

M.I.T.C.H. CHARTER SCHOOL
(A COMPONENT UNIT OF TIGARD-TUALATIN SCHOOL DISTRICT NO. 23J)
WASHINGTON COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2012



12700 SW 72nd Ave.
Tigard, OR 97223

M.I.T.C.H. CHARTER SCHOOL
(A COMPONENT UNIT OF TIGARD-TUALATIN SCHOOL DISTRICT)
WASHINGTON COUNTY, OREGON

FINANCIAL REPORT

For the Year Ended June 30, 2012

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M.I.T.C.H. TIGARD CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

2011-12

BOARD OF DIRECTORS

Gordon Fiddes, Chair

Paula Beaulieu, Vice Chair

Matt Van Doren, Treasurer

Jeff Yost, Secretary

Norman Russell

Rebeka Teets

Jill Parker

All board members receive mail at the address below:

ADMINISTRATION

Debi Lorence, Principal/Executive Administrator
PO Box 230575
Tigard, OR 97281-0575

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M.L.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Management's Discussion and Analysis	<i>i</i>
<u>INDEPENDENT AUDITORS' REPORT</u>	
	1
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities and Changes in Net Assets	4
Fund Financial Statements:	
Balance Sheet – Governmental Fund	5
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund	7
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities and Changes in Net Assets	8
Notes to Basic Financial Statements	9
<u>OTHER INFORMATION</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance- Governmental Fund – Budget and Actual	18
<u>REPORTS ON LEGAL AND OTHER REGULATORY REQUIREMENTS</u>	
Independent Auditors' Report Required by Oregon State Regulations	19

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Multi-sensory Instruction
Teaching Children Hands-On

Teaching to the whole child

Raising the bar of educational
expectations

Grades K-8

Core Knowledge School

Riggs Language Arts

Saxon Math

(503)639-5757

19550 SW 90th Court
Tualatin, OR 97062

www.mitcharterschool.org

mitch@mitcharterschool.org

MANAGEMENT'S DISCUSSION AND ANALYSIS For the year ended June 30, 2012

As management of M.I.T.C.H. Charter School, we offer the following narrative overview and analysis of the School's financial statements for the years ended June 30, 2012 and 2011. It is management's goal in preparing this discussion to assist users of these financial statements in interpreting key data found in the pages that follow, and to analyze the results of this fiscal year. Because the information contained in this discussion is necessarily select in nature, it should be read and interpreted in conjunction with those financial statements.

These financial statements are presented in conformance with Governmental Accounting Standards Board (GASB) Statement No. 34 as currently required.

The School's basic financial statements consist of the following:
Government-wide financial statements
Fund financial statements
Notes to the financial statements

A budget-to-actual schedule is also included in this report as other information.

The government-wide financial statements on pages 3 and 4 are designed to provide an overview of the School's financial operations, in a manner similar to a private-sector business. The statement of net assets presents information regarding all assets and liabilities, with the difference between the two being reported as net assets. Changes in net assets may serve as a useful indicator of whether or not the overall financial position of the School is improving or deteriorating. The statement of activities presents information showing how the School's net assets increased or decreased during the year under audit. All activities in the government-wide financial statements are presented on the full accrual basis of accounting, in which they are reported as soon as the event occurs, regardless of the timing of associated cash flows.

The fund financial statements on pages 5 and 7 are presented focusing on near-term inflows and outflows of expendable resources, as well as balances of expendable resources available at the end of the year. This information might be useful in assessing the School's near-term financial situation, and is useful in the preparation and analysis of annual budgets. The governmental fund financial statements provide reconciliation to the government-wide financial statements.

