

NOTTAWA COMMUNITY SCHOOL
ST. JOSEPH COUNTY, MICHIGAN

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Nottawa Community School

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Nottawa Community School as of and for the year ended June 30, 2010, which collectively comprise Nottawa Community School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Nottawa Community School'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 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, the major fund, and the aggregate remaining fund information of Nottawa Community School, as of June 30, 2009, 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 20, 2010, on our consideration of Nottawa Community School'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 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* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrold T. Norman (1941-1982)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Nottawa Community School's basic financial statements. The nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Norman & Paulsen

Norman & Paulsen, P.C.

October 20, 2010
Three Rivers, Michigan

Nottawa Community School
Management Discussion and Analysis
For the Fiscal Year Ending June 30, 2010

The Administration's Management Discussion and Analysis (MD&A), a requirement of GASB 34, is intended to be the Nottawa Community School Administration's MD&A of the financial results for the year ended June 30, 2010.

The MD&A is provided at the beginning of the audit to provide the past and current position of the school district's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the school district's revenues and expenditures by program for the General Fund.

According to GASB 34, generally accepted accounting principles (GAAP) requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Since GASB 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the school district has elected to exclude the information in this report.

BACKGROUND

Our Mission:

The mission of Nottawa Community School is to assist students in becoming problem solving, contributing and responsible members of an ever-changing society.

Our Vision:

Nottawa Community School seeks to become a place that encourages the support and involvement of parents, community and the school board in educating our students.

Nottawa Community School is the only K-8 school district in St. Joseph County of the 8 school districts and 8 private and non-public schools. The St. Joseph County ISD services the schools in St. Joseph County and provides the financial and payroll services for Nottawa Community School.

FINANCIAL HIGHLIGHTS

The overall condition of the governmental activities remains stable for the district. All goals related to financial activities have been met and if revenue and expenditures patterns can be maintained, the resources needed for next year will be available.

The overall revenues were \$1,309,573, fully \$153,406 less than expenses. The total cost of basic programs increased .04 percent to \$935,956. Revenues decreased 2.32 percent to \$1,309,573 while expenses increased 6.70 percent to \$1,462,979. Average enrollment decreased by 3 students from the 08-09 school year.

In April 2008 the District entered into a 5 year capital lease for a 72 passenger bus. At fiscal year-end the remaining payments total \$31,904.

USING THIS ANNUAL REPORT

This annual report consists of financial statements that show information for the school district as a whole: the funds and fiduciary responsibilities.

This report consists of three parts: **(1) management's discussion and analysis (this section), (2) the basic financial statement and (3) required supplementary information.** (The basic financial statements include two kinds of statements that present different views of the district).

The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the district's *overall* financial status. The remaining statements are *fund financial statements* that focus on *individual parts* of the district, reporting the districts operations *in more detail* than the district-wide statements.

The *governmental funds* statements tell how *basic* services were financed in the *short-term* as well as what remains for future spending.

Fiduciary funds statements provide information about the financial relationships in which the district acts solely as a *trustee or agent* for the benefit of others.

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.

Our auditor has provided assurance in his independent auditor's report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplemental Information and the Supplemental Information identified above. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each of the other parts in the Financial Section. **Figure A-1** summarized the major features of the district's financial statements, including the portion of the district's activities they cover and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

Nottawa Community School
 Management's Discussion and Analysis
 June 30, 2010

	<u>District-wide Statements</u>	<u>Fund Financial Statements</u>	
		<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
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 assets *Statement of activities	*Balance sheet *Statement of revenues, expenditure and changes in fund balances	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of assets/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, 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 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

District-Wide Statements

The district-wide statements provide information about the district as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the districts assets and liabilities. **Figure A-2** outlines the net assets. 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. **Figure A-3** outlines the changes in net assets.

