

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

**FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**



12700 SW 72<sup>nd</sup> Ave.  
Tigard, OR 97223

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

FINANCIAL REPORT

For the Year Ended June 30, 2013

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

2012-2013

BOARD OF DIRECTORS

Christa Griffiths, Chair

Wayne Laird, Vice Chair

Matt Van Doren, Treasurer

Gordon Fiddes, Secretary

Jason Holland

Andrew Vance

Trent Brown

Julie Bosket

All board members receive mail at the address below:

ADMINISTRATION

Melissa Meyer, Principal/Executive Administrator  
PO Box 230575  
Tigard, OR 97281-0575

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

TABLE OF CONTENTS

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

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PAULY, ROGERS, AND CO., P.C.  
12700 SW 72<sup>nd</sup> Ave. Tigard, OR 97223  
(503) 620-2632 (503) 684-7523 FAX

## INDEPENDENT AUDITORS' REPORT

September 9, 2013

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of M.I.T.C.H. Charter School, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of M.I.T.C.H. Charter School, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of a Matter**

The School adopted the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the Management's Discussion and Analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

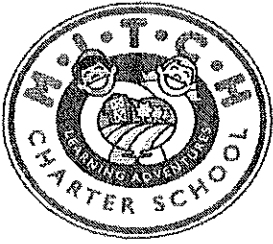
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The other information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The listing of board members, located before the table of contents, and the other information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## **Report on Other Legal and Regulatory Requirements**

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated September 9, 2013 on our consideration of compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



ROY R. ROGERS, CPA  
PAULY, ROGERS AND CO., P.C.



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[www.mitcharterschool.org](http://www.mitcharterschool.org)

[mitch@mitcharterschool.org](mailto:mitch@mitcharterschool.org)

## MANAGEMENT'S DISCUSSION AND ANALYSIS For the year ended June 30, 2013

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, 2013 and 2012. 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 position presents information regarding all assets and liabilities, with the difference between the two being reported as net position. Changes in net position 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 and changes in net position presents information showing how the School's net position 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, 2013. Total assets decreased \$32,037 from the prior year. Cash increased \$9,104, accounts receivable decreased \$335 and other current assets decreased \$9,667. Capital assets, net of depreciation, decreased \$31,139 to a total of \$821,447. Cash increased as a result of revenues in excess of costs. Accounts receivable were minimal at the end of the year. Capital assets decreased due to depreciation in excess of purchases in the current year.
- Total liabilities decreased \$76,482 due to payment of most of accounts payable at the end of the year.
- Total revenues from all sources for the year were \$1,376,510, which is a decrease from the prior year of \$57,301. Revenues come primarily from three major sources, State School Funding, Fundraising and Contributions. State School Funding revenues increased over the prior year by \$19,559 to \$1,175,953. State School Funding increased, despite student population remaining the same at 245 students, due to increased student funding rates. Local Source Revenue which includes Fundraising, Contributions and other income for the year totaled \$200,557, which is a decrease from the prior year of \$76,862. The decrease is due primarily to a decrease auction, fundraisings and Afterschool Enrichment Program participation of \$37,300, and \$26,336, respectively .
- Expenses totaled \$1,332,065 for the year, an increase of \$43,088 from the prior year. The increase in expenses over the prior year was due primarily to the increase of approximately \$29,000 for salaries and benefits, including the change of school director the last portion of the school year. Also, Supporting Services increased approximately \$14,000 with the majority coming from general school consumables and legal expense increases. 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:

	<u>2013</u>	<u>2012</u>	<u>% Change</u>
<b>Assets</b>			
Current and other assets	\$ 587,516	\$ 588,414	-0.2%
Capital assets (net)	<u>821,447</u>	<u>852,586</u>	<u>-3.7%</u>
Total assets	<u>1,408,963</u>	<u>1,441,000</u>	<u>-2.2%</u>
<b>Liabilities</b>			
Current and other liabilities	56,307	115,511	-51.3%
Noncurrent liabilities (net)	<u>27,240</u>	<u>44,518</u>	<u>-38.8%</u>
Total liabilities	<u>83,547</u>	<u>160,029</u>	<u>-47.8%</u>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	776,704	791,480	-1.9%
Restricted	32,180	39,060	-17.6%
Unassigned	<u>516,532</u>	<u>450,431</u>	<u>14.7%</u>
Total net position	<u>\$ 1,325,416</u>	<u>\$ 1,280,971</u>	<u>3.5%</u>