An analysis of the government-wide financial statements shows the following:

- The School's financial position increased during the year ended June 30, 2012. Total assets increased \$49,340 from the prior year. Cash increased \$113,301, accounts receivable decreased \$36,983 and other current assets increased \$3,977. Capital assets, net of depreciation, decreased \$30,955 to a total of \$852,586. Cash increased as a result of revenues in excess of costs and collection of receivables offset by debt repayment, in addition to the normal scheduled payments in the amount of \$73,256. Accounts receivable decreased due to the collection of nearly all receivables. Capital assets decreased due to depreciation in excess of purchases in the current year.
- Total liabilities decreased \$95,494 due primarily to accelerated debt repayment in excess of normal schedule debt payments in the amount of \$73,256.
- Total revenues from all sources for the year were \$1,433,811, which is a decrease from the prior year of \$153,453. Revenues come primarily from three major sources, State School Funding, Fundraising and Contributions. State School Funding revenues increased over the prior year \$44,915 to \$1,156,394. State School Funding increased, despite student population remaining the same at 245 students, due to increased student funding rates. Fundraising and Contributions for the year totaled \$272,471, which is a decrease from the prior year of \$24,688. The decrease is due primarily to a decrease in contributions. Contributions included \$8,400 of in kind donations. The remaining revenues of \$4,946 were from miscellaneous interest income and other miscellaneous revenue sources.
- Expenses totaled \$1,288,977 for the year, an increase of \$216,725 from the prior year. The increase in expenses over the prior year was due primarily to the increase of approximately \$80,000 for salaries and benefits, approximately \$70,000 for general school consumables and operating expenses and approximately \$50,000 for facility charges, including rent, general maintenance and repairs. Although expenses increased over the prior year, expenses as a whole were less than budgeted amounts as discussed below.
- Below is a summary of the government-wide statements of net assets:

	2012	2011	% Change
Assets			
Current and other assets	\$ 588,414	\$ 508,119	15.8%
Capital assets (net)	852,586	883,541	-3.5%
Total assets	1,441,000	1,391,660	3.5%
Liabilities			
Current and other liabilities	115,511	130,397	-11.4%
Noncurrent liabilities (net)	44,518	125,126	-64.4%
Total liabilities	160,029	255,523	-37.4%
Net Assets			
Investment in capital assets, net of related debt	791,480	724,701	9.2%
Restricted	39,060	29,242	33.6%
Unrestricted	450,431	382,194	17.9%
Total net assets	\$ 1,280,971	\$ 1,136,137	12.7%

- Below is a summary of the statements of revenue and expenditures:

	2012	2011	% Change
Revenues			
Charges for Services	\$ 239,971	\$ 109,515	119.1%
Operatings Grants / Contributions	32,500	320,779	-89.9%
General Révénués	1,161,340	1,156,970	0.4%
Total Revenues	1,433,811	1,587,264	-9.7%
Expenses			
Instruction	709,736	640,012	10.9%
Support Services	579,241	432,240	34.0%
Total Expenses	1,288,977	1,072,252	20.2%
Change in Net Assets	144,834	515,012	-71.9%
Beginning Net Assets	1,136,137	621,125	82.9%
Ending Net Assets	\$ 1,280,971	\$ 1,136,137	12.7%

The schedule of revenues, expenditures, and changes in fund balance – actual and budget on page 18 presents greater detail regarding the School's revenues and expenditures for the year. Significant budget variations we feel should be discussed are as follows:

- The school received \$139,023 more revenue than the final budget. The increased revenue over budget was primarily due to State School Funding, Fundraising and Contributions. The State School Funding was more than budget with and excess of \$47,444. The excess was due to the slight increase in the amount of funding received per student above budget estimates as the school budgeted conservatively. The school also received fundraising and contributions in excess of budget of \$91,579.
- The school expended \$61,090 more than the approved final budget due to equipment purchases and pay-down on long-term debt. The additional revenue received above the final budget allowed for expenses greater than what had originally been budgeted for in the final budget.