Nottawa Community School
 Management's Discussion and Analysis
 June 30, 2010

	Governmental Activities June 30, 2009	Governmental Activities June 30, 2010
Assets		
Current Assets	\$ 552,181	\$ 378,580
Capital Assets	<u>379,032</u>	<u>324,693</u>
Total Assets	<u><u>931,213</u></u>	<u><u>703,273</u></u>
Liabilities		
Current Liabilities	137,548	116,272
Noncurrent Liabilities	<u>72,284</u>	<u>57,413</u>
Total Liabilities	<u><u>209,032</u></u>	<u><u>173,685</u></u>
Net Assets		
Invested in Capital Assets - Net of Debt	379,032	324,693
Unrestricted	<u>342,349</u>	<u>204,895</u>
TOTAL NET ASSETS	<u><u>\$ 721,381</u></u>	<u><u>\$ 529,588</u></u>

Nottawa Community School
 Management's Discussion and Analysis
 June 30, 2010

	Governmental Activities 2008-09	Governmental Activities 2009-10
Revenues		
Program Revenues		
Charges for Services	\$10,418	\$ 9,838
Federal and State Categorical Grants	250,032	250,042
General Revenues		
Property Taxes	363,183	363,993
State Aid - Unrestricted	691,874	663,297
Interest	5,695	846
Other	<u>19,492</u>	<u>21,557</u>
Total Revenues	1,340,694	1,309,573
Expenses		
Instruction	935,537	935,956
Support Services	411,452	502,731
Food Services	10,189	8,340
Unallocated Depreciation	<u>65,237</u>	<u>54,339</u>
Total Expenses	<u>1,422,415</u>	<u>1,501,366</u>
DECREASE IN NET ASSETS	<u>\$ (81,721)</u>	<u>\$ (191,793)</u>

The two district-wide statements indicate the district's net assets and how they have changed. Net assets are the difference between the district's assets and liabilities and are one way to measure the district's financial position. However, the district's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many other non-financial factors, such as, the quality of the education provided and the safety of the schools to assess the overall quality of the district.

The Statement of Net Assets and Statement of Activities report the following activity:

Governmental Activities: Most of the district's services are reported here, including instruction, support, and administration. Property taxes, state foundation and categorical grants, and state and federal grants finance most of these activities.

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. Some funds are required to be established by state law and by bond covenants. However, the district establishes many other funds to help it control and manage money for particular purposes (like repaying its long-term debts) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants the district receives from the U.S. Department of Education).

The district's major governmental fund is:

1. General Fund

The district's governmental funds use the following accounting approach:

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 (2) the balances left at year-end that are available for spending.

Consequently, the governmental funds statements provide a detailed short-term 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. This information does not encompass the additional long-term focus of the district-wide statements; we provide additional information with the governmental fund statements that explains the relationship or difference between them.

2. Fiduciary Funds – The district is the fiduciary for various student group activities. This area is not utilized for our district.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The district's combined net assets were less on June 30, 2010, than they were the prior year. This was a decrease of 26.59 percent to \$529,588.

The district's declining financial position is the product of many factors.

- 1. Lack of Adequate per Pupil Funding over Years**
- 2. Continued Increase of Cost of Medical Insurance**
- 3. Restrictions on the Spending of Grant Funds**
- 4. Continued Increase in Retirement Contribution**

District Governmental Activities

The recent status of the district's finances can be credited to but not limited to:

- 1. Increase of Property Taxes**
- 2. Increase in Retirement Contribution**
- 3. Increase of Student Enrollment**
- 4. Increase of Insurance Premiums**
- 5. Zero Salary Increase for the Teachers**
- 6. Unexpected Expenses for Building and Grounds Maintenance**
- 7. Lease of a New School Bus**

The majority of the above actions resulted in a reduction of net assets of approximately \$191,793 in the 2009-2010 school year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the district as a whole is reflected in its governmental funds as well. As the district completed the year, its governmental funds reported combined fund balances of \$233,615 or 39.64% below last year's ending fund balances of \$387,021. *Figure A-3* outlines the changes in net assets.

General Fund Budgetary Highlights

During the fiscal year ended June 30, 2010, the district amended the budget of these major governmental funds three times, none significantly. These budget amendments were:

REVENUE:

- 1. Increase of Property Taxes**
- 2. Title I Carryover Grant Funds**

EXPENDITURES:

- 1. Increase of Instructional Education**
- 2. Increase in Operation Maintenance**

While the district's final budget for the general fund anticipated that expenditures would exceed revenues by \$180,451, the actual results for the year were slightly less favorable with a shortfall of \$153,320.

Actual revenues were \$84,747 less than expected, due largely to the non-spending of Federal Revenues.

The actual expenditures were \$11,878 less than budgeted, due primarily to the Instruction, Instructional Support and Transportation expenses being less than budgeted.