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

	<u>2013</u>	<u>2012</u>	<u>% Change</u>
Revenues			
Charges for Services	\$ 163,918	\$ 239,971	-31.7%
Operatings Grants / Contributions	31,360	32,500	-3.5%
General Revenues	<u>1,181,232</u>	<u>1,161,340</u>	<u>1.7%</u>
Total Revenues	<u>1,376,510</u>	<u>1,433,811</u>	<u>-4.0%</u>
Expenses			
Instruction	738,932	709,736	4.1%
Support Services	<u>593,133</u>	<u>579,241</u>	<u>2.4%</u>
Total Expenses	<u>1,332,065</u>	<u>1,288,977</u>	<u>3.3%</u>
Change in Net Assets	44,445	144,834	-69.3%
Beginning Net Assets	<u>1,280,971</u>	<u>1,136,137</u>	<u>12.7%</u>
Ending Net Assets	<u>\$ 1,325,416</u>	<u>\$ 1,280,971</u>	<u>3.5%</u>

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 \$53,559 more revenue than the final budget. The increased revenue over budget was primarily due to State School Funding of \$71,508 due to slight increase in SSF rate additional students than budgeted estimates as the school budgeted conservatively. This State increase was offset by the decrease in local revenues of \$17,949, which was primarily due to the auction fundraiser not taking place during the year. However the lack of auction fundraising was offset by a slight increase in contributions.
- The school expended \$5,662 less than the approved final budget as all categories were under budgeted expenses, except for Support Service and Facility Acquisition and Construction. Support Service was increased as the School transitioned Executive Directors during the year with a temporarily director serving for five months. The Construction necessary for expanding the former music room for the eighth grade classroom was \$4,500 more than anticipated. Additionally, we also updated some computers and purchased new lunch tables. All other expenses were under budget due to a school wide effort of managing expenses as well as conservative budgeting.

#### 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 2013-14 budget:

Revenue:

- Estimate of students will be to 246 as opposed to the 250 allowed by the charter. All grades will remain budgeted with the same estimated students 26 for middle school and 25 for all other except kindergarten will be 20 students.
- The school has budgeted State School Funding with an increase in funding per student totaling \$39,172, however the overall budget will increase \$23,690 from prior year total.
- All fundraising and contributions have been estimated similar to the prior year on a per student basis, and we will be having our annual auction after a one year departure.

Expenditure:

- Personnel – FTE is budgeted increase .8 FTE 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 2012-2013 fiscal year actual expense except for inflation and annual rent increase.
- Debt Service – This is budgeted for the principal and interest cost for existing loans.
- Capital Outlay – The board has authorized approximately \$10,000 in capital outlay for additional text books and computers for new middle school program

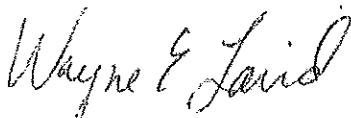
Please refer to the notes to the financial statements on pages 9 through 17 for a discussion of other issues related to the 2012-2013 fiscal year. Within that section are explanations of M.I.T.C.H. Charter School's organization and operation, a summary of significant accounting policies, and other important 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, Melissa Meyer, M.I.T.C.H. Charter School, 19550 SW 90<sup>th</sup> Court, Tualatin, OR 97062.

Sincerely,



Melissa Meyer,  
School and Executive Director



Wayne Laird,  
Vice Chair

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 POSITION  
June 30, 2013

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ASSETS:

Cash	\$	518,815
Investments		32,180
Accounts Receivable		505
Prepaid Expenses		19,835
Other Assets		16,181
Capital Assets, Net of Depreciation		<u>821,447</u>
Total Assets		<u>1,408,963</u>

LIABILITIES:

Current

Accounts Payable		4,685
Payroll Liabilities		17,529
Deferred Revenue		16,590
Long Term Debt – Due within One Year		<u>17,503</u>

Long Term

Long Term Debt – Due in More Than One Year		<u>27,240</u>
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Total Liabilities		<u>83,547</u>
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NET POSITION:

Net Investment in Capital Assets		776,704
Restricted		32,180
Unrestricted		<u>516,532</u>
Total Net Position	\$	<u>1,325,416</u>

See accompanying notes to the basic financial statements



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

STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION  
For the Year Ended June 30, 2013

<u>FUNCTIONS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	
Instruction	\$ 738,932	\$ 110,917	\$ 31,360	\$ (596,655)
Support Services	<u>593,133</u>	<u>53,001</u>	<u>-</u>	<u>(540,132)</u>
Total Governmental Activities	<u>\$ 1,332,065</u>	<u>\$ 163,918</u>	<u>\$ 31,360</u>	<u>(1,136,787)</u>
General Revenues				
State Sources				1,175,953
Interest and Investment Earnings				1,895
Miscellaneous				<u>3,384</u>
Total General Revenues				<u>1,181,232</u>
Changes in Net Position				44,445
Net Position – Beginning				<u>1,280,971</u>
Net Position – Ending				<u>\$ 1,325,416</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, 2013