Economic Factors and Next Year's Budget

During preparation of the budget for the ensuing fiscal year, the following are major assumptions used in developing the FY 2012-13 budget:

Revenue:

- Estimate of students will decrease to 245 as opposed to the 250 allowed by the charter. All grades will remain budgeted with the same estimated students with overall enrollment of grades 6-8 reduced by 5 students.
- The school has budgeted State School Funding with a slight increase in funding per student, however the overall budget will decline from prior year totals as the school is estimating a decrease in students.
- All fundraising and contributions have been estimated similar to the prior year on a per student basis

Expenditure:

- Personnel – FTE is budgeted similar to prior years with 3% wage increase and PERS contribution increase as well as costs of new hires.
- All other expenditures have been based on actual expenditures of the fiscal year 2011-2012 fiscal year actual expense.
- Debt Service – This is budgeted for the principal and interest cost for existing loans.
- Capital Outlay – The board has authorized approximately \$45,400 in capital outlay that will be funded through existing cash as a reduction in fund balance.

Please refer to the notes to the financial statements on pages 9 through 17 for a discussion of other issues related to the 2011-2012 fiscal year. Within that section are explanations of MITCH Charter School's organization and operation, a summary of significant accounting policies, and other important information.

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the School Director, Debi Lorence, M.I.T.C.H. Charter School, 19650 SW 90th Court, Tualatin, OR 97062.

Sincerely,



Debi Lorence,
School and Executive Director



Matt Van Doren,
Treasurer



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

• 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
• (503) 620-2632 • FAX (503) 684-7523

August 13, 2012

To the Board of Directors
M.I.T.C.H. Charter School
Washington County, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and major fund of M.I.T.C.H. Charter School, Washington County, Oregon (a nonprofit School) as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements as listed in the table of contents, pursuant to ORS 297.405 to 297.555, ORS 297.990 and ORS 338. These financial statements are the responsibility of the management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls over financial reporting. Accordingly, we express no opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 and major fund of M.I.T.C.H. Charter School, Washington County, Oregon, as of June 30, 2012, and the respective changes in financial position in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, 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 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The Other Information, as listed in the table of contents, and the Board of Directors list are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financials statements, and accordingly, we do not express an opinion or provide any assurance on it.

Pauly, Rogers and Co. P.C.
PAULY, ROGERS AND CO., P.C

M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

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M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

STATEMENT OF NET ASSETS
June 30, 2012

ASSETS:

Cash	\$	502,831
Restricted Cash		39,060
Accounts Receivable		840
Prepaid Expenses		29,502
Other Assets		16,181
Capital Assets, Net of Depreciation		<u>852,586</u>
Total Assets		<u>1,441,000</u>

LIABILITIES:

Current

Accounts Payable		69,646
Payroll Liabilities		29,277
Long Term Debt - Due within One Year		<u>16,588</u>

Long Term

Long Term Debt - Due within More Than One Year		<u>44,518</u>
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Total Liabilities

160,029

NET ASSETS:

Invested in Capital Assets, Net		791,480
Restricted for Collateral on Bank Loan		39,060
Unrestricted		<u>450,430</u>
Total Net Assets:	\$	<u>1,280,971</u>

See accompanying notes to the basic financial statements

M.L.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2012

FUNCTIONS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
Instruction	\$ 709,736	\$ 156,864	\$ 32,500	\$ (520,372)
Support Services	579,241	83,107	-	(496,134)
Total Governmental Activities	<u>\$ 1,288,977</u>	<u>\$ 239,971</u>	<u>\$ 32,500</u>	<u>(1,016,506)</u>
General Revenues				
State Sources				1,156,394
Interest and Investment Earnings				2,425
Miscellaneous				<u>2,521</u>
Total General Revenues				<u>1,161,340</u>
Changes in Net Assets				144,834
Net Assets - Beginning				<u>1,136,137</u>
Net Assets - Ending				<u>\$ 1,280,971</u>

See accompanying notes to the basic financial statements

M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2012

	<u>GENERAL FUND</u>
ASSETS:	
Cash	\$ 502,831
Restricted Cash	39,060
Accounts Receivable	840
Prepaid Expenses	29,502
Other Assets	<u>16,181</u>
Total Assets	<u>\$ 588,414</u>
 LIABILITIES AND FUND BALANCE:	
Liabilities:	
Accounts Payable	\$ 69,646
Payroll Liabilities	<u>29,277</u>
Total Liabilities	<u>98,923</u>
 Fund Balances:	
Nonspendable	45,683
Restricted for Collateral on Bank Loan	39,060
Unassigned	<u>404,748</u>
Total Fund Balances	<u>489,491</u>
Total Liabilities and Fund Balances	<u>\$ 588,414</u>

