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*By Gloria Suggitt at 6:28 am, Oct 26, 2011*

Free Soil Community School District

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2011

Free Soil Community School District

**TABLE OF CONTENTS**

Management’s Discussion and Analysis..... i - x

Independent Auditors’ Report..... 1

Basic Financial Statements

    District-wide Financial Statements

        Statement of Net Assets ..... 2

        Statement of Activities ..... 3

    Fund Financial Statements

        Governmental Funds

            Balance Sheet ..... 4

            Reconciliation of the Governmental Funds Balance

                Sheet to the Statement of Net Assets ..... 5

            Statement of Revenues, Expenditures and Changes

                in Fund Balances ..... 6

            Reconciliation of the Governmental Funds Statement

                of Revenues, Expenditures and Changes in Fund

                    Balances to the Statement of Activities ..... 7

            Statement of Fiduciary Assets and Liabilities ..... 8

        Notes to Financial Statements ..... 9

Required Supplementary Information

    Budgetary Comparison Schedule—General Fund..... 22

# FREE SOIL COMMUNITY SCHOOLS

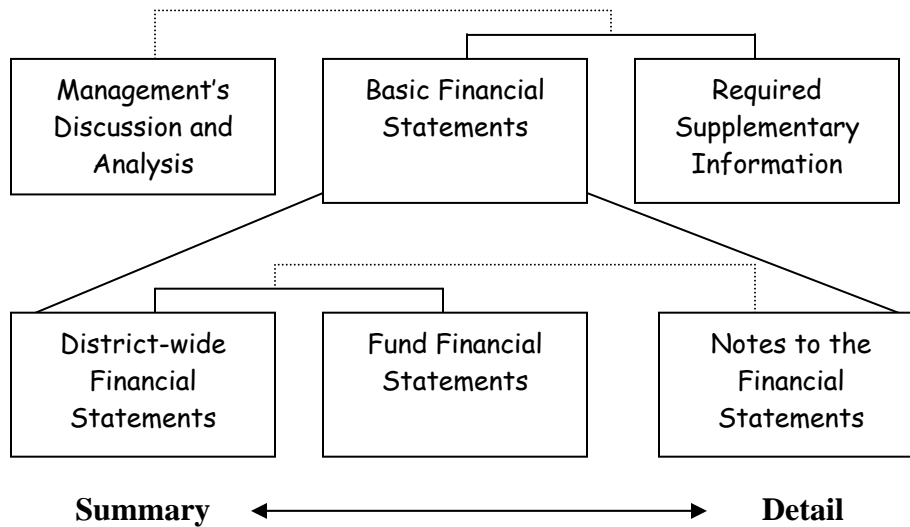
## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

The discussion and analysis of Free Soil Community Schools' (district's) financial performance provides an overall review of the district's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to provide, in the layman's terms, a look at the district's performance and past and current position. Readers should also review the notes to the financial statements and financial statements to enhance their understanding of the district's financial performance.

### Financial Highlights

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1**  
**Free Soil Community Schools**  
**Organization of Annual Financial Report**



The basic financial statements include two kinds of statements that present different views of the district. The two kinds of statements are: 1) District-wide financial statements; and, 2) Fund financial statements.

# FREE SOIL COMMUNITY SCHOOLS

## Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011

### **District-Wide Financial Statements**

These statements are full accrual basis statements and provide information about the district's *overall* financial status. The full accrual basis means that all assets and liabilities of the District are recorded, regardless of when related cash is received or paid. They are used to help determine whether or not the District is better off or worse off as the result of the year's activities. It is important to keep in mind that while we are required to report financial information in this manner, it is not the goal of the District to generate a profit. Financial statements are just one indicator of the overall health of the District.

The *Statement of Net Assets* reports all of the district's assets and liabilities, both short-term and long-term, regardless if they are "currently available" or not. Capital assets and long-term obligations of the district are reported in this statement.

All of the current year's revenues and expenses are accounted for in the *Statement of Activities*, regardless of when cash is received or paid. The total revenue less the total expenses is referred to as the operating results for the current year. Sustained, positive operating results may indicate improving financial health, while decreasing operating results may indicate deteriorating financial health.

The two district-wide statements report the district's *net assets* and how they have changed. Net assets—the difference between the district's assets and liabilities—is one way to measure the district's financial health or position.

