

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, 2010

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

2009-10

BOARD OF DIRECTORS

Shanna Hildreth, Chair

Joel Smith, Vice Chair

Wayne Laird, Treasurer

Gordon Fiddes, Secretary

David Usland

Patricia Saier

Stephanie Rickert

All board members receive mail at the address below:

ADMINISTRATION

Debi Lorence, Principle/Executive Administrator
19530 SW 90th Court
Tualatin, OR 97062

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

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

October 8, 2010

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 the M.I.T.C.H. Charter School, Washington County, Oregon (a nonprofit Charter School) as of and for the year ended June 30, 2010, which collectively comprise the school's 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 basic financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 such 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.

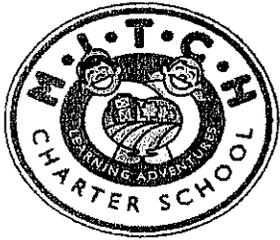
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major fund of M.I.T.C.H. Charter School, Washington County, Oregon, as of June 30, 2010, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed on the table of contents, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The supplementary information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of basic financial statements and, we express no opinion on it.

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PAULY, ROGERS AND CO., P.C.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2010

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, 2010 and 2009. 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 supplementary information.

The government-wide financial statements on pages 5 and 6 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 7 and 9 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.

Multi-sensory Instruction
Teaching Children Hands-On

Teaching to the whole child;

raising the bar of educational
expectations.

Grades K-5

Core Knowledge School

Riggs Language Arts

Saxon Math

(503)639-5757

PO Box 230575
Tigard, OR 97281-0575

www.mitcharterschool.org

mitch@mitcharterschool.org

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

- The School's financial position increased during the year ended June 30, 2010. Our total assets increased \$557,957 from the prior year. There was an increase of \$36,904 in cash. This was due to an increase in contributions mainly towards the new school building. The capital assets increased \$514,985 to a total of \$545,520 net of depreciation, as over \$36,000 in donated furniture and fixtures was collected and construction in progress for the remodel of the lease warehouse into school facilities is, approximately half way completed, as of June 30, 2010. Accounts receivable also decreased \$14,105 mainly due to collection of prior year SSF Revenue from other school districts.
- Our total liabilities increased from \$45,318 to \$410,404, due to increase in construction payable for the remodel work completed in June.
- The increase in net assets of \$192,871 due to the timing of the remodel.
- Our revenues came primarily from three major sources. State School Fund revenues were \$634,624 Fundraising was \$42,004 and Contributions totaled 119,190 of which \$82,965 was cash contribution and \$36,225 was furniture and fixtures. Total revenues from all sources for the year were \$866,019. During the 2009-2010 fiscal year, we slightly increased our student population, and had a decrease in Federal School Grants, increasing the total revenue \$171,886 from prior years revenue of \$707,473,
- Our expenses totaled \$673,148 for the year, a decrease of \$4,752 from the prior year. Our largest expenditures were \$485,668 for personnel, down \$16,435 from last year's \$502,104, the change resulted from a staff change and a teachers temporary leave of absence during the year.

The schedule of revenues, expenditures, and changes in fund balance – actual and budget on page 19 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 \$180,117 more than the original approved budget. However a supplemental budget was adopted due to the remodel cost of the leased warehouse for the new school facility. The State school Funding was more than budget because of the increase of student and a slight increase in amount received per student from budget estimates. Increase in contributions received led to higher the budgeted goal from the beginning of capital campaign for funding of the remodel. However the total capital campaign was not achieved during the year leaving the Supplemental Budget Revenue in a deficit of \$323,861 for the year. Both the goals for fundraising and student activities fees collections were exceeded for the year.
- The school expended \$1,747 less than the approved supplemental budget, similar to lasts year amount of \$39,821. All categories were under budgeted expenses, except for the cost incurred for the remodel cost with the current year budget it was over by \$39,213. The cost for personnel was more than budgeted as we added some support staff for the lunch and after care programs. This was offset by the reduction of anticipated expenses for supplies and other purchased services compared to the budget.
- Our expenditures totaled \$1,188,133 for the year, an increase of \$512,804 from the prior year. The largest change from the prior year was the \$539,213 expended on the procurement and construction cost for the new facility.