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	<u>GENERAL FUND</u>
ASSETS:	
Cash	\$ 518,815
Investments	32,180
Accounts Receivable	505
Prepaid Expenses	19,835
Other Assets	<u>16,181</u>
Total Assets	<u>\$ 587,516</u>
LIABILITIES AND FUND BALANCE:	
Liabilities:	
Accounts Payable	\$ 4,685
Payroll Liabilities	17,529
Deferred Revenue	<u>16,590</u>
Total Liabilities	<u>38,804</u>
Fund Balances:	
Nonspendable	36,016
Restricted	32,180
Unassigned	<u>480,516</u>
Total Fund Balances	<u>548,712</u>
Total Liabilities and Fund Balances	<u>\$ 587,516</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 Position  
June 30, 2013

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Total Fund Balances – Governmental Fund \$ 548,712

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

Net Capital Assets 821,447

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 (27,116)  
Promissory Notes (17,627)

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Net Position \$ 1,325,416

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 –  
GOVERNMENTAL FUND  
For the Year Ended June 30, 2013

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	<u>GENERAL FUND</u>
REVENUES:	
Local Sources	\$ 200,557
State Sources	<u>1,175,953</u>
Total Revenues	<u>1,376,510</u>
EXPENDITURES:	
Instruction	738,932
Support Services	531,247
Facilities Acquisition and Construction	30,746
Debt Service	<u>16,364</u>
Total Expenditures	<u>1,317,289</u>
Net Change in Fund Balance	59,221
Beginning Fund Balance	<u>489,491</u>
Ending Fund Balance	<u>\$ 548,712</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 Position  
For the Year Ended June 30, 2013

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Total Net Changes in Fund Balances – Governmental Funds \$ 59,221

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	\$	30,746	
Depreciation Expense		<u>(61,886)</u>	(31,140)

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 position.

Principal Payment	\$	<u>16,364</u>	
			<u>16,364</u>

Change in Net Position of Governmental Activities \$ 44,445

See accompanying notes to the basic financial statements

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

NOTES TO BASIC FINANCIAL STATEMENTS

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I. 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 eight 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 61, 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. 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 Position and Statement of Activities and Changes in Net Position display information about the reporting government as a whole. The Statement of Net Position and the Statement of Activities and Changes in Net Position 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 and Changes in Net Position. 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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 position.

NET POSITION

Net position is comprised of the various net earnings from operations, nonoperating revenues, expenses and contributions of capital. Net position is classified in the following categories:

Restricted – consists of external constraints placed on asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. There were restricted funds of \$32,180 at June 30, 2013 representing amounts invested in CD’s held as collateral for a bank loan.

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

Unrestricted net position – consists of all other 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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

FUND BALANCE

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 and other assets.
- 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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 when paid 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 and a useful life of more than one year. 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 using the straight-line method over the useful life of the asset. Furniture and Fixtures is depreciated for 10 to 15 years and Machinery and Equipment is depreciated for 5 to 10 years.

E. SUPPLY INVENTORY

Detailed supply inventory records are not maintained. Management believes supply inventory 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

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

NOTES TO BASIC FINANCIAL STATEMENTS

statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

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. The School's cash is deposited in an approved depository for public funds, and thus is collateralized under ORS 295.

CUSTODIAL 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, 2013, the bank balance was fully collateralized under an Oregon Qualified Depository for Public Funds.

Cash deposits held with financial institutions consisted of:

Demand Deposits, Checking	\$ 518,071
Demand Deposits, Money Market	<u>744</u>
Total	<u>\$ 518,815</u>

3. 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. Investments at June 30, 2013 consisted of Certificates of Deposit.

CREDIT RISK

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

At June 30, 2013, investments held with financial institutions consisted of the following:

Certificates of Deposit	<u>\$ 32,180</u>
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Certificate of deposit funds are restricted as collateral for the bank loan as detailed at Note 10.

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

NOTES TO BASIC FINANCIAL STATEMENTS

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4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2013 are as follows:

	July 1, 2012	Additions	Deletions	June 30, 2013
Furniture and Fixtures	\$ 52,140	\$ 1,914	\$ -	\$ 54,054
Machinery and Equipment	131,049	3,826	-	134,875
Leasehold Improvements	861,998	25,006	-	887,004
Construction in Progress	-	21,985	(21,985)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	1,045,187	52,731	(21,985)	1,075,933
Accumulated Deprecation	<u>(192,600)</u>	<u>(61,886)</u>	<u>-</u>	<u>(254,486)</u>
Net Capital Assets	<u>\$ 852,587</u>			<u>\$ 821,447</u>

Depreciation was allocated to Support Services.

5. PREPAID EXPENSES

Prepaid expenses of \$19,835 consisted primarily of rent and insurance at June 30, 2013. These items will be expensed during the 2013-14 fiscal year. A \$12,400 prepayment was required by the lease agreement.

6. OTHER ASSETS

Other assets of \$16,181 is primarily a security deposit for the leased building which was paid in April of 2009.