- Over time, increases or decreases in the district's net assets 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, the quality of the education provided, and the condition of the District's buildings.

In the district-wide statements, the district's activities are classified as *governmental activities*. This includes most of the district's basic services, such as regular and special education, food service, athletics, transportation, and administration. Property taxes, state aid and federal grants finance most of these services.

### **Fund Financial Statements**

The fund financial statements focus on individual parts of the district, reporting the district's operations in more detail than the district-wide statements. The fund level statements are reported on a modified accrual basis and include only the current assets and current liabilities of the District. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the district's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Special Revenue Funds for Food Service activities and Fiduciary Funds.

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

# FREE SOIL COMMUNITY SCHOOLS

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

### Financial Analysis of the District as a Whole

The net assets of the district at June 30, 2011 amounted to \$465,748. Figure A-2 shows a condensed breakdown of the net assets.

The district's net assets, 39%, reflects investment in capital assets (e.g., land, buildings and improvements, and equipment). The district uses these capital assets to provide services to students; consequently, these assets are not available for future spending. It should be noted that the resources needed to repay any related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Currently, the district does not have any outstanding debt on capital assets.

**Figure A-2**  
**Condensed Statement of Net Assets**

	<b>Governmental Activities</b>		<b>Percentage Change</b>
	<b>2011</b>	<b>2010</b>	
Current Assets	\$ 310,431	\$ 360,535	-13.90%
Capital Assets	182,697	188,066	-2.85%
Total Assets	493,128	548,601	-10.11%
Current Liabilities	27,380	96,666	-71.68%
Net Assets			
Invested in capital assets	182,697	188,066	-2.85%
Restricted for sinking fund	58,188	67,624	-13.95%
Unrestricted	224,863	196,245	14.58%
Total Net Assets	\$ 465,748	\$ 451,935	3.06%

The net assets of the district increased by \$13,813 during the 2010-11 fiscal year. Figure A-3 shows the breakdown of this change. The Statement of Activities presented later in the government-wide financial statements, provides greater detail on the district's annual activity. The cost of the district's governmental activities for the year was \$151,217. However, the amount that the district's taxpayers ultimately financed for these activities was \$148,760 because \$1,125 of the cost was paid for by those who benefited from the programs, and the other \$1,332 was paid for by other governments and organizations who subsidized certain programs with grants and contributions.

# FREE SOIL COMMUNITY SCHOOLS

## Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011

**Figure A-3**

### Statement of Net Assets from Operating Results

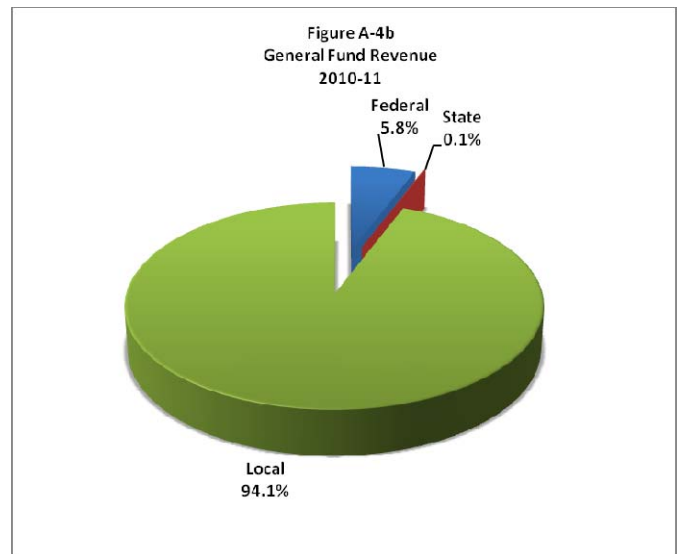
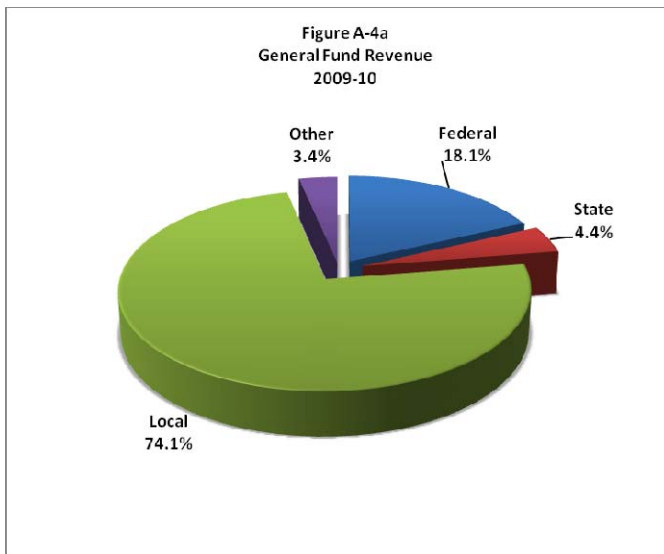
	Governmental Activities		Percentage Change
	2011	2010	
Revenues			
Program Revenues			
Charges for services	\$ 1,125	\$ 3,847	-70.76%
Operating grants and contributions	1,332	124,430	-98.93%
General Revenues			
Property taxes - general purpose	125,451	365,950	-65.72%
Unrestricted grants and contributions	9,840	17,025	-42.20%
Investment earnings	697	1,226	-43.15%
Miscellaneous	26,585	24,028	10.64%
Special item - Impairment of Buildings	-	(194,650)	0.00%
Total revenues	165,030	341,856	-51.73%
Expenses			
Instruction	10,240	332,227	-96.92%
Support services	140,316	275,111	-49.00%
Food services	661	22,727	-97.09%
Unallocated depreciation	-	7,650	-100.00%
Total expenses	151,217	637,715	-76.29%
Change in Net Assets	13,813	(295,859)	-104.67%
Beginning Net Assets	451,935	747,794	-39.56%
Ending Net Assets	\$ 465,748	\$ 451,935	3.06%