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 2010-11 budget:

Revenue:

- Increase of students from K-8 of 147 to K-8 of 245
- State School Funding is the same as prior year due to economic state of Oregon and Budgetary Funding issues
- All Fundraising as been increased due to increase of the number of students
- Though SSF per student is budgeted the same as last year still increasing due to increase in students
- Contributions and Miscellaneous Revenue has been budgeted to account for the funds for the remodel for the new school facility funds include contributions from the Landlord of the building and from loan proceeds and contribution directly for the new school

Expenditure:

- Personnel- Hired new teachers for 6th thru 8th grade, increased music teacher to .75 FTE from .6, increase support personnel .55, office personnel FTE increased .8.
- Purchased Services and Supplies and Material were increase based on estimated cost of a per student based on an analysis prior years actual cost
- Capital Outlay was budget for the completion of the School Facility based on the contract with Rusell Construction for the remodel.

Reviewing the past year, we finished the school year as a K-5 school and have laid the ground work to fulfill our vision of being K-8 school by signing a long term ten year lease and entering into a contract with Russell Construction to remodel the leased warehouse space into the new school building, which was completed and occupied in time to start the new 2010-11 fiscal year with 245 students in grades K-8.

Please refer to the notes to the financial statements on pages 11 through 18 for a discussion of other issues related to the 2009-2010 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, MITCH Charter School, PO Box 230575, Tigard, OR 97281-0575.

Signature: Debi Lorence

Title: Director

Signature: Wayne E. Laird

Title: Treasurer

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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, 2010

ASSETS:

Cash	\$	418,027
Restricted Cash		18,126
Accounts Receivable		20,681
Prepaid Expenses		16,179
Other Assets		12,996
Capital Assets, Net of Depreciation		<u>545,520</u>
Total Assets		<u>1,031,529</u>

LIABILITIES:

Accounts Payable		376,546
Payroll Liabilities		<u>33,858</u>
Total Liabilities		<u>410,404</u>

NET ASSETS:

Invested in Capital Assets, Net		545,520
Restricted Cash		18,126
Unrestricted		<u>57,479</u>
Total Net Assets:	\$	<u><u>621,125</u></u>

See accompanying notes to the basic financial statements

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

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

FUNCTIONS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
Instruction	\$ 414,881	\$ 68,525	\$ -	\$ (346,356)
Support Services	243,640	-	-	(243,640)
Facility Acquisition and Construction	14,627	-	-	(14,627)
Total Governmental Activities	\$ 673,148	\$ 68,525	\$ -	(604,623)
General Revenues				
State Sources				634,624
Federal Sources				3,507
Contributions				119,191
Interest and Investment Earnings				2,508
Miscellaneous				37,664
Total General Revenues				797,494
Changes in Net Assets				192,871
Net Assets - Beginning				428,254
Net Assets - Ending				\$ 621,125

See accompanying notes to the basic financial statements

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

BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2010

	<u>GENERAL FUND</u>
ASSETS:	
Cash	\$ 418,027
Restricted Cash	18,126
Accounts Receivable	20,681
Prepaid Expenses	16,179
Other Assets	<u>12,996</u>
Total Assets	<u>\$ 486,009</u>
LIABILITIES AND FUND BALANCE:	
Liabilities:	
Accounts Payable	\$ 376,546
Payroll Liabilities	<u>33,858</u>
Total Liabilities	<u>410,404</u>
Fund Balances:	
Reserved for Prepaid Expenses	16,179
Unreserved and Undesignated	<u>59,426</u>
Total Fund Balances	<u>75,605</u>
Total Liabilities and Fund Balances	<u>\$ 486,009</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, 2010

Total Fund Balances - Governmental Fund \$ 75,605

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 545,520

Net Assets \$ 621,125

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, 2010

REVENUES:

	General Fund
Local Sources	\$ 227,888
State Sources	634,624
Federal Sources	3,507
	<hr/>
Total Revenues	866,019
	<hr/>

