

ART TECH CHARTER SCHOOL
(A COMPONENT UNIT OF WEST LINN-WILSONVILLE SCHOOL DISTRICT)
CLACKAMAS COUNTY, OREGON

FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2007



Pauly, Rogers and Co., P.C.
12700 SW 72nd Ave.
Tigard, OR 97223

ART TECH CHARTER SCHOOL
(A COMPONENT UNIT OF THE WEST LINN WILSONVILLE SCHOOL DISTRICT)
CLACKAMAS COUNTY, OREGON

FINANCIAL REPORT

For the Year Ended June 30, 2007

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ART TECH CHARTER SCHOOL
CLACKAMAS COUNTY, OREGON

2006-2007

BOARD OF DIRECTORS

Tamra Busch-Johnsen, Chair

Julia Williams

Dave Pagni

Karen Mitchell

Roger Woehl

Elissa Helligas

Board members receive mail at the address listed below.

ADMINISTRATION

Mike Tannenbaum – Executive Director
PO BOX 35
West Linn, OR 97068

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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

January 10, 2008

To the Board of Directors
Art Tech Charter School
Wilsonville, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited the basic financial statements of Art Tech Charter School, Wilsonville, Oregon (a component unit of the West Linn Wilsonville School District) as of June 30, 2007 as listed in the table of contents, pursuant to ORS 297.405 to 297.555, ORS 297.990 and ORS 338. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion 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 School's internal control 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Art Tech Charter School, Wilsonville, Oregon, as of June 30, 2007 and the results of its operations 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 the Government Accounting Standards Board. 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.

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ART TECH CHARTER SCHOOL MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of Art Tech Charter School's financial performance provides an overview of the School's financial activities for the fiscal years ended June 30, 2007. Please read it in conjunction with the School's Financial Statements, which follows this MD&A. The fiscal year 2006-07 was the second year of operation for the School. Comparative data will be provided in future years.

FINANCIAL HIGHLIGHTS

- At June 30, 2007, the School's assets exceeded its liabilities by \$5,997.

OVERVIEW OF THE FINANCIAL STATEMENTS

The School's annual report consists of a series of financial statements that show information for the School as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Assets and the Statement of Activities provides information about the activities of the School as a whole and presents a longer-term view of the School's finances. Our fund financial statements are included later in the financial report. For our governmental activities, these statements tell how we financed our services in the short-term as well as what remains for future spending. Fund statements also may give you some insights into the School's overall financial health. Fund financial statements also report the School's operations in more detail than the government-wide financial statements by providing information about the School's most significant fund, the general fund.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported in compliance with GASB 34. These statements present information on the School's finances in a manner similar to private sector businesses. One of the most important questions asked about the School is, "Is the School as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Assets and Statement of Activities report information on the School as a whole and its activities in a way that helps answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets shows the School's assets and liabilities, with the difference between the two reported as net assets. All capital assets and long-term liabilities, and general government functions, are shown in the Statement of Net Assets.

The Statement of Activities shows revenues, expenses, and the change in net assets for the School as a whole. Revenues and expenses attributable to specific functions are segregated from general revenues, to display the extent to which general revenues support each function.

FUND FINANCIAL STATEMENTS

Governmental funds account for the same functions as are reported as governmental activities in the government-wide financial statements. The governmental fund reporting focuses on how money flows in and out of funds and the balances left at year end that are available for spending. They are reported using the accounting method called "modified accrual" accounting, which measures cash and all other financial assets that can be readily converted to cash. This information is essential for preparation of and compliance with annual budgets. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations following the government statements. The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Comparative data for total assets, liabilities and net assets were as follows:

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Assets			
Current and other assets	\$ 26,991	\$ 7,414	264%
Capital assets (net)	-	7,079	-100%
Rental Deposit	5,437	5,437	0%
Total assets	<u>\$ 32,428</u>	<u>\$ 19,930</u>	63%
Liabilities			
Accounts Payable	-	760	-100%
Payroll Liabilities	26,431	13,208	100%
Total Liabilities	<u>\$ 26,431</u>	<u>\$ 13,968</u>	89%
Net Assets			
Net assets: unrestricted	5,997	5,962	1%
Total net assets	<u>\$ 5,997</u>	<u>\$ 5,962</u>	1%

The School's revenues and expenses were as follows:

	<u>2007</u>	<u>2006</u>	<u>Change</u>
General Revenues			
State Support	\$ 474,080	\$ 295,887	60%
Miscellaneous	16,412	71,700	-77%
Total Revenues	<u>\$ 490,492</u>	<u>\$ 367,587</u>	33%
Expenses			
Instruction	487,476	349,816	39%
Support Services	2,981	11,809	-75%
Total Expenses	<u>\$ 490,457</u>	<u>\$ 361,625</u>	36%
Change in Net Assets	35	5,962	-99%
Beginning Net Assets	5,962	-	
Ending Net Assets	<u>\$ 5,997</u>	<u>\$ 5,962</u>	1%

REQUESTS FOR INFORMATION

Our financial report is designed to provide our parents, teachers, students, investors and creditors with an overview of the School's finances. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to The West Linn-Wilsonville School District, P.O. BOX 35, West Linn, OR 97068.