# FREE SOIL COMMUNITY SCHOOLS

## Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2011

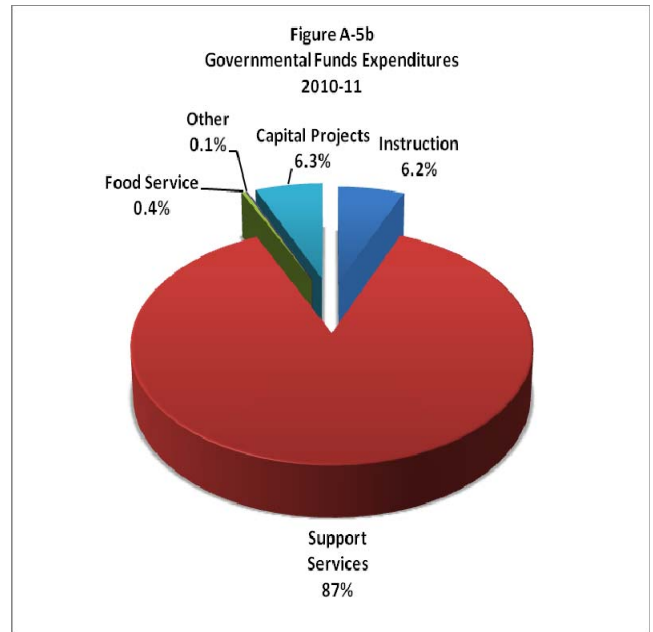
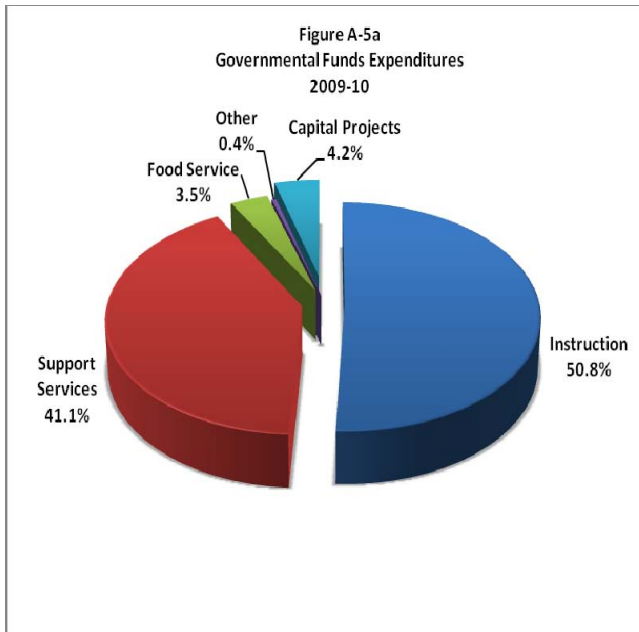
The district's total revenues for the year ended June 30, 2011 decreased \$351,911. A significant portion, 74.1%, of the district's prior year revenue was received from local sources. For the year ended June 30, 2011, that percentage has increased to 94.1%. The district also has become an out-of-formula district and no longer receives the foundation allowance for its students, resulting in very little state revenues for the 2010-11 fiscal year. Figure A-4a depicts the breakdown of the source of revenue and other financing sources for the district's general fund during the 2009-10 fiscal year, which totaled \$516,210. The breakdown for the 2010-11 fiscal year revenue and other financing sources, totaling \$164,299 is shown in Figure A-4b.



