

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

FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2014



**12700 SW 72nd Ave.
Tigard, OR 97223**

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

FINANCIAL REPORT

For the Year Ended June 30, 2014

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

2013-2014

BOARD OF DIRECTORS

Christa Griffiths, Chair

Jason Holland, Vice Chair

Wayne Laird, Treasurer

Andrew Vance, Secretary

Julie Bosket

Donna Capodacqua

Steve Burke

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

PAGE
NUMBER

Independent Auditors' Report 1

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis *i*

BASIC FINANCIAL STATEMENTS

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

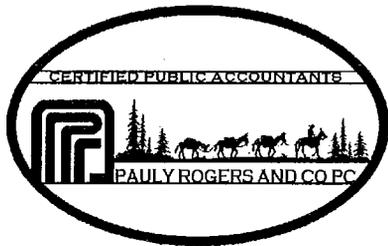
OTHER INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balance –
Governmental Fund – Budget and Actual 18

REPORTS ON LEGAL AND OTHER REGULATORY REQUIREMENTS

Independent Auditors' Report Required by Oregon State Regulations 19

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

Independent Auditor's Report

August 18, 2014

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, 2014, 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, 2014, 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.

Other Matters

Required Supplementary Information

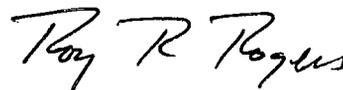
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting 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 listing of board members, located before the table of contents, and the other information, as listed in the table of contents, are not a required part of the basic financial statements and 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 August 18, 2014 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.



MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2014

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.mitchcharterschool.org

mitch@mitchcharterschool.org

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, 2014. 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 through 8 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:

	2014	2013	% Change
Assets			
Current and other assets	\$ 799,435	\$ 587,516	36.1%
Capital assets (net)	774,336	821,447	-5.7%
Total assets	<u>1,573,771</u>	<u>1,408,963</u>	11.7%
Liabilities			
Current and other liabilities	71,683	56,307	27.3%
Noncurrent liabilities (net)	9,827	27,240	-63.3%
Total liabilities	<u>81,510</u>	<u>83,547</u>	-2.2%
Net Position			
Net investment in capital assets	774,336	776,704	-0.3%
Restricted	32,255	32,180	0.2%
Unassigned	685,670	516,532	32.7%
Total net position	<u>\$ 1,492,261</u>	<u>\$ 1,325,416</u>	12.6%

- The School's financial position increased during the year ended June 30, 2014. Total assets increased \$164,808 from the prior year. Cash and Investments increased \$189,640, accounts receivable decreased \$505 and other current assets increased \$22,784. Capital assets, net of depreciation, decreased \$47,111 to a total of \$774,336. Cash increased as a result of revenues in excess of costs and collection of receivables, offset by debt repayment of \$17,233. Capital assets decreased due to depreciation of \$63,773 in excess of purchases of \$16,663 in the current year.
- Total liabilities decreased \$2,037. The \$17,059 payment of debt was offset by the increase in Deferred Revenue of \$12,237.

	2014	2013	% Change
Revenues			
Charges for Services	\$ 189,452	\$ 163,918	15.6%
Operating Grants / Contributions	35,810	31,360	14.2%
General Revenues	1,306,098	1,181,232	10.6%
Total Revenues	<u>1,531,360</u>	<u>1,376,510</u>	11.2%
Expenses			
Instruction	799,673	738,932	8.2%
Support Services	564,842	593,133	-4.8%
Total Expenses	<u>1,364,515</u>	<u>1,332,065</u>	2.4%
Change in Net Position	166,845	44,445	275.4%
Beginning Net Position	1,325,416	1,280,971	3.5%
Ending Net Position	<u>\$ 1,492,261</u>	<u>\$ 1,325,416</u>	12.6%

- Ending net position for the year was \$1,492,261, which is an increase from the prior year of \$166,845. Revenues come primarily from three major sources, state school funding, fundraising and contributions and extracurricular activities. State school funding revenues increased over the prior year by \$156,400 bringing the total to \$1,302,353. State School Funding increased, despite student population remaining the same at 245 students, due to increased student funding rates. Contributions for the year totaled \$35,810 of which \$20,031 were direct parent donations. Total extracurricular activities revenue was \$189,452, of which \$3,124 was from fundraising.

- Expenses totaled \$1,364,515 for the year, an increase of \$32,450 from the prior year, which was under budget. Total instruction increased by \$60,741 and total support services decreased by \$28,291.

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 \$156,060 more revenue than the final budget. The increased revenue over budget was due to State School Funding exceeded budget by \$66,582. The Extracurricular, Fundraising and Contributions were \$89,478 more than budgeted. 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 expended \$24,654 less than the approved final budget as all categories were under budgeted expenses. All expenses were under budget due to a school wide effort of managing expenses as well as conservative budgeting.

