt to use purchase orders for all expenditures and during instances in which a purchase order is not possible, a purchase requisition should be utilized. All purchase orders should be examined and approved by a designated member of management prior to the goods or services are ordered. A signature and date should accompany each purchase order, which evidences that such steps were taken.

**GALETON AREA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**II. FINANCIAL STATEMENT AUDIT – FINDINGS (CONTINUED)**

**A. INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)**

**2015-001 Purchase Order System**

**Year Ended June 30, 2015**

*School District's Response:* The District continues to enhance and strengthen its purchasing system and has shown continued improvement in the Departments that had prior year findings with regards to purchasing. In review of the current year audit sampling, the area of concern was primarily in the area of purchases made from the local discount store through the use of a credit card. These purchases sometimes lacked a formal requisition. All future use of the credit cards will require a signed requisition form which is authorized by an appropriate member from administration prior to the purchase being made.

*Current Status:* During the current year, the District's improvement of controls over purchasing was evidenced and therefore, this matter is not considered to be a material weakness during the current year.

**B. COMPLIANCE**

**Year ended June 30, 2016**

No compliance findings are being reported upon during the fiscal year ended June 30, 2016.

**Year Ended June 30, 2015**

No compliance findings were reported upon during the fiscal year ended June 30, 2015.



**To the President and Members of  
The Board of Education  
*Galeton Area School District*  
Galeton, Pennsylvania**

**To the Board Members and Administration:**

We have completed our audit of the District's financial statements for the fiscal year ended June 30, 2016 and have issued our report thereon dated December 13, 2016. Our audit report expressed an opinion which states that the District's financial statements are in accordance with accounting principles generally accepted in the United States of America for governments and school districts located in the Commonwealth of Pennsylvania. In addition, we have issued a separate report on internal controls over financial reporting and compliance with laws and regulations as required by *Government Auditing Standards*.

In planning and performing our audit of the financial statements of the *Galeton Area School District* for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure and its operation. Except as noted within the body of such reports, the District generally was in compliance with laws and regulations and maintains a reasonable system of accounting internal controls.

Attached to this letter is a summary of additional comments which we desire to bring to the Board and Administration's attention involving various matters. Although such matters were not of sufficient nature to be disclosed in the previously mentioned reports, we do feel the comments should be reviewed and acted upon primarily by the business staff. In addition, attached to this letter is a summary of revenue and expense comparisons and analysis of fund equity for the school years ended June 30, 2012 through June 30, 2016.

*Buffamante Whipple Buttafaro PC*

**BUFFAMANTE WHIPPLE BUTTAFARO, P.C.**

**Olean, New York  
December 13, 2016**

**GALETON AREA SCHOOL DISTRICT**  
**REVENUE AND EXPENDITURES COMPARISON AND ANALYSIS OF FUND**  
**EQUITY - GENERAL FUND (AMOUNTS IN \$1,000)**

	06/30/16	06/30/15	06/30/14	06/30/13	06/30/12
<b>Revenue and other sources</b>					
Tax revenue	\$ 3,053	\$ 3,012	\$ 3,062	\$ 3,053	\$ 2,964
Other local sources	251	256	287	206	180
State aid	3,331	3,241	3,066	3,097	3,062
Federal aid	151	134	113	151	190
All other	-	-	2	3,355	-
	<u>6,786</u>	<u>6,643</u>	<u>6,530</u>	<u>9,862</u>	<u>6,396</u>
<b>Expenditures and other uses</b>					
Instruction	4,195	4,191	4,103	4,068	3,973
Administration	742	776	813	672	627
Other support services	1,281	1,358	1,359	1,349	1,305
Noninstructional services	185	159	209	175	165
All other	561	629	450	3,939	580
	<u>6,964</u>	<u>7,113</u>	<u>6,934</u>	<u>10,203</u>	<u>6,650</u>
<b>Excess (deficiency) of revenue over expenditures</b>	(178)	(470)	(404)	(341)	(254)
<b>Fund equity</b>					
Beginning of year	872	1,342	1,746	2,087	2,341
End of year	<u>\$ 694</u>	<u>\$ 872</u>	<u>\$ 1,342</u>	<u>\$ 1,746</u>	<u>\$ 2,087</u>
<b>Analysis of fund equity</b>					
Nonspendable					
Reserve for inventory	\$ 30	\$ 30	\$ 30	\$ 30	\$ 30
Committed					
Board designated	364	653	939	939	939
Assigned					
Reserve for encumbrances	-	-	-	12	17
Designated for next year's budget	49	12	92	100	297
Unassigned	251	177	281	665	804
	<u>\$ 694</u>	<u>\$ 872</u>	<u>\$ 1,342</u>	<u>\$ 1,746</u>	<u>\$ 2,087</u>