# FREE SOIL COMMUNITY SCHOOLS

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

For the year ended June 30, 2011 the district did not operate any instructional programs resulting in a significant decrease in overall expenditures from \$652,333 in 2009-10 to \$151,286 in the 2010-11 year as shown in the graphs below. As Figure A-5b depicts, resources spent on governmental funds pupil instruction decreased to 6.2%. Therefore, support services expense increased to 87% of total expenditures from 41.1% during the 2010-11 school year. Capital Project expenses represented 6.3% of total governmental expenditures in the current year.



# FREE SOIL COMMUNITY SCHOOLS

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

### Financial Analysis of the District's Funds

The financial performance of the district as a whole is reflected in its governmental funds as well. The fund balance of the total governmental funds increased by \$12,894 during the 2010-11 fiscal year, resulting in fund equity of \$283,051 at the year end.

The primary reasons for the increase in fund balance are:

- The district did not operate any instructional programs.
- Only support services were provided to facilitate the basic necessitated operations of the district.

### General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the district amends its budget during the school year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the significant General Fund final budget to actual variances and the reasons for changes in the budget during the year.

#### *Revenues—Original budget to final budget:*

- The local source revenue budget was decreased primarily due to the reduction in property tax levy from 18 mills to 6 mills.

#### *Revenues—Final amendment to actual:*

- The state source revenue budget exceeded actual revenues due to the district not operating any instructional programs for the current school year.

#### *Expenditures—Final amendment to actual:*

- Operations and maintenance final actual expenditures exceeded the budget because heating fuel expense was approximately \$7,000 more than planned.

# FREE SOIL COMMUNITY SCHOOLS

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

**Figure A-6**  
**General Fund Budget vs. Actual Comparison**  
(in thousands)

	Original Budget	Final Budget	Actual	Variance- Pos (Neg)
<b>REVENUES</b>				
Local sources	\$ 369.0	\$ 132.9	\$ 154.6	\$ 21.7
State sources	5.7	5.7	0.1	(5.6)
Federal sources	9.0	9.0	9.5	0.5
Incoming transfers	2.0	4.4	-	(4.4)
Total revenues	385.7	152.0	164.2	12.2
<b>EXPENDITURES</b>				
Instruction				
Basic programs	20.0	20.0	9.4	10.6
Support Services				
General administration	51.0	66.7	56.2	10.5
Business	8.0	8.0	6.0	2.0
Operations and maintenance	53.9	58.5	64.9	(6.4)
Pupil Transportation Services	5.0	5.0	0.2	4.8
Central	5.0	5.0	4.3	0.7
Outgoing transfers and fund modifications	-	2.3	1.0	1.3
Total expenditures	142.9	165.5	142.0	23.5
Excess (deficiency) of revenues over (under) expenditures	\$ 242.8	\$ (13.5)	\$ 22.2	\$ 35.7

# FREE SOIL COMMUNITY SCHOOLS

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2011

### Capital Assets and Debt Administration

*Capital Assets*—a comparative summary of the district's capital assets (net of depreciation at year end) is identified below:

	<u>2011</u>	<u>2010</u>
Land	\$ 48,700	\$ 48,700
Buildings and improvements	104,545	105,962
Equipment	<u>29,452</u>	<u>33,404</u>
Total	<u>\$ 182,697</u>	<u>\$ 188,066</u>

There were no capital asset additions this year. The decrease in capital assets is due to normal depreciation.