Please refer to the notes to the financial statements on pages 9-17 for a discussion of other issues related to the 2013-2014 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, Melissa Meyer, M.I.T.C.H. Charter School, 19550 SW 90th Court, Tualatin, OR 97062.

Sincerely,

Melissa Meyer,
School and Executive Director

Wayne Laird,
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 POSITION
June 30, 2014

ASSETS:

Current:

Cash	\$	708,380
Investments		32,255
Prepaid expenses		41,945
Other assets, current		674

Non-current:

Capital assets, net of depreciation		774,336
Other assets, non-current		16,181

Total Assets		<u>1,573,771</u>
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LIABILITIES:

Current:

Accounts payable		3,126
Payroll liabilities		21,874
Unearned revenue		28,827
Long term debt – due within one year		17,856

Long term:

Long term debt -- due in more than one year		<u>9,827</u>
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Total Liabilities		<u>81,510</u>
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NET POSITION:

Restricted		32,255
Net Investment in capital assets		774,336
Unrestricted		<u>685,670</u>

Total Net Position	\$	<u>1,492,261</u>
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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, 2014

FUNCTIONS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
Instruction	\$ 799,673	\$ 117,705	\$ 35,810	\$ (646,158)
Support Services	<u>564,842</u>	<u>71,747</u>	<u>-</u>	<u>(493,095)</u>
Total Governmental Activities	<u>\$ 1,364,515</u>	<u>\$ 189,452</u>	<u>\$ 35,810</u>	<u>(1,139,253)</u>
General Revenues				
State sources				1,302,354
Interest and investment earnings				2,063
Miscellaneous				<u>1,681</u>
Total General Revenues				<u>1,306,098</u>
Changes in Net Position				166,845
Net Position – Beginning				<u>1,325,416</u>
Net Position – Ending				<u>\$ 1,492,261</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, 2014

	<u>GENERAL FUND</u>
ASSETS:	
Cash	\$ 708,380
Investments	32,255
Prepaid Expenses	41,945
Other Assets	<u>674</u>
Total Assets	<u>\$ 783,254</u>
LIABILITIES AND FUND BALANCE:	
Liabilities:	
Accounts Payable	\$ 3,126
Payroll Liabilities	21,874
Unearned Revenue	<u>28,827</u>
Total Liabilities	<u>53,827</u>
Fund Balances:	
Nonspendable	42,619
Restricted	32,255
Unassigned	<u>654,553</u>
Total Fund Balances	<u>729,427</u>
Total Liabilities and Fund Balances	<u>\$ 783,254</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, 2014

Total Fund Balances – Governmental Fund \$ 729,427

The cost of capital assets (furniture and fixtures, machinery and equipment, and leasehold improvements), 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 774,336

Refundable rental deposits paid on a long-term lease contract, not receivable in the current period, are reported as an expenditure in the governmental fund. The Statement of Net Position includes those deposits among the assets of the School as a whole.

Other assets 16,181

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 (14,927)
Promissory notes (12,756)

Net Position \$ 1,492,261

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, 2014

	<u>GENERAL FUND</u>
REVENUES:	
Local sources	\$ 229,006
State sources	<u>1,302,354</u>
Total Revenues	<u>1,531,360</u>
EXPENDITURES:	
Instruction	793,557
Support services	523,365
Facilities acquisition and construction	16,663
Debt service	<u>17,060</u>
Total Expenditures	<u>1,350,645</u>
Net Change in Fund Balance	180,715
Beginning Fund Balance	<u>548,712</u>
Ending Fund Balance	<u><u>\$ 729,427</u></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, 2014

Total Net Changes in Fund Balances – Governmental Funds \$ 180,715

Payments for future services are reported in the governmental fund as expenditures. However, in the Statement of Activities and Changes in Net Position, the cost of that refundable deposit is recorded as an asset until the expiration of the lease.

Other assets 16,181

Capital outlays are reported in the governmental fund as expenditures. However, in the Statement of Activities and Changes in Net Position, 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 \$ 16,663
Depreciation expense (63,773)
(47,110)

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 17,059

Change in Net Position of Governmental Activities \$ 166,845

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. 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 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.

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 School 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

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 was a restricted net position of \$32,255 at June 30, 2014 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

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 are 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). There were restricted net funds of \$32,255 at June 30, 2014 representing amounts invested in CDs held as collateral for a bank loan.
- 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.

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BUDGETS (Continued)

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

LEVEL OF CONTROL

Instruction
Support Services
Facilities Acquisition and Construction
Debt Service

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. DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense / expenditure) until then. The School does not have any items that qualify for reporting in this category.

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

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. DEFERRED OUTFLOWS / INFLOWS OF RESOURCES (Continued)

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School does not have any items that qualify for reporting in this category.

H. 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 CASH EQUIVALENTS

Cash includes demand deposits held at financial institutions.