TOTAL DISTRICT REVENUE

The total revenues of the district were \$1,309,573. Of the total revenues, 100 percent was generated by governmental activities.

Program specific revenues in the form of charges for services and grants accounted for \$259,880 or 19.84 percent of the total revenue of \$1,309,573.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2010, the district had invested \$324,693, net of depreciation, in a broad range of capital assets; including equipment. During the current fiscal year the District did not purchase any capital assets. The depreciation of \$54,339 represents a net decrease of \$54,339 or 14.34 percent, from last year. (More detailed information about capital assets can be found in Note 5 to the financial statements.)

Total depreciation expense for the year was \$54,339.

CAPITAL ASSETS AT YEAR END

	<u>Governmental Activities</u>	
	<u>2008-09</u>	<u>2009-10</u>
Land	\$ 13,296	\$ 13,296
Buildings and Improvements	671,776	671,776
Buses	268,920	268,920
Equipment and Furniture	<u>441,939</u>	<u>441,939</u>
Net capital assets	1,395,931	1,395,931
Less depreciation	<u>1,016,899</u>	<u>1,071,238</u>
Total capital assets	<u>\$ 379,032</u>	<u>\$ 324,693</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time the financial statements were prepared and audited, the district was aware of one existing circumstances that could significantly affect its financial health in the future.

1. The amount of state aid available for the 2010-11 school year is unknown. The State of Michigan can make changes to reduce or increase funding of programs throughout any given year.

CONTACTING THE DISTRICT'S FINANCIAL MAMAGEMENT

This financial report is designed to provide an overview of the financial condition of Nottawa Community School. If you have questions about this report or need additional information please contact:

St. Joseph County ISD
 62445 Shimmel Road
 Centreville, MI 49032

Phone: 269-467-5400
 Fax. 269-467-4309

Kelli R. Dechnik, ISD Business Manager – 269-467-5344
 Marcia Griffin, Nottawa Community School Superintendent – 269-467-7153

NOTTAWA COMMUNITY SCHOOL

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Governmental Activities
ASSETS	
Cash and cash equivalents (Note 3)	\$ 179,573
Receivables - net (Note 4)	194,948
Prepaid expenses	4,059
Capital assets - net (Note 5)	324,693
Total Assets	\$ 703,273
LIABILITIES	
Accounts payable	\$ -
Accrued payroll and other liabilities	101,381
Total current liabilities	101,381
Noncurrent liabilities	
Due in one year	14,891
Due in more than one year	57,413
Total Liabilities	\$ 173,685
NET ASSETS	
Invested in capital assets	
Net of related debt	\$ 324,693
Unrestricted	204,895
Total Net Assets	\$ 529,588

See accompanying notes to financial statements

NOTTAWA COMMUNITY SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants and Contributions	Net (expenses) Revenue and Changes in Net Assets	
Governmental activities				
Instruction and instructional student support	\$ 935,956	\$ -	\$ 202,358	\$ (733,598)
Support services	502,731	-	47,684	(455,047)
Food services	8,340	9,838	-	1,498
Depreciation (unallocated)	54,339	-	-	(54,339)
Total Governmental Activities	1,501,366	9,838	250,042	(1,241,486)
 General Revenues				
Property taxes, levied for general operations				363,993
State of Michigan aid, unrestricted				663,297
Interest				846
Other				21,557
Total General Revenues				1,049,693
Change in Net Assets				(191,793)
Net Assets - Beginning of Year				721,381
Net Assets - End of Year				\$ 529,588