**Equipment and Inventory**

The District reports approximately \$4.1 million of capital assets. The most significant dollar amount of these assets consists of the District buildings and capital improvements that are not as susceptible to the risk of loss or misuse. Assets that are more susceptible to such risk include equipment and inventory items. It is extremely important for the District to be aware of the risks associated with these assets and have processes in place to safeguard against their loss or misuse. Internal controls that the District may consider the following:

- Continued updating of the District's fixed asset and inventory additions and disposals within its asset database;
- Obtaining a full independent appraisal every few years, that would compare the assets listed within the database compared with those physically counted;
- Maintaining a perpetual inventory system for higher risk equipment and inventory items;
- Periodically perform random spot checks of equipment and inventory and compare to asset database;
- Performing annual physical inventory counts and investigating any differences between the appraisal/inventory reports and physical count.

**Fund Balance**

As of June 30, 2016, the District has certain fund balance which was committed for specific purposes by the Board of Education. We recommend that for existing and future commitments of fund balance, the District document its rationale to support the purpose and dollar level of reserves. The District should consider forming a long-term plan with regards to the funding and use of this fund balance.

**Financial Plan**

The District should consider preparing projections of future revenue and expenditures and should consider developing a three to five year financial plan. This plan is particularly important as a result of the potential for future declines in Federal and State aid, increases in contractual expenditures and increases in retirement system contribution rates. We realize that such a plan will require the use of estimates and assumptions of information such as the amount of expected Federal and State Aid, expected rate increase in retirement systems and health insurance, potential increase in salaries, etc. However, we believe this plan could be a very useful tool that the District can utilize when negotiating employee contracts, setting future tax rates, purchasing future equipment, establishing reserves and utilizing fund balance. The forecast would also be beneficial in the budgeting process, whereby the District would have an indication as to whether current year operations are running at an overall surplus or deficit.

**Technology**

In an ever changing technological society the District should continue to monitor the risks associated with technology so that key operational and financial data are safeguarded. Some of the general and application IT controls that should continue to be considered include the following:

- Procedures for developing, testing, documenting, reviewing, and approving systems or program changes and subsequent modification.
- Controls over access to computer equipment, software and data contained therein.
- Disaster/recovery plans, including backup procedures, off-site storage, and contingency planning.
- Developing formal procedures and guidelines for tasks performed by IT staff.
- Formal documentation of IT policies and processes.
- Identifying those individuals who have access within accounting systems and routinely monitoring such access.

We recommend that the District continue to consider its technology risks and how such risks are mitigated.

**GALETON AREA SCHOOL DISTRICT  
SUMMARY OF ADDITIONAL COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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**Activity Funds**

Point of sale records

We noted several instances where the receipt of cash lacked point of sale records. Each cash receipt received by the central treasurer should be accompanied by supporting documentation which reconciles cash received to participation times rates/fees. Due to the lack of point of sale records, cash receipts are not adequate to permit the application of the necessary auditing procedures to indicate whether receipts were recorded. We recommend that point of sale records be filled out in detail or an appropriate summary be attached by the student treasurer and teacher advisor. Point of sale records should be reviewed and closely scrutinized by the central treasurer. Any deviances from that expected should be immediately investigated.

Sales Tax

We noted in our disbursement testing that often purchases are made by the extraclassroom fund as if the purchases are exempt from sales tax. In instances where items are purchased for resale, the sales tax may be remitted on the amount sold; however, in instances where items are not being resold sales tax should be paid. We recommend that extraclassroom advisors and student treasurers be instructed that the District's tax exempt status is not valid for purchases by extraclassroom organizations and when sales tax should be remitted.