7. 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS

7. RETIREMENT PLANS (Continued)

PLAN DESCRIPTION (Continued)

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 rate effective for the two year period beginning July 1, 2011 is 17.97% for OPSRP and 19.48% for PERS. Contributions to the plan for the years ending June 30, 2013, 2012 and 2011 were \$99,804, \$101,067 and \$83,917, respectively, and were equal to the required contributions for the employer's portion.

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.

8. DEFERRED REVENUE

Deferred revenue consists of activity fees collected that are to be used during the 2013-14 fiscal year. Deferred revenue at June 30, 2013 was \$16,590.

9. LEASES

There are copier leases with monthly payments of \$200 and \$201.

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 \$12,901 per month plus utilities.

Future minimum lease payments for all leases are as follows:

	<u>Property</u>	<u>Copier Lease</u>	<u>Total</u>
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
2017-18	170,648	-	170,648
Thereafter	366,420	-	366,420
	<u>\$ 1,186,837</u>	<u>\$ 10,438</u>	<u>\$ 1,197,275</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

10. LONG-TERM DEBT

There is a bank loan with Capital Pacific Bank which has an annual interest rate of 4.2% and a monthly payment of \$1,094, which includes interest. The loan is secured by the CDs held with Capital Pacific Bank.

There are direct loans with individuals at interest rates of 4.00% to 4.50% 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>July 1, 2012 Balance</u>	<u>Issued</u>	<u>Matured and Redeemed</u>	<u>June 30, 2013 Balance</u>
Bank Loan	08/31/2010	4.20%	\$ 38,811	\$ -	\$ 11,695	\$ 27,116
Individual Loan	07/21/2010	4.50%	15,571	-	2,691	12,880
Individual Loan	07/21/2010	4.00%	6,724	-	1,977	4,747
			<u>\$ 61,106</u>	<u>\$ -</u>	<u>\$ 16,363</u>	<u>\$ 44,743</u>

Future requirements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013-14	\$ 17,503	\$ 1,183	\$ 18,686
2014-15	17,676	1,010	18,686
2015-16	5,518	803	6,321
2016-17	3,218	128	3,346
2017-18	828	10	838
Total	<u>\$ 44,743</u>	<u>\$ 3,134</u>	<u>\$ 47,877</u>

11. 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 cannot 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 nonrenewal of the charter.

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

NOTES TO BASIC FINANCIAL STATEMENTS

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12. 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 for the last three years.

13. RELATED PARTY TRANSACTION

Image Embroidery, DBA Image Restoration, which is owned by a board member, sells embroidered apparel to the School. In the year ended June 30, 2013 the School paid Image Embroidery \$6,266 for apparel. The service agreement indicates that Image Embroidery will donate a portion of its proceeds to the School for each article purchased. In the year ended June 30, 2013, Image Embroidery donated \$1,446 of its proceeds back to the school. At June 30, 2013 the School did not have any payables due to or receivables due from Image Embroidery.

Russell Construction Company, which is owned by a board member, provides construction services to the School. In the year ended June 30, 2013 the School paid Russell Construction Company \$25,738 in services, related primarily to the construction of a new 8th grade classroom. At June 30, 2013 the School did not have any payables due to Russell Construction Company.

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  
 GOVERNMENTAL FUND – BUDGET AND ACTUAL  
 For the Year Ended June 30, 2013

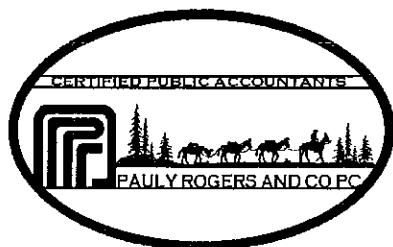
REVENUES:	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
Local Sources	\$ 218,506	\$ 218,506	\$ 200,557	\$ (17,949)
State Sources	1,104,445	1,104,445	1,175,953	71,508
Total Revenues	<u>1,322,951</u>	<u>1,322,951</u>	<u>1,376,510</u>	<u>53,559</u>
 EXPENDITURES:				
Instruction	785,810	785,810	\$738,932	46,878
Support Services	494,550	494,550	531,247	(36,697)
Facility Acquisition and Construction	23,900	23,900	30,746	(6,846)
Debt Service	18,691	18,691	16,364	2,327
Total Expenditures	<u>1,322,951</u>	<u>1,322,951</u>	<u>1,317,289</u>	<u>5,662</u>
Net Change in Fund Balance	-	-	59,221	59,221
Beginning Fund Balance	-	-	489,491	489,491
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 548,712</u>	<u>\$ 548,712</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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September 9, 2013

### 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, 2013, and have issued our report thereon dated September 9, 2013. 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).**

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.

ROY R. ROGERS, CPA  
PAULY, ROGERS AND CO., P.C.

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