See accompanying notes to financial statements

NOTTAWA COMMUNITY SCHOOL

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 176,590	\$ 2,983	\$ 179,573
Receivables, net	-	-	-
Receivables from Other Governments	194,948	-	194,948
Prepaid expenses	<u>4,059</u>	<u>-</u>	<u>4,059</u>
 Total Assets	 <u><u>\$ 375,597</u></u>	 <u><u>\$ 2,983</u></u>	 <u><u>\$ 378,580</u></u>
 LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Other accrued liabilities	<u>143,381</u>	<u>-</u>	<u>143,381</u>
 Total Liabilities	 <u><u>\$ 143,381</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 143,381</u></u>
 FUND BALANCES			
Reserved			
Prepaid expenses	\$ 4,059	\$ -	\$ 4,059
Unrestricted	<u>228,157</u>	<u>2,983</u>	<u>231,140</u>
 Total Fund Balances	 <u><u>\$ 232,216</u></u>	 <u><u>\$ 2,983</u></u>	 <u><u>\$ 235,199</u></u>
 Total Liabilities and Fund Balances	 <u><u>\$ 375,597</u></u>	 <u><u>\$ 2,983</u></u>	 <u><u>\$ 378,580</u></u>
 Total Governmental Fund Balances			\$ 235,199
 Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds.			
	Capital assets-acquisition cost	1,395,931	
	Less accumulated depreciation	<u>(1,071,238)</u>	324,693
 Debt proceeds are reported as other financing sources in the governmental funds; however, issuing debt increases liabilities in the statement of net assets:			
	Capital lease liability	-	
	Payment of capital lease	<u>30,304</u>	<u>(30,304)</u>
 Net Assets of Governmental Activities			 <u><u>\$ 529,588</u></u>

See accompanying notes to financial statements

NOTTAWA COMMUNITY SCHOOL

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenues			
Local sources	\$ 386,396	\$ 9,838	\$ 396,234
State sources	694,853	-	694,853
Federal sources	218,343	-	218,343
Interdistrict sources	143	-	143
	<u> </u>	<u> </u>	<u> </u>
Total Revenues	1,299,735	9,838	1,309,573
Expenditures			
Current			
Instruction	935,956	-	935,956
Support services	502,731	8,340	511,071
Debt service	14,368	-	14,368
Capital outlay	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	1,453,055	8,340	1,461,395
Excess (deficiency) of Revenues Over Expenditures	(153,320)	1,498	(151,822)
Fund Balance - Beginning	385,536	1,485	387,021
	<u> </u>	<u> </u>	<u> </u>
Fund Balance - Ending	<u>\$ 232,216</u>	<u>\$ 2,983</u>	<u>\$ 235,199</u>

See accompanying notes to financial statements

Net Change in Fund Balances - Total Governmental Funds	\$ (151,822)
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Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Capital outlay	-	
Depreciation expense	<u>(54,339)</u>	(54,339)

Debt proceeds are reported as other financing sources in the governmental funds; however, issuing debt increases liabilities in the statement of net assets

Capital lease proceeds	-	
Payment of capital lease	<u>14,368</u>	<u>14,368</u>

Changes in Net Assets of Governmental Activities	<u><u>\$ (191,793)</u></u>
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NOTTAWA COMMUNITY SCHOOL
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	<u>Agency Fund Student Activities</u>
ASSETS	
Cash and cash equivalents	\$ <u>5,970</u>
Total Assets	\$ <u><u>5,970</u></u>
LIABILITIES	
Due to student groups	\$ <u>5,970</u>
Total Liabilities	\$ <u><u>5,970</u></u>

See accompanying notes to financial statements

NOTTAWA COMMUNITY SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nottawa Community School, located in St. Joseph County, Michigan, provides educational services for K – 8th grades. The District is governed by an elected five-member Board of Education.

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

The accounting policies of Nottawa Community School conform to accounting principles generally accepted in the United States of America as applicable to School Districts. The following is a summary of the significant policies:

A. District-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) fees collected for providing services to the students and staff, and (2) grants received for providing specialized services. Taxes, intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

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

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

However, debt service expenditures, expenditures relating to 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 so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the District receives cash.

When both restricted and unrestricted resources are available for use, it the School's policy to use restricted resources first, and then unrestricted resources as they are needed.

The District reports deferred revenue on its governmental funds' balance sheets. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources 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 revenue recognition criteria are met, or when the district has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed and the total obligation is added to the county tax rolls. Property taxes become available for expenditure and are thus recognized as revenue in the fiscal year they are levied. The District has adopted a policy of writing off uncollected delinquent taxes after three years. The state taxable value of all real and personal property for the fiscal year ended June 30, 2010 was \$20,005,339. The millage rate for general operations was 18.000 mills.

The State of Michigan utilizes a foundation allowance approach that provides for a specific annual amount of revenue per student based on a statewide formula. The foundation allowance is funded from a combination of state and local sources. The School Aid Act and School Code of Michigan primarily govern revenues from state sources. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The 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 categorical 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 revenues. Other categorical funding is recognized when the appropriation is received.