Signed: Michael Terunuma

Title: Principal

Signed: R. L. Kneel

Title: Business Manager

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ART TECH CHARTER SCHOOL
CLACKAMAS COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

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ART TECH CHARTER SCHOOL
CLACKAMAS COUNTY, OREGON

STATEMENT OF NET ASSETS
June 30, 2007

ASSETS:

Cash and Investments	\$ 26,991
Rental Deposit	<u>5,437</u>
Total Assets	<u>32,428</u>

LIABILITIES:

Payroll Liabilities	<u>26,431</u>
Total Liabilities	<u>26,431</u>

NET ASSETS:

Unrestricted	<u>5,997</u>
Total Net Assets:	<u><u>\$ 5,997</u></u>

See accompanying notes to basic financial statements.

ART TECH CHARTER SCHOOL
CLACKAMAS COUNTY, OREGON

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

FUNCTIONS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
Instruction	\$ 487,476	\$ -	\$ -	\$ (487,476)
Support Services	2,981	-	-	(2,981)
Total Governmental Activities	<u>\$ 490,457</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(490,457)</u>
General Revenues				
State Support				474,080
Miscellaneous				<u>16,412</u>
Total General Revenues				<u>490,492</u>
Changes in Net Assets				35
Net Assets - Beginning				<u>5,962</u>
Net Assets - Ending				<u><u>\$ 5,997</u></u>

See accompanying notes to basic financial statements.

ART TECH CHARTER SCHOOL
CLACKAMAS COUNTY, OREGON

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2007

ASSETS:

Cash and Investments	\$ 26,991
	<hr/>
Total Assets	\$ 26,991
	<hr/> <hr/>

LIABILITIES AND FUND EQUITY:

Liabilities:

Payroll Liabilities	\$ 26,431
	<hr/>
Total Liabilities	26,431
	<hr/>

Fund Balances:

Unrestricted	560
	<hr/>
Total Liabilities and Fund Balances	\$ 26,991
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See accompanying notes to basic financial statements.

ART TECH CHARTER SCHOOL
CLACKAMAS COUNTY, OREGON

Reconciliation of the Governmental Fund
Balance Sheet to the Statement of Net Assets
at June 30, 2007

Total Fund Balances - Governmental Fund	\$ 560
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The security deposit on the commercial office lease is a current use of resources in the governmental funds, however in the government-wide statements this is a pre-paid, refundable item which the School will recover at the end of the lease.

5,437

Net Assets	<u>\$ 5,997</u>
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See accompanying notes to basic financial statements.

ART TECH CHARTER SCHOOL
CLACKAMAS COUNTY, OREGON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
- ACTUAL AND BUDGET -
For the Year Ended June 30, 2007

	GENERAL FUND			VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES:				
From Local Sources	\$ 117,297	\$ 117,297	\$ 16,412	\$ (100,885)
State Sources	415,798	415,798	474,080	58,282
Total Revenues	533,095	533,095	490,492	(42,603)
EXPENDITURES:				
Instruction				
Salaries			284,514	
Fringe Benefits			91,106	
Purchased Services			102,896	
Supplies and Materials			8,960	
Total Instruction	440,198	440,198	487,476	(47,278)
Support Services				
Purchased Services			2,981	
Supplies and Materials			-	
Total Support	4,200	4,200	2,981	1,219
Total Expenditures	444,398	444,398	490,457	(46,059)
Net Change in Fund Balance	88,697	88,697	35	(88,662)
Beginning Fund Balance	525	525	525	-
Ending Fund Balance	\$ 89,222	\$ 89,222	\$ 560	\$ (88,662)

See accompanying notes to basic financial statements

ART TECH CHARTER SCHOOL
CLACKAMAS 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, 2007

Total Net Changes in Fund Balances - Governmental Funds	\$ 35
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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.

Fixed Asset Purchases (Net of Purchases and Disposals)	<u>-</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ 35</u></u>
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See accompanying notes to basic financial statements.