EXPENDITURES:

Instruction	408,832
Support Services	240,088
Facilities Acquisition and Construction	539,213
	<hr/>
Total Expenditures	1,188,133
	<hr/>
Net Change in Fund Balance	(322,114)
Beginning Fund Balance	397,719
	<hr/>
Ending Fund Balance	\$ 75,605
	<hr/> <hr/>

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
For the Year Ended June 30, 2010

Total Net Changes in Fund Balances - Governmental Funds \$ (322,114)

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 Outlay	\$ 524,586	
Depreciation Expense	<u>(9,601)</u>	
		<u>514,985</u>

Change in Net Assets of Governmental Activities \$ 192,871

See accompanying notes to the basic financial statements

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 an eleven 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. The GWFS are presented on the accrual basis, in conformity with GAAP.

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, federal grants, 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. There is restricted cash on June 30, 2010.

Invested in capital assets, net of depreciation – consists of all capital assets, net of accumulated 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)

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 and inventory is expensed when purchased.

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

LEVEL OF CONTROL

Salaries
Associated Payroll Costs & Employee Benefits
Purchased Services
Materials and Services
Capital Outlay
Other Objects

A budget comparison schedule is shown on page 19 of this report.

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	10 to 15 years
Machinery and Equipment	5 to 10 years

E. SUPPLY INVENTORY

Detailed supply inventory records are not maintained. Supply amounts were not considered material by management 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.

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)

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.

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.

Cash consisted of:

Deposits With Financial Institutions:

Demand Deposits, Interest Bearing - Checking	\$	186,524
Demand Deposits, Non-Interest Bearing - Money Market		<u>249,629</u>
	\$	<u><u>436,153</u></u>

Reported as:

Cash	\$	418,027
Restricted Cash		<u>18,126</u>
	\$	<u><u>436,153</u></u>

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, 2010, the bank balance of \$446,364 was either insured by FDIC or covered by collateral.

INVESTMENTS

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

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

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

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 that have 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.

CONCENTRATION OF RISK

At June 30, 2010, there were no investments.

3. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2010 are as follows:

	CAPITAL ASSETS			CAPITAL ASSETS
	JULY 1,			JUNE 30,
	2009	ADDITIONS	DELETIONS	2010
	_____	_____	_____	_____
Assets not being Depreciated:				
Construction in Progress	\$ -	\$ 484,001	\$ -	\$ 484,001
Assets being Depreciated:				
Furniture & Fixtures	15,915	36,225	-	52,140
Machinery & Equipment	94,978	4,360	-	99,338
Total Assets being Depreciated:	110,893	40,585	-	151,478
Total Assets:	110,893	524,586	-	635,479
Accumulated Depreciation:	(80,358)	(9,601)	-	(89,959)
Net Capital Assets:	<u>\$ 30,535</u>	<u>\$ 514,985</u>	<u>\$ -</u>	<u>\$ 545,520</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

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, 2009 is 14.22% and as of July 1, 2009 OPSRP at 14.74% of covered payroll. Contributions to the plan for the years ending June 30, 2010 and 2009 were \$48,408 and \$65,819, respectively and were equal to the required contributions for the year including the employee's portion, which the employer pays.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS

6. LEASES

There is a lease agreement with Calvin Presbyterian Church for classrooms and other facilities located on the Church's property. This lease agreement expires July 31, 2010. The required lease payments under the terms of the lease are \$5,500 per month plus utilities except for the July payment is \$1,000. For the years ended June 30, 2010 and 2009, total rent payments were \$61,500 and \$61,500.

A copier lease was entered into on September 30, 2009 in the amount of \$200 per month.

On December 8, 2009 a ten year lease agreement with Sylvia B. Gustina, Trustee was signed for the School's use of the classrooms and other facilities located on the Trustee's property. The first lease payment is due on August 1, 2010 and the lease is set to expire on June 30, 2020. The required lease payments under this lease are \$12,400 per month plus utilities. Future minimum lease payments are:

2011	\$ 139,800
2012	153,928
2013	156,959
2014	160,050
2015	161,201
2016-20	853,567
2021-25	14,819
Total	<u>\$ 1,640,324</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 M.I.T.C.H. Charter School a ten year charter. These financial statements have not considered the effect of a non renewal of the charter.