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District reports the following major governmental funds:

Governmental Funds - Most of the District's functions are financed through the governmental funds. These activities are reflected in the general fund and the special revenue fund.

General Fund – The General Fund records the general operations of the District pertaining to education and those operations not provided for in other funds. It includes all transactions related to the approved current operating budget.

Special Revenue Funds – Special Revenue Funds account for the proceeds of specific revenue sources restricted for expenditures of specified purposes. The District has one special revenue fund, the Food Services fund. Any operating deficit generated by this fund is the responsibility of the General Fund.

Fiduciary Funds – The District's only fiduciary fund is the Student Activities Agency Fund. This fund accounts for assets held by the District in a trustee capacity or as an agent, is custodial in nature (assets equal liabilities), and does not involve the measurement of results of operations. The Student Activities Agency Fund currently maintained by the District records the transactions of student groups for school and school-related purposes. The funds are segregated and held in a trust for the students.

C. Assets, Liabilities, and Net Assets or Equity

Cash and cash equivalents - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables - No allowance for uncollectible accounts has been provided. Management has evaluated the accounts and believes they are all collectible.

Capital assets – Capital assets reflects buildings, furniture, equipment and buses. The District defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are expensed in the current period. The District does not have infrastructure-type assets.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 - 50 years
Buses and other vehicles	7 - 10 years
Furniture and other equipment	5 - 20 years

Compensated absences – Accumulated unpaid sick pay is not accrued by the District. Substantially all District employees are allowed to accumulate an unlimited number of sick days; however, these days do not vest to the employee and are not payable upon termination. Certain school employees (administrative staff, executive secretaries, and employees under the clerical or maintenance workers' contracts) are allowed to accumulate vacation days on an earned basis. This amount is limited to the vacation days earned for the current year and was determined to be immaterial for the District at June 30, 2009.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued liabilities – All payables and accrued liabilities are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources.

Fund Equity – The District reserves those portions of fund equity that are legally segregated for a specific future use or that do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves have been established for prepaid expenses. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Use of estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 BUDGETS

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

1. Prior to June 30, the Superintendent of the District submits to the Board of Education a proposed operating budget for the new fiscal year commencing July 1. The operating budget includes proposed expenditures and financing sources for both the General and Food Services Fund.
2. Public hearings are conducted at the board meetings of the District to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution, and in accordance with Public Act 621 of the State.
4. The District is required under Public Act 621 of 1978 to adopt a budget for the General Fund and individual Special Revenue Funds. For the year ended June 30, 2008, the Board of Education adopted budgets for the General Fund (categorical level), and Special Revenue Fund (food services). Budget appropriations lapse at year-end.
5. Budget amounts are reported in the financial statements as originally adopted or as amended by the Board of Education.

NOTE 2 BUDGETS (CONTINUED)

A statement comparing the actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplementary Information.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the District incurred expenditures in certain budgeted funds that were in excess of the amounts appropriated, as follows:

<u>Budget item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>	<u>Excess Expenditure</u>
General Fund			
Support			
Operations/Maintenance	\$230,061	\$242,578	\$12,517

NOTE 3 CASH AND CASH EQUIVALENT INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the District to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan. The District is authorized to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; banker’s acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Board has designated two banks for the deposit of the District’s funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized bank investment pools of Treasury bills, and certificates of deposit but not the remainder of State statutory authority as listed above.

At fiscal year-end, the District’s deposits and investments were reported in the basic financial statements in the following categories:

<u>Activities</u>	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash/cash equivalents	\$179,573	\$5,970	\$185,543

The breakdown between cash/and cash equivalents are as follows:

	<u>Carrying Amount (Fair Market)</u>
Petty cash and cash on hand	\$ 50
Deposits (checking accounts)	112,300
Money market accounts	<u>73,193</u>
Total	<u>\$185,543</u>

The District's cash is subject to several types of risks, which are examined in more detail below:

NOTE 3 CASH AND CASH EQUIVALENT INVESTMENTS (CONTINUED)

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. At year end, the District had no monies in checking and money market accounts that was uninsured and uncollateralized. The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits District funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The District’s investment policy restricts investment maturities to 1 year or less. At year end the District held money market accounts valued at \$73,193 at .85% interest.