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 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, 2014, none of the bank balance was exposed to custodial credit risk.

3. INVESTMENTS

Policy is to follow state statutes governing cash management. Statutes authorize 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, 2014 consisted of Certificates of Deposit.

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

NOTES TO BASIC FINANCIAL STATEMENTS

3. INVESTMENTS (Continued)

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, 2014, investments held with financial institutions consisted of the following:

Certificates of Deposit	<u>\$ 32,255</u>
-------------------------	------------------

Certificate of deposit funds are restricted as collateral for the bank loan as detailed at Note 10.

4. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2014 are as follows:

	July 1, 2013	Additions	Deletions	June 30, 2014
Furniture and Fixtures	\$ 54,054	\$ 6,512	\$ -	\$ 60,566
Machinery and Equipment	134,875	10,150	-	145,025
Leasehold Improvements	887,004	-	-	887,004
 Total Assets	 1,075,933	 16,663	 -	 1,092,595
 Accumulated Depreciation				
Furniture & Fixtures	(22,225)	(5,381)	-	(27,606)
Machinery & Equipment	(109,438)	(9,760)	-	(119,198)
Leasehold Improvements	(122,823)	(48,632)	-	(171,455)
 Total Depreciation	 (254,486)	 (63,773)	 -	 (318,259)
 Net Capital Assets	 \$ 821,447			 \$ 774,336

Depreciation was allocated to Support Services.

5. PREPAID EXPENSES

Prepaid expenses of \$41,945 consisted of rent and insurance paid prior to June 30, 2014 for future expenses. These items will be expensed during the 2014-15 fiscal year.

6. OTHER ASSETS

Other assets of \$16,855 is primarily a security deposit held by the lessor for the leased building.

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

NOTES TO BASIC FINANCIAL STATEMENTS

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.

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, 2013 is 20.29% for OPSRP and 22.29% for PERS. Contributions to the plan for the years ending June 30, 2014, 2013, and 2012 were \$120,459, \$99,804, and \$101,067, 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. UNEARNED REVENUE

Unearned revenue consists of activity fees collected that are to be used during the 2014-15 fiscal year. Unearned revenue at June 30, 2014 was \$28,827.

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 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 currently \$12,901 per month plus utilities. The lease payments will increase 2% each year, ending at \$14,819 per month during the year ended June 30, 2020.

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

NOTES TO BASIC FINANCIAL STATEMENTS

9. LEASES (Continued)

Future minimum lease payments for all leases are as follows:

	<u>Property</u>	<u>Copier Lease</u>	<u>Total</u>
2014-15	\$ 185,079	\$ 2,812	\$ 187,891
2015-16	188,301	2,412	190,713
2016-17	191,573	402	191,975
2017-18	194,656	-	194,656
2018-19	198,341	-	198,341
Thereafter	33,394	-	33,394
	<u>\$ 991,346</u>	<u>\$ 5,626</u>	<u>\$ 996,972</u>

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 4.20% 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, 2013 Balance</u>	<u>Issued</u>	<u>Matured and Redeemed</u>	<u>June 30, 2014 Balance</u>
Loans:					
8/31/2010	4.20%	\$ 27,116	\$ -	\$ 12,189	\$ 14,927
Promissory Notes:					
7/21/2010	4.50%	12,879	-	2,813	10,066
7/21/2010	4.00%	4,747	-	2,057	2,690
		<u>\$ 44,742</u>	<u>\$ -</u>	<u>\$ 17,059</u>	<u>\$ 27,683</u>

Future requirements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014-15	\$ 17,856	\$ 836	\$ 18,692
2015-16	5,782	281	6,063
2016-17	3,218	128	3,346
2017-18	827	9	836
Total	<u>\$ 27,683</u>	<u>\$ 1,254</u>	<u>\$ 28,937</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

11. COMMITMENTS AND 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.

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. 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, 2010.

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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, 2014

REVENUES:	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
Local sources	\$ 139,528	\$ 139,528	\$ 229,006	\$ 89,478
State sources	1,235,772	1,235,772	1,302,354	66,582
Total Revenues	<u>1,375,300</u>	<u>1,375,300</u>	<u>1,531,360</u>	<u>156,060</u>
 EXPENDITURES:				
Instruction	845,566	845,566	\$793,557	\$52,009
Support services	504,043	504,043	523,365	(19,322)
Facility acquisition and construction	7,000	7,000	16,663	(9,663)
Debt service	18,691	18,691	17,060	1,631
Total Expenditures	<u>1,375,300</u>	<u>1,375,300</u>	<u>\$1,350,645</u>	<u>\$24,655</u>
Net Change in Fund Balance	-	-	180,715	180,715
Beginning Fund Balance	-	-	548,712	548,712
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 729,427</u>	<u>\$ 729,427</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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August 18, 2014

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, 2014, and have issued our report thereon dated August 18, 2014. 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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