*Debt Administration*—a comparative summary of the district's indebtedness is outlined below:

	<u>2011</u>	<u>2010</u>
Compensated Absences	\$ -	\$ 6,858

### Currently Known Facts, Decisions, and Conditions Affecting the June 30, 2011 Fiscal Year:

The economic climate in Michigan has not been positive. Because education funding is largely based on various state taxes, a slumping economy has a direct and negative impact on education funding. Free Soil Community Schools has also experienced declining enrollment to the point that they are now an out-of-formula school district. That means it will receive no State Aid foundation allowance and that the district will be funded primarily by property tax revenue and federal grants. The impact of not receiving the per student foundation allowance causes the district to rely on fund equity to sustain operations. Unfortunately, the feasibility of doing so while also considering low student enrollment, led the board of education to make the decision to not offer educational services effective July 1, 2010.

The board of education entered into agreements with two neighboring school districts to provide educational services to Free Soil area students for the 2010-2011 fiscal year. Under the terms of the Michigan School Code, Free Soil Community School has a two year period, until June 2012, to determine whether it will resume educational programs or to annex or consolidate with a neighboring school district. In the interim, the district's board of education will continue to meet.

# **FREE SOIL COMMUNITY SCHOOLS**

## **Management's Discussion and Analysis**

For the Fiscal Year Ended June 30, 2011

### **Requests for Information**

This financial report is designed to provide our citizens, taxpayers, parents, students, and investors and creditors with a general overview of the district's finances and to show the district's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Superintendent of Schools, Free Soil Community Schools, 8480 N. Democrat Street, Free Soil, Michigan 49411, telephone number (231) 464-5651.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

October 17, 2011

Board of Education  
Free Soil Community School District  
Free Soil, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Free Soil Community School District (the School District), as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Free Soil Community School District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Free Soil Community School District, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated October 17, 2011, on our consideration of Free Soil Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i through x and 22 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.

*Brickley DeLong, P.C.*

Free Soil Community School District  
**STATEMENT OF NET ASSETS**  
 June 30, 2011

	<u>Governmental activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 289,698
Receivables	73
Due from other governmental units	861
Prepaid items	<u>19,799</u>
Total current assets	310,431
<b>NONCURRENT ASSETS</b>	
Capital assets, net	
Nondepreciable	48,700
Depreciable	<u>133,997</u>
Total noncurrent assets	<u>182,697</u>
Total assets	493,128
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable and accrued liabilities	21,965
Due to other governmental units	<u>5,415</u>
Total current liabilities	<u>27,380</u>
<b>NET ASSETS</b>	
Invested in capital assets	182,697
Restricted for sinking fund	58,188
Unrestricted	<u>224,863</u>
Total net assets	<u><u>\$ 465,748</u></u>

The accompanying notes are an integral part of this statement.

Free Soil Community School District  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2011

<i>Functions/Programs</i>	<b>Expenses</b>	<b>Program Revenue</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>
		<b>Charges for services</b>	<b>Operating grants and contributions</b>	<b>Governmental activities</b>
Governmental activities				
Instruction	\$ 10,240	\$ -	\$ 671	\$ (9,569)
Support services	140,316	1,125	-	(139,191)
Food services	661	-	661	-
Total governmental activities	<b>\$ 151,217</b>	<b>\$ 1,125</b>	<b>\$ 1,332</b>	(148,760)
General revenues				
Property taxes				125,451
Grants and contributions not restricted to specific programs				9,840
Investment earnings				697
Miscellaneous				26,585
Total general revenues				162,573
Change in net assets				13,813
Net assets at beginning of year				451,935
Net assets at end of year				<b>\$ 465,748</b>

The accompanying notes are an integral part of this statement.

Free Soil Community School District  
**BALANCE SHEET**  
 Governmental Funds  
 June 30, 2011

	<u>General Fund</u>	<u>Sinking Fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 234,790	\$ 54,908	\$ -	\$ 289,698
Receivables	73	-	-	73
Due from other governmental units	861	-	-	861
Due from other funds	-	3,280	661	3,941
Prepaid items	19,799	-	-	19,799
	<hr/>			
Total assets	<b>\$ 255,523</b>	<b>\$ 58,188</b>	<b>\$ 661</b>	<b>\$ 314,372</b>
<hr/>				
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 8,268	\$ -	\$ -	\$ 8,268
Accrued liabilities	13,036	-	661	13,697
Due to other governmental units	5,415	-	-	5,415
Due to other funds	3,941	-	-	3,941
	<hr/>			
Total liabilities	30,660	-	661	31,321
Fund balances				
Nonspendable for prepaid items	19,799	-	-	19,799
Restricted for sinking fund	-	58,188	-	58,188
Unassigned	205,064	-	-	205,064
	<hr/>			
Total fund balances	224,863	58,188	-	283,051
	<hr/>			
Total liabilities and fund balances	<b>\$ 255,523</b>	<b>\$ 58,188</b>	<b>\$ 661</b>	<b>\$ 314,372</b>
<hr/>				

The accompanying notes are an integral part of this statement.