Cash Receipts

During the audit of the extraclassroom activity fund, we noticed that cash receipts are not always being deposited in the bank on a timely basis. We recommend that cash receipts for the extraclassroom activity fund be deposited on a more regular basis throughout the year.

Negative Account Balance

During the audit of the extraclassroom activity fund we noted that the Girls Varsity/Jr. Varsity Basketball and National Honor Society activity funds had a negative balance and therefore utilized other activity funds proceeds to fund certain events. We recommend that the District closely monitor activity funds and strictly prohibit all extra-curriculum activities from borrowing proceeds from other clubs.

Fundraiser Approval/Internal Profit Margin Analysis

During our review of cash receipts, we noted that the District has a form to document the approval of fundraisers, however the form is not being completed consistently. We recommend that going forward these forms be required to be completed for each individual fundraiser. We also reviewed documentation to determine whether or not internal profit margin analyses are being performed on fundraisers. Margin analysis is an excellent tool for analyzing the profitability of a fundraiser, and also identifying any potential errors in record keeping or potential fraud. We recommend that the District consider tracking this information for each fundraiser.

Inactive Activity Funds

During the audit of the extraclassroom activity fund we noted certain activities (Basketball Cheerlead-BBCL, Class of 2011, 2012, 2013, 2014, 2015, Flag Twirlers, Jr. High Basketball, Music Department Fund, NRGG – Student Fitness Club, Ski Club, Soccer Cheerleading, Baseball, Girls Varsity Basketball, JHBB-Girls Jr. High Basketball, TENN-Girls Tennis, 5<sup>th</sup> Grade Account, and SFCO) which had no activity during the current fiscal year and seemed to be inactive. We recommend those activities which are deemed to be inactive should be closed out and transferred to the Trust and Agency Fund, General Fund or to another Activity Fund.

**Purchase Order and Requisitions**

The District showed improvement in the area of receiving authorization from management prior to the purchase of goods and services. We recommend that the District continue its efforts in this area with a goal of having all purchase orders signed and approved prior to the purchase of all goods and services. During situations when it is not practical to issue a purchase order, documentation should be maintained that evidences that proper authorization for the purchases has been made.

**Uniform Guidance**

The Federal Office of Management and Budget (OMB) has issued new regulations titled the Uniform Guidance which takes effect for recipients of Federal grants for awards received after December 26, 2014. The new regulations attempt to combine and codify the requirements of eight circulars previously maintained by OMB and to streamline the Federal grant administrative, cost accounting, and audit policies in the Federal register. The new regulations do not affect grants awarded prior to that date, but rather, will affect future reporting of Federal grants for the District. The Uniform Guidance has a focus on improving overall performance and outcome of grants and to reduce administrative burdens for grant applicants and recipients, while reducing the risk of waste, fraud and abuse. Included in the new guidance is subpart D, Post-Federal Award Requirements, which outlines guidelines that pertain once a Federal grant is obtained. Some of the items outlined in this area are: internal controls, procurement standards, subrecipient monitoring, grant closeout, etc. We recommend individuals involved with the oversight of Federal grants at the District familiarize themselves with the new Uniform Guidance, which may include continuing education, webinars and further training.

**GASB 75 – Accounting and Financial Report for Postemployment Benefits other than Pension Plans**

In June 2015, the Government Accounting Standards Board issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans – an amendment of GASB Statement No. 45 Statement No. 75 which will be effective for the fiscal year ending June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB).

The new accounting standard will require the District to report its actuarial accrued liability related to OPEB in the statement of net position within the government-wide financial statements. Although the majority of this information is currently presented within the District's financial statement disclosures, the OPEB liability within the statement of net position is only a portion of total actuarial accrued liability, as the current accounting standard for OPEB, GASB 45, allows governmental entities to amortize the liability over a period of up to thirty years. We recommend that the District begin to educate its users of the financial statements, as to the impact of this change in future years.