See accompanying notes to the basic financial statements

M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

Reconciliation of the Governmental Fund
Balance Sheet to the Statement of Net Assets
June 30, 2012

Total Fund Balances - Governmental Fund \$ 489,491

The cost of capital assets (land, buildings, furniture and equipment) purchased or constructed is reported as an expenditure in the governmental fund. The statement of Net Assets includes those capital assets among the assets of the School as a whole.

Net Capital Assets 852,586

Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.

Loan Payable (38,811)
Promissory Notes (22,295)

Net Assets \$ 1,280,971

See accompanying notes to the basic financial statements

M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND
For the Year Ended June 30, 2012

REVENUES:	General Fund
Local Sources	\$ 277,419
State Sources	1,156,394
Total Revenues	<u>1,433,813</u>
EXPENDITURES:	
Instruction	709,736
Support Services	519,687
Facilities Acquisition and Construction	28,601
Debt Service	97,856
Total Expenditures	<u>1,355,880</u>
Net Change in Fund Balance	77,933
Beginning Fund Balance	<u>411,558</u>
Ending Fund Balance	<u>\$ 489,491</u>

See accompanying notes to the basic financial statements

M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

Reconciliation of the Governmental Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
to the Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2012

Total Net Changes in Fund Balances - Governmental Funds \$ 77,933

Capital Outlays are reported in the governmental fund as expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation.

Capital Additions and Deletions, Net	\$ 28,601	
Depreciation Expense	<u>(59,555)</u>	(30,954)

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of long-term debt principal consumes current financial resources of governmental funds. However, neither transaction has any effect on net assets.

Principal Payment	<u>97,855</u>	97,855
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Change in Net Assets of Governmental Activities	<u>\$ 144,834</u>
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M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units as required by Oregon law for charter schools. 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 accounting policies are described below.

A. THE FINANCIAL REPORTING ENTITY

M.I.T.C.H. (Multisensory Instruction Teaching Children Hands-on) Charter School is a non profit corporation governed by a seven member board and is organized under provisions of Oregon Revised Statutes Chapter 338 for the purpose of operating a charter school. Generally accepted accounting principles in the United States of America require that these financial statements present all component units, if any. Component units, as established by the Governmental Accounting Standards Board (GASB) Statement 39, are separate entities that are included in the reporting entity because of the significance of their operational or financial relationships with the School. All significant activities with which the School exercises oversight responsibility have been considered for inclusion in the basic financial statements. There are no component units. M.I.T.C.H. is a component unit of the Tigard-Tualatin School District because even though they are separate legal entities, M.I.T.C.H. operates under authority of the Tigard-Tualatin School District who exercises oversight as required by Oregon law.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS (GWFS)

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions."

All direct expenses are reported by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function.

FUND FINANCIAL STATEMENTS

The accounts are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION
(CONTINUED)

GOVERNMENTAL FUND TYPES

Governmental funds are used to account for the general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Grant revenue is not considered available and, therefore, is not recognized until received. Expenditures are recorded when the liability is incurred.

Revenues susceptible to accrual are interest, state, county and local shared revenue and federal and state grants. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following major governmental fund is reported:

GENERAL FUND

This fund accounts for all financial resources and expenditures, except those required to be accounted for in another fund (there are no other funds). The principal revenue sources are payments of state school support from Tigard-Tualatin School District, program fees, fundraising and donations.

GRANTS

Unreimbursed expenditures due from grantor agencies are reflected in the government wide financial statements as receivables and revenues. Grant revenues are recorded at the time eligible expenditures are incurred. Cash received from grantor agencies in excess of related grant expenditures is recorded as a liability in the balance sheet and statement of net assets.

NET ASSETS

Net assets comprise the various net earnings from operations, nonoperating revenues, expenses and contributions of capital. Net assets are classified in the following categories:

Restricted – consists of external constraints placed on net asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Invested in capital assets, net of related debt – consists of net assets that are invested in furniture, equipment and other capital assets, net of related debt and depreciation.