Free Soil Community School District  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**  
 June 30, 2011

Total fund balance—governmental funds		\$ 283,051
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 383,602	
Accumulated depreciation	<u>(200,905)</u>	<u>182,697</u>
Net assets of governmental activities in the Statement of Net Assets		<u><u>\$ 465,748</u></u>

The accompanying notes are an integral part of this statement.

Free Soil Community School District  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
 Governmental Funds  
 For the year ended June 30, 2011

	<u>General Fund</u>	<u>Sinking Fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
<b>REVENUES</b>				
Local sources				
Property taxes	\$ 125,451	\$ -	\$ -	\$ 125,451
Investment earnings	487	210	-	697
Other	28,701	-	-	28,701
Total local sources	154,639	210	-	154,849
State sources	117	-	661	778
Federal sources	9,543	-	-	9,543
Total revenues	164,299	210	661	165,170
<b>EXPENDITURES</b>				
Current				
Instruction	9,390	-	-	9,390
Supporting services	131,589	-	-	131,589
Food services	-	-	661	661
Interest and other charges	-	88	-	88
Capital projects	-	9,558	-	9,558
Total expenditures	140,979	9,646	661	151,286
Excess (deficiency) of revenues over (under) expenditures	23,320	(9,436)	-	13,884
<b>OTHER FINANCING SOURCES (USES)</b>				
Other transactions	(990)	-	-	(990)
Total other financing sources (uses)	(990)	-	-	(990)
Net change in fund balances	22,330	(9,436)	-	12,894
Fund balances at beginning of year	202,533	67,624	-	270,157
Fund balances at end of year	<b>\$ 224,863</b>	<b>\$ 58,188</b>	<b>\$ -</b>	<b>\$ 283,051</b>

The accompanying notes are an integral part of this statement.

Free Soil Community School District  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2011

Net change in fund balances—total governmental funds	\$	12,894
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities these costs are depreciated over their estimated useful lives.		
Depreciation expense		(5,369)
Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		
		<u>6,288</u>
Change in net assets of governmental activities	\$	<u><b>13,813</b></u>

The accompanying notes are an integral part of this statement.

Free Soil Community School District  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
Fiduciary Funds  
June 30, 2011

	<u>Agency funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 1,998</u>
 <b>LIABILITIES</b>	
Deposits held for others	<u>\$ 1,998</u>

The accompanying notes are an integral part of this statement.

Free Soil Community School District  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Free Soil Community School District (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

***District-wide and Fund Financial Statements***

**District-wide Financial Statements**

The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Property taxes, unrestricted state aid, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Free Soil Community School District  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*District-wide and Fund Financial Statements—Continued*

**Fund financial statements**

Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

In the fund financial statements, when expenditures are incurred in governmental fund types for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the School District's policy to consider that restricted amounts have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

**Governmental funds**

Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *Sinking Fund* accounts for the sinking fund property taxes received for the acquisition of real estate, construction of school buildings or the repair of school buildings.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service activities in the school service special revenue funds.

**Fiduciary funds**

Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

***Measurement Focus, Basis of Accounting and Basis of Presentation***

**Accrual Method**

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Free Soil Community School District  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Measurement Focus, Basis of Accounting and Basis of Presentation—Continued*

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

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

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2011, the foundation allowance was based on pupil membership counts taken in February and September of 2010.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2010 to August 2011. Thus, the unpaid portion at June 30, 2011 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Free Soil Community School District  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies*

**Deposit and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Pooled investment income is generally allocated to each fund using a weighted average of balances for the principal.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

**Interfund Receivables and Payables**

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

**Property Taxes**

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Free Soil Community School District  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies—Continued*

**Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	25-50 years
Equipment	5-10 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

**Compensated Absences**

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

**Deferred Revenue**

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

**Long-term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Free Soil Community School District  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies—Continued*

**Net Assets in District-wide Financial Statements**

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. The School District has no capital related debt.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