The School entered into a contract with Russell Construction in May 2010 to remodel the warehouse space leased from Sylvia B Gustina, into classrooms, multipurpose room and offices. The total cost of the remodel is \$850,000. As of June 30, 2010 the remaining portion of the contract is \$404,364.

8. ACCOUNT RECEIVABLE

Accounts Receivable of \$20,681 consists primarily of funds due from other School Districts, at June 30, 2010. There were no accounts receivable over 90 days and it is all considered collectable by management.

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

NOTES TO BASIC FINANCIAL STATEMENTS

9. PREPAID EXPENSES

Prepaid Expenses of \$16,179 consisted primarily of prepaid supplies and insurance, at June 30, 2010. These items will be expensed when used during the 2010-11 fiscal year.

10. OTHER ASSETS

Other Assets of \$12,996 consisted primarily of a security deposit for the Leased building which was paid in April. A \$12,400 prepayment was necessary for the lease agreement.

11. SUBSEQUENT EVENTS

The school has entered into six direct loans paid quarterly from individuals and one bank loan paid monthly secured by parent CDs from Capital Pacific Bank as follows:

	<u>Loan Date</u>	<u>Term</u>	<u>Interest Rate</u>	<u>Amount</u>
Individual Loans:				
	July 21, 2010	5 years	5.000%	\$ 50,000 (1)
	July 21, 2010	5 years	4.375%	25,000 (1)
	July 21, 2010	7 years	4.500%	20,000 (1)
	July 21, 2010	5 years	4.000%	10,000 (1)
	July 21, 2010	5 years	4.000%	10,000
	August 2, 2010	5 years	4.000%	<u>10,000</u>
Total Individual:				125,000
Capital Pacific Bank:	August 25, 2010	5 year	4.200%	<u>59,000</u>
Total Loans:				<u>\$ 184,000</u>

(1) These loans were made by related parties (board members and the Executive Director).

12. RESTRICTED CASH

As of June 30, 2010, there was restricted cash of \$18,126 which was held in a bank account in the School's name. The money was contributed by individuals for the purpose of collateralizing future loans. The restriction was imposed by the donors, consisting of board members and other individuals.

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

SUPPLEMENTARY 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, 2010

REVENUES:	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
Local Sources	\$ 114,920	\$ 96,180	\$ 227,888	\$ 131,708
State Sources	562,390	608,300	634,624	26,324
Federal Sources	3,400	485,400	3,507	(481,893)
Total Revenues	<u>680,710</u>	<u>1,189,880</u>	<u>866,019</u>	<u>(323,861)</u>
 EXPENDITURES:				
Instruction	414,592	436,817	408,832	27,985
Support Services	249,563	253,063	240,088	12,975
Facility Acquisition and Construction	16,555	500,000	539,213	(39,213)
Total Expenditures	<u>680,710</u>	<u>1,189,880</u>	<u>1,188,133</u>	<u>1,747</u>
Net Change in Fund Balance	-	-	(322,114)	(322,114)
Beginning Fund Balance	-	-	397,719	397,719
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,605</u>	<u>\$ 75,605</u>

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

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

October 8, 2010

Independent Auditor's Report Required by Oregon State Regulations

We have audited the basic financial statements of the M.I.T.C.H. Charter School as of and for the year ended June 30, 2010, and have issued our report thereon dated October 8, 2010. 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 M.I.T.C.H. Charter School's financial statements are free of material misstatement, we performed tests of its 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 the M.I.T.C.H. Charter School, Oregon 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 internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the M.I.T.C.H. Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of internal control over financial reporting.

We noted matters involving the internal control structure and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, which are noted in our management letter dated October 8, 2010.

This report is intended solely for the information and use of the Board of Directors and management of M.I.T.C.H. Charter School 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.