Unrestricted net assets – consists of all other net assets that are not included in the other categories previously mentioned.

M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION
(CONTINUED)

FUND EQUITY

In March 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund-type Definitions. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications – nonspendable, restricted, committed, assigned, and unassigned.

- Nonspendable fund balance represents amounts that are not in a spendable form. The nonspendable fund balance represents prepaid items.
- Restricted fund balance represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).
- Committed fund balance represents funds formally set aside by the governing body for a particular purpose. The use of committed funds would be approved by resolution.
- Assigned fund balance represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given by the governing body.
- Unassigned fund balance is the residual classification of the General Fund.

There were no committed or assigned fund balances at year end.

Restricted resources are spent first when both restricted and unrestricted (committed, assigned or unassigned) resources are available for expenditures. When unrestricted resources are spent, the order of spending is committed (if applicable), assigned (if applicable) and unassigned.

M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

C. BUDGETS

A budget is prepared for the General Fund on the modified accrual basis of accounting in the main program categories as listed below. The budget is prepared on a basis consistent with generally accepted accounting principles except capital assets are expensed when purchased, depreciation is not recorded as an expense, long-term debt is reported as an expense and inventory is expensed when purchased instead of when used.

Expenditure budgets are made at the following levels for each fund:

LEVEL OF CONTROL

Instruction
Support Services
Facilities Acquisition and Construction
Debt Service
Contingency

Total expenditures are compared to the budget amounts on page 18.

D. CAPITAL ASSETS

Capital assets, which include equipment and other assets, are reported in the government wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$500. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Depreciation is recorded on capital assets on the straight line method over the useful life of the asset. Furniture and Fixtures are depreciated for 10 to 15 years and Machinery and Equipment for 5 to 10 years.

E. SUPPLY INVENTORY

Detailed supply inventory records are not maintained. Management believes supply amounts were not material at year end.

F. RETIREMENT PLANS

Substantially all employees are participants in Public Employees Retirement System (PERS). Contributions to PERS are made on a current basis as required by the plan and are charged to expenditures as funded.

G. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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.

M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS
DEPOSITS

Deposits with financial institutions include bank demand deposits. Oregon Revised Statutes require deposits to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury.

CREDIT RISK – DEPOSITS

In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be returned. There is no deposit policy for custodial credit risk. As of June 30, 2012, the uninsured bank balance was \$339,984.

Cash Consisted of:

Deposits with financial instituions:

Demand deposits, checking	\$ 502,089
Demand deposits, money market	742
Certificated of deposit	<u>39,060</u>
Total	<u>\$ 541,891</u>

Reported as:

Cash	\$ 502,831
Restricted cash	<u>39,060</u>
Total	<u>\$ 541,891</u>

INVESTMENTS

Policy is to follow state statutes governing cash management. Statutes authorize the investment in banker's acceptances, time certificates of deposit, repurchase agreements, obligation of the United States and its agencies and instrumentalities.

INTEREST RATE RISK

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. There are no investments with a maturity date.

CREDIT RISK

Oregon Revised Statutes does not limit investments as to credit rating for securities purchased from US Government Agencies or USGSE.

M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

CONCENTRATION OF RISK

At June 30, 2012, there were no investments.

3. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2012 are as follows:

	<u>JULY 1,</u> <u>2011</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>JUNE 30,</u> <u>2012</u>
Furniture and fixtures	\$ 59,776	\$ -	\$ -	\$ 59,776
Machinery and equipment	956,810	28,601	-	985,411
Total assets	1,016,586	28,601	-	1,045,187
Accumulated Depreciation	(133,046)	(59,555)	-	(192,601)
Net Capital Assets	<u>\$ 883,540</u>			<u>\$ 852,586</u>

Depreciation was allocated to Support Services.