**Fund Equity**

In the fund financial statements, governmental fund balance is presented in five possible categories:

- a. *Nonspendable*—resources which cannot be spent because they are either 1) not in spendable form; or 2) legally or contractually required to be maintained intact.
- b. *Restricted*—resources with constraints placed on the use of resources which are either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation.
- c. *Committed*—resources which are subject to limitations the School District imposes upon its self at its highest level of decision making, and that remain binding unless the limitations are removed in the same manner.
- d. *Assigned*—resources neither restricted nor committed for which a School District has a stated intended use as established by the Board of Education or a body or official to which the Board of Education has delegated the authority to assign amounts for specific purposes.
- e. *Unassigned*—resources which cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Free Soil Community School District  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE B—DISCONTINUED OPERATIONS**

On June 21, 2010 the Board of Education voted to cease instructional programming for the 2010-2011 fiscal year, but provided an education to area children through cooperative education agreements with neighboring school districts. The Free Soil Community School District will continue to exist for up to three years. Pursuant to Section 380.921 of The Revised School Code, if the School District has not begun operating at the end of two years the School District will either be annexed by another school district, consolidate with another district or be split and ceded to other districts by the Intermediate School District board.

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

**NOTE C—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2011.

**Excess of Expenditures Over Appropriations**

During the year ended June 30, 2011, actual expenditures exceeded appropriations for operations and maintenance by \$6,443 in the General Fund. The over expenditure was funded with excess revenues.

Free Soil Community School District  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE C—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

**Sinking Fund**

The Sinking Fund Capital Project Fund records capital project activities funded with a Sinking Fund millage. For this fund the School District has complied with the applicable provisions of § 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

**NOTE D—DEPOSITS AND INVESTMENTS**

As of June 30, 2011, the School District had no investments.

**Interest rate risk**

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

**Credit risk**

State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

**Concentration of credit risk**

In accordance with its investment policy, the School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2011, \$39,686 of the School District's bank balance of \$289,686 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments**

For an investment this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

**Foreign currency risk**

The School District is not authorized to invest in investments which have this type of risk.

Free Soil Community School District  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2011

**NOTE E—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 48,700	\$ -	\$ -	\$ 48,700
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	294,620	-	-	294,620
Equipment	40,282	-	-	40,282
Total capital assets, being depreciated	334,902	-	-	334,902
<b>Less accumulated depreciation:</b>				
Buildings and improvements	188,658	1,417	-	190,075
Equipment	6,878	3,952	-	10,830
Total accumulated depreciation	195,536	5,369	-	200,905
Total capital assets, being depreciated, net	139,366	(5,369)	-	133,997
Capital assets, net	<u>\$ 188,066</u>	<u>\$ (5,369)</u>	<u>\$ -</u>	<u>\$ 182,697</u>

**Depreciation**

Depreciation expense of \$5,369 has been charged to support services function.

**NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2011 is as follows:

**Due to/from other funds:**

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Sinking Fund	General Fund	\$ 3,280
Other governmental funds	General Fund	661
		<u>\$ 3,941</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Free Soil Community School District  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2011

**NOTE G—LONG-TERM OBLIGATIONS**

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2011:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due within</u> <u>one year</u>
<b>Governmental activities</b>					
Compensated absences	\$ 6,288	\$ -	\$ 6,288	\$ -	\$ -

**NOTE H—EMPLOYEE BENEFITS**

***Employee Retirement System – Defined Benefit Plan***  
**Plan description**

The School District contributes to the statewide Michigan Public School Employees’ Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the twelve member board of the MPSERS. The MPSERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to or calling:

Office of Retirement Systems  
 Michigan Public School Employees Retirement System  
 P.O. Box 30171  
 Lansing Michigan 48909-7671  
 1-800-381-5111

**Funding policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired between January 1, 1990 and June 30, 2008 and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member’s accumulated contributions plus interest, if any, are refundable.

Free Soil Community School District  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE H—EMPLOYEE BENEFITS—Continued**

**Funding policy—Continued**

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school fiscal year and members who were hired on or after July 1, 2010, with a starting salary less than \$18,000 are required to contribute 1.5% of the member's compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2011 ranged from 16.94 percent to 20.66 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2011, 2010 and 2009 were approximately \$3,500, \$45,000 and \$50,000 respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**Other post-employment benefits**

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

***Employee Retirement System – Defined Contribution Plan***

Public Act 75 of 2010 established the Pension Plus Plan which provides all individuals hired on or after July 1, 2010, with a combined Defined Benefit and Defined Contribution benefit structure. Any member of MPSERS who became a member of MPSERS on or after July 1, 2010 is a Pension Plus member. The plan is administered by the MPSERS Board of Trustees and the contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees.