NOTE 4 – RECEIVABLES

A summary of the principal items of receivables at June 30, 2010 follows:

	General Fund
Federal grants receivable	\$ 56,000
State Aid	<u>138,948</u>
	<u>\$194,948</u>

NOTE 5 CAPITAL ASSETS

The following summarizes the changes in capital assets for the fiscal year ended June 30, 2010:

	Balance July 1, <u>2009</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2010</u>
Capital assets not being depreciated:				
Land and Improvements	\$ 13,296	\$ -	\$ -	\$ 13,296
Capital assets being depreciated:				
Buildings and Improvements	671,776	-	-	671,776
Buses	268,920	-	-	268,920
Furniture and Equipment	<u>441,939</u>	-	-	<u>441,939</u>
Subtotal	1,395,931	-	-	1,395,931
Less accumulated depreciation for:				
Buildings and Improvements	408,970	16,508	-	425,478
Buses	199,989	18,360	-	218,349
Furniture and Equipment	<u>407,940</u>	<u>19,471</u>	-	<u>427,411</u>
Subtotal	1,016,899	54,339	-	1,071,238
Net capital assets being depreciated:	<u>365,736</u>	<u>(54,339)</u>	-	<u>420,075</u>
Total Capital Assets- Net of depreciation	<u>\$ 379,032</u>	<u>\$(54,339)</u>	<u>\$ -</u>	<u>\$ 324,693</u>

Depreciation expense for fiscal year ended June 30, 2010 was \$54,339. Depreciation expense was not allocated to governmental activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 6 CAPITAL LEASE

The District has entered into a lease agreement as lessee for financing the acquisition of a 72 passenger bus. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of the lease inception.

The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2010 are as follows:

Year ended <u>June 30</u>	Total Lease <u>Payments</u>	<u>Interest</u>	Present <u>Value</u>
2011	15,952	1,061	14,891
2012	<u>15,952</u>	<u>539</u>	<u>15,413</u>
	\$31,904	\$1,600	\$30,304

NOTE 7 EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Plan description - The District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan, Department of Management & Budget, Office of Retirement Services (ORS) that covers substantially all employees of the District. The system provides retirement, survivor, disability and post-employment health, dental and vision benefits to plan members and their beneficiaries. These benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. The State Legislature has been assigned authority to establish and amend benefit provisions under Public Act 300 of 1980, as amended. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at MPSERS, P. O. Box 30171, Lansing, MI 48909-7671 or on the State of Michigan website at www.michigan.gov/orsschools.

Funding policy - Employees hired after January 1, 1987 are eligible to participate in the Member Investment Plan (MIP) which provides enhanced benefits compared to Basic Plan members. MIP members are required to contribute 3% to 4.3% of their annual covered salary. Basic Plan members make no contributions.

The District is required to contribute at an actuarially determined rate to fund pension benefits, and retiree health benefits on a cash disbursement basis. The rate was 16.72% of all covered payroll for the period from July 1, 2009 to September 30, 2010 and 16.32% from October 1, 2009 to June 30, 2010. The District's contributions to MPSERS for the years ended June 30, 2010, 2009 and 2008 were \$116,281, \$112,135 and \$104,830, respectively.

Post Employment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage. Retirees with less than 21 years of service are eligible to participate in the health or dental/vision coverage but must pay the total premium for each type of insurance. For other retirees, depending upon the years of service, a significant portion of the premium is paid by the MPSERS with the balance deducted from the monthly pension. Required contributions for post employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

NOTE 8 RISK MANAGEMENT

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

NOTE 9 CONTINGENT LIABILITIES

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantor or their representatives. The audits of these programs for or including the year ended June 30, 2010, have not yet been conducted. Accordingly, the District's compliance with applicable grant requirements will be established 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 District expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