4. RETIREMENT PLANS

Plan Description

Contributions are made to the Oregon Public Employees Retirement System (PERS), a state-wide cost-sharing multiple-employer defined benefit pension plan. Within PERS, schools comprise a cost-sharing component. Generally, employees who retire at or after age 55 or with thirty years of credited service are entitled to a retirement benefit, payable monthly for life, equal to 1.67% of their final average salary for each year of credited service. Final average monthly salary is based upon either the three calendar years out of the last ten calendar years of employment during which the highest salaries were earned or the last thirty-six calendar months of membership, whichever is larger. Employees become members of PERS after six months of service in a qualified position and benefits fully vest on reaching five years of service. Vested employees with fewer than thirty years of service will receive reduced benefits if retirement occurs prior to age 58. PERS also provides death and disability benefits.

Benefits are established by State statute. The Oregon Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700.

Funding Policy

Covered employees are required by State statute to contribute 6% of their salary to the plan. The school is required to contribute at actuarially determined rates, as adopted by the PERS Board. The current rate PERS effective July 1, 2011 is 19.48% and as of July 1, 2011 OPSRP at 17.97% of covered payroll. Contributions to the plan for the years ending June 30, 2012 and 2011 were \$101,067 and \$83,917, respectively, and were equal to the required contributions for the employer's portion.

M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. RETIREMENT PLANS (CONTINUED)

Management has determined, based upon the School's small impact on the state wide pool, that no material implicit rate subsidy exists and therefore there is no OPEB obligation for implicit post-employment benefits.

5. RISK MANAGEMENT

There is exposure to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance is purchased to minimize exposure to these risks. Settled claims have not exceeded this commercial coverage.

6. LEASES

There are copier leases in the amount of \$200 and \$201 per month.

There is a ten year lease agreement with Sylvia B. Gustina, Trustee for the School's use of the classrooms and other facilities located on the Trustee's property. The lease is set to expire on June 30, 2020. The required lease payments under this lease are \$12,648 per month plus utilities. Future minimum lease payments are for all leases are:

	<u>Property</u>	<u>Copier Lease</u>	<u>Total</u>
2012-13	\$ 154,559	\$ 4,812	\$ 159,371
2013-14	157,650	4,812	162,462
2014-15	160,801	2,812	163,613
2015-16	164,023	2,412	166,435
2016-17	167,295	402	167,697
2017-20	537,068	-	537,068
	<u>\$ 1,341,396</u>	<u>\$ 15,250</u>	<u>\$ 1,356,646</u>

7. COMMITMENTS & CONTINGENCIES

A substantial portion of operating funding is received from the State of Oregon through Tigard-Tualatin School District. State funding is determined through state wide revenue projections that are paid to individual school districts based on pupil counts and other factors in the state school fund revenue formula. Since these projections and pupil counts fluctuate they can cause the School to either have increases or decreases in revenue. Due to these future uncertainties at the state level, the future effect on operations can not be determined.

The School operates under authority of Tigard-Tualatin School District who grants a charter to the School and exercises oversight as required by Oregon law. In March 2008 the Tigard -Tualatin School District granted the School a ten year charter. These financial statements have not considered the effect of a non renewal of the charter.

M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

8. LONG TERM DEBT

There is a bank loan with Capital Pacific Bank which has an annual interest rate of 4.2% and a \$1,094 monthly payment. The loan is secured by CD's obtained from the Bank by individuals for the School.

There are direct loans with individuals at interest rates of 4% to 5% per annum (see below). The loan periods are five and seven years in length. Loan payments are due quarterly. The loans are unsecured and upon default would be considered contributions to the School.