Employees under the Pension Plus Plan are automatically enrolled in the defined contribution component of the plan with a default employee contribution rate of 2 percent of the employee's pay. Employees may increase their personal contribution up to the annual IRS limit or can elect out of contributing. The School District is required to match 50 percent of the employee contribution up to 1 percent of the employee's pay. For the year ended June 30, 2011, there were no School District or employee contributions.

**NOTE I—CONTINGENCIES**

**Grant Programs**

The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Free Soil Community School District  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE J—OTHER INFORMATION**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2011 or any of the prior three years.

**REQUIRED SUPPLEMENTARY INFORMATION**

Free Soil Community School District  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
 General Fund  
 For the year ended June 30, 2011

	<u>Budgeted amounts</u>		<u>Actual</u>	<b>Variance with final budget- positive (negative)</b>
	<u>Original</u>	<u>Final</u>		<u>(negative)</u>
<b>REVENUES</b>				
Local sources	\$ 369,000	\$ 132,943	\$ 154,639	\$ 21,696
State sources	5,660	5,660	117	(5,543)
Federal sources	9,000	9,000	9,543	543
Incoming transfers and other transactions	2,000	4,400	-	(4,400)
Total revenues	385,660	152,003	164,299	12,296
<b>EXPENDITURES</b>				
Instruction				
Basic programs	20,000	20,000	9,390	10,610
Support services				
General administration	51,000	66,738	56,217	10,521
Business	8,000	8,000	6,026	1,974
Operations and maintenance	53,912	58,466	64,909	(6,443)
Pupil transportation services	5,000	5,000	179	4,821
Central	5,000	5,000	4,258	742
Outgoing transfers and other transactions	-	2,300	990	1,310
Total expenditures	142,912	165,504	141,969	23,535
Excess (deficiency) of revenues over (under) expenditures	<b>\$ 242,748</b>	<b>\$ (13,501)</b>	22,330	<b>\$ 35,831</b>
Fund balance at beginning of year			202,533	
Fund balance at end of year			<b>\$ 224,863</b>	

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

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

October 17, 2011

Board of Education  
Free Soil Community School District  
Free Soil, Michigan

We have audited the financial statements of Free Soil Community School District as of and for the year ended June 30, 2011 and have issued our report thereon dated October 17, 2011. 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.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Free Soil Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Free Soil Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Free Soil Community School District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

BRICKLEY DELONG

Board of Education  
Free Soil Community School District  
October 17, 2011  
Page 2

***Compliance***

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

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brickley De Long, P.C.*

Free Soil Community School District  
**SCHEDULE OF FINDINGS AND RESPONSES**  
Year ended June 30, 2011

**COMPLIANCE**

NONE

**SIGNIFICANT DEFICIENCIES**

NONE

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 17, 2011

To the Board of Education  
Free Soil Community School District

We have audited the financial statements of Free Soil Community School District for the year ended June 30, 2011, and have issued our report thereon dated October 17, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you during our conference on July 27, 2011. Professional standards also require that we communicate to you the following information related to our audit.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Free Soil Community School District are described in Note A to the financial statements. As described in Note A to the financial statements, Free Soil Community School District changed accounting policies related to the presentation of the Fund Balance by adopting Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal 2011. We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of depreciation expense is based on the cost of the asset depreciated utilizing the straight-line method over the estimated useful life of the asset. We evaluated the key factors and assumptions used to develop the expense provision for depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements was:

The disclosure of the June 21, 2010 resolution to cease instructional programming in Note B to the financial statements.

### *Difficulties Encountered in Performing the Audit*

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

## BRICKLEY DELONG

Board of Education  
Free Soil Community School District  
October 17, 2011  
Page 2

### *Corrected and Uncorrected Misstatements*

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

1. Reduced prepaid expenses by \$6,987 in the General Fund.
2. Reclassified \$2,296 in qualified expenses from the General Fund to the Sinking Fund.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 17, 2011.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

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

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

Sincerely,

*Brickley De Long, P.C.*