NOTTAWA COMMUNITY SCHOOL
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended budget
Resources (inflows)				
Local sources	\$ 379,779	\$ 385,957	\$ 386,396	\$ 439
State sources	687,354	694,657	694,853	196
Federal sources	188,375	303,668	218,343	(85,325)
Interdistrict sources	-	200	143	(57)
Amounts available for appropriations	<u>1,255,508</u>	<u>1,384,482</u>	<u>1,299,735</u>	<u>(84,747)</u>
Charges to appropriations (outflows)				
Current:				
Instruction:	911,803	977,159	896,410	80,749
Supporting:				
Instructional support	20,000	103,996	83,348	20,648
General administration	122,684	122,684	118,353	4,331
Business administration	96,068	23,963	24,018	(55)
Operations/plant maintenance	221,586	230,061	242,578	(12,517)
Transportation	92,249	89,749	71,114	18,635
Support services - other	6,121	17,321	17,234	87
Total support services	<u>558,708</u>	<u>587,774</u>	<u>556,645</u>	<u>31,129</u>
Total expenditures	<u>1,470,511</u>	<u>1,564,933</u>	<u>1,453,055</u>	<u>111,878</u>
Excess (deficiency) of resources over charges to appropriations	(215,003)	(180,451)	(153,320)	27,131
Fund Balance - Beginning	<u>385,536</u>	<u>385,536</u>	<u>385,536</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 170,533</u>	<u>\$ 205,085</u>	<u>\$ 232,216</u>	<u>\$ 27,131</u>

See accompanying notes to financial statements

OTHER SUPPLEMENTARY INFORMATION

NOTTAWA COMMUNITY SCHOOL

**COMBINING BALANCE SHEET OF NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010**

	<u>Food Service</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS		
Cash and cash equivalents	<u>\$ 2,983</u>	<u>\$ 2,983</u>
FUND BALANCE		
Unreserved	<u>\$ 2,983</u>	<u>\$ 2,983</u>

See accompanying notes to financial statements

NOTTAWA COMMUNITY SCHOOL

**COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010**

	Food Service	Total Nonmajor Governmental Funds
Revenues		
Local sources	\$ 9,838	\$ 9,838
State sources	-	-
Total Revenues	9,838	9,838
Expenditures		
Food services	8,340	8,340
Excess (deficiency) of Revenues Over Expenditures	1,498	1,498
Fund Balance - Beginning	1,485	1,485
Fund Balance - Ending	\$ 2,983	\$ 2,983

See accompanying notes to financial statements



Norman & Paulsen, P.C.

Certified Public Accountants

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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 Members of the Board
Nottawa Community School

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nottawa Community School, as of and for the year ended June 30, 2010, which collectively comprise Nottawa Community School's basic financial statements and have issued our report thereon dated October 20, 2010. 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 Nottawa Community School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Nottawa Community School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Nottawa Community School'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. However, we identified certain deficiencies in internal control over financial reporting, that we consider being significant deficiencies in internal control over financial reporting as discussed below.

Financial Statement Preparation Controls

Nottawa Community School lacks adequate controls to prepare year-end financial statements, including the required full disclosure footnotes and GASB 34 government-wide statements. The District has limited expertise in the preparation of financial statements and relies on the Auditors to draft the annual financial statements including related disclosures. The lack of internal expertise and because the auditor cannot be part of the District's control environment, there exists more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

The District contracted with the auditors to prepare the financial statements and related disclosures based on information provided by management. This service is allowed under the AICPA ethics guidelines and may be the most effective and efficient method for preparation of the District's financial statements. Management has reviewed and taken responsibility for these financial statements.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrel T. Norman (1941-1982)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nottawa Community School'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 management, the school board, others within the entity, 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.

Norman & Paulsen

Norman & Paulsen, P.C.

Three Rivers, Michigan
October 20, 2010



Norman & Paulsen, P.C.

Certified Public Accountants

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October 20, 2010

To the Board and Management
of Nottawa Community School

We have audited the financial statements of the governmental activities, each major fund, and the aggregate fund information of Nottawa Community School for the year ended June 30, 2010. Professional standards require that we provide you with the following information about our professional standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 15, 2010. 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 Nottawa Community School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2010. We noted no transactions entered into by Nottawa Community School 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 the amount and collectability of state aid revenue and receivables:

Management's estimate of the collectability of state aid revenue and receivables is based on the actual amounts collected in July and August. We evaluated the key factors and assumptions used to develop the collectable amount and 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 the financial statement users. The most sensitive disclosure affecting the financial statements was Note 6 on capital leases.

The note outlines to the reader the obligations of the School for the 2009-2010 fiscal year and future financial commitments related to signed agreements for lease of a bus.

Donald L. Paulsen, CPA
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Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For 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 20, 2010.

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 school'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 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 school's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Very truly yours,

Norman & Paulsen

Norman & Paulsen, P.C.