Long Term Debt Schedule:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Bank Loan	08/31/10	4.20%	\$ 50,089	\$ -	\$ (11,278)	\$ 38,811
(1) Individual Loan	07/21/10	5.00%	43,268	-	(43,268)	-
(1) Individual Loan	07/21/10	4.38%	21,588	-	(21,588)	-
(1) Individual Loan	07/21/10	4.50%	18,144	-	(2,573)	15,571
(1) Individual Loan	07/21/10	4.00%	8,624	-	(1,900)	6,724
Individual Loan	07/21/10	4.00%	8,624	-	(8,624)	-
Individual Loan	07/21/10	4.00%	8,624	-	(8,624)	-
			<u>\$ 158,961</u>	<u>\$ -</u>	<u>\$ (97,855)</u>	<u>\$ 61,106</u>

Future Requirements

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012-13	\$ 16,588	\$ 3,219	\$ 19,807
2013-14	17,402	2,187	19,589
2014-15	18,255	1,104	19,359
2015-16	4,815	294	5,109
2016-17	3,218	128	3,346
2017-18	828	9	837
Total	<u>\$ 61,106</u>	<u>\$ 6,941</u>	<u>\$ 68,047</u>

9. RELATED PARTY TRANSACTION

Four of the individual loans shown above, and marked by (1), were made by related parties (Board Members and the Executive Director).

10. ACCOUNT RECEIVABLE

Accounts Receivable of \$840 consists primarily of Oregon Forestry Resource Institute grant money owed to the School at June 30, 2012. There is no allowance for doubtful accounts as management believes all amounts are collectible.

M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

11. PREPAID EXPENSES

Prepaid Expenses of \$29,502 consisted of rent, insurance and supplies at June 30, 2012. These items will be expensed during the 2012-13 fiscal year.

12. OTHER ASSETS

Other Assets of \$16,181 is primarily a security deposit for the leased building which was paid in April of 2009. A \$12,400 prepayment was required by the lease agreement.

13. RESTRICTED CASH

As of June 30, 2012, there was restricted cash of \$39,060 which was held in a bank account in the School's name. The money consists of Certificates of Deposit required to be held as collateral for the bank loan.

14. TAX STATUS

M.I.T.C.H. Charter School has qualified as an organization whose activities, related to its nonprofit status, are exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from activities not directly related to the tax-exempt purpose is subject to unrelated business income tax. No provision is made in the financial statements for a federal income tax liability as management believes there is no taxable unrelated income.

U.S. Generally Accepted Accounting Principles require management to evaluate tax positions taken and recognize a tax liability (or asset) if an uncertain position has been taken that more than likely would not be sustained upon examination by the Internal Revenue Service. M.I.T.C.H. Charter School is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to June 30, 2009.

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M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

OTHER INFORMATION

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M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND - ACTUAL AND BUDGET
For the Year Ended June 30, 2012

REVENUES:	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
Local Sources	\$ 185,840	\$ 185,840	\$ 277,419	\$ 91,579
State Sources	1,108,950	1,108,950	1,156,394	47,444
Total Revenues	<u>1,294,790</u>	<u>1,294,790</u>	<u>1,433,813</u>	<u>139,023</u>
 EXPENDITURES:				
Instruction	757,754	757,754	709,736	48,018
Support Services	537,036	537,036	519,687	17,349
Facility Acquisition and Construction	-	-	28,601	(28,601)
Debt Service	-	-	97,856	(97,856)
Contingency	-	-	-	-
Total Expenditures	<u>1,294,790</u>	<u>1,294,790</u>	<u>1,355,880</u>	<u>(61,090)</u>
Net Change in Fund Balance	-	-	77,933	77,933
Beginning Fund Balance	-	-	411,558	411,558
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 489,491</u>	<u>\$ 489,491</u>

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M.I.T.C.H. CHARTER SCHOOL
WASHINGTON COUNTY, OREGON

INDEPENDENT AUDITORS' REPORT REQUIRED BY
OREGON STATE REGULATIONS

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
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• (503) 620-2632 • FAX (503) 684-7523

August 13, 2012

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of M.I.T.C.H. Charter School as of and for the year ended June 30, 2012, and have issued our report thereon dated August 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- Insurance and fidelity bonds in force or required by law.
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).
- Public charter school requirements.

In connection with our testing nothing came to our attention that caused us to believe M.I.T.C.H. Charter School was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the internal controls 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 the internal controls over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

This report is intended solely for the information and use of the Board of Directors, management and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

Pauly, Rogers and Co., P.C.
PAULY, ROGERS AND CO., P.C.

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