ART TECH CHARTER SCHOOL
CLACKAMAS 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. Significant accounting policies are described below.

A. THE FINANCIAL REPORTING ENTITY

Art Tech Charter School is a non profit corporation governed by a six member board organized under provisions of Oregon Revised Statutes Chapter 338 for the purpose of operating a charter school. Accounting principles generally accepted in the United States of America require that these financial statements present Art Tech Charter School and all component units, if any. Component units, as established by the Governmental Accounting Standards Board (GASB) Statement 39, are separate entity's that are included in the School's reporting entity because of the significance of their operational or financial relationships with the School. All significant activities and Schools with which Art Tech Charter School exercises oversight responsibility have been considered for inclusion in the basic financial statements. There are no component units. Art Tech Charter School is a component unit of the West Linn Wilsonville School District because even though they are separate legal entities, Art Tech Charter School operates under authority of the West Linn Wilsonville School District who exercises oversight as required by Oregon law.

The School was organized under provisions of Oregon Revised Statutes Chapter 338 for the purpose of operating a charter school.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS (GWFS)

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

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

FUND FINANCIAL STATEMENTS

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

ART TECH CHARTER SCHOOL
CLACKAMAS 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.

Financial operations are accounted for in the following major governmental fund:

GENERAL FUND

This fund accounts for all financial resources and expenditures. The principal revenue sources are payments of state school support from West Linn Wilsonville School District.

GRANTS

Unreimbursed expenditures due from grantor agencies are reflected in the basic 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 were no restricted net assets at June 30, 2007.

Invested in capital assets, net of related debt – consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. There were no capital assets at June 30, 2007.

ART TECH CHARTER SCHOOL
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

C. BUDGETS

A budget is prepared 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.

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

LEVEL OF CONTROL

Instruction
Support Services
Enterprise and Community Services
Facilities Acquisition and Construction
Other Uses
Contingencies

Expenditures were within budgeted amounts except as noted on page 9.

D. CAPITAL ASSETS

Capital assets, which include equipment, are reported in the government wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000. 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. There were no capital assets in excess of \$5,000.

F. SALARIES AND RETIREMENT PLANS

Substantially all of the 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 effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ART TECH CHARTER SCHOOL
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. CASH AND CASH EQUIVALENTS

DEPOSITS

Deposits are with one financial institution and are comprised of bank demand deposits. The total bank balances per the bank statements were \$26,991. Of these deposits, all were covered by federal depository insurance. For deposits in excess of federal depository insurance, Oregon Revised Statutes require the depositor institution to maintain on deposit with the collateral pool manager securities having a value not less than 25% of the outstanding certificates of participation issued by the pool manager. All bank balances in excess of federal depository insurance, if any, are collateralized by securities held by an entity other than the financial institution as an agent of the bank. This collateral is held in the name of the bank(s).

INVESTMENTS

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

Cash and cash equivalents consisted of:

Equity in Pooled District Cash	\$ 26,991
	<u>\$ 26,991</u>

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 CREDIT RISK

At June 30, 2007, there were no investments.

3. RISK MANAGEMENT

The School is exposed 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.

ART TECH CHARTER SCHOOL
CLACKAMAS COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. RETIREMENT PLANS

Plan Description

Contributions are made to the Oregon Public Employees Retirement Fund (OPERF), a cost-sharing multiple-employer defined benefit pension plan administered by the Oregon Public Employees Retirement System (PERS). PERS provides retirement and disability benefits, post employment health care benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

PERS is administered under Oregon Revised Statute (ORS) Chapter 238. ORS 238.620 establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report can be obtained by writing to PERS, P.O. Box 23700, Tigard, OR 97281-3700 or by calling 1-503-598-7377.

Members of PERS are required to contribute 6% of their salary covered under the plan. The School is required by ORS 238.225 to contribute at an actuarially determined rate. The rate effective July 1, 2006 is 7.17% of salary covered under the plan for Tier 1 and Tier 2 employees and 2.39% for employees covered under the Oregon Public Services Retirement Plan (OPSRP). The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature. The contributions to PERS for the years ended June 30, 2007 and 2006 were approximately \$26,363 and \$16,310, equal to the required contributions for each year.

5. OPERATING LEASE

A lease agreement has been entered into with Village-Phase I, LLC for the use of a portion of their commercial building. The lease has a five year term, which started on May 11, 2005 and included a refundable deposit of \$5,437. The monthly lease payment is \$4,831. The lease payment obligation in future years is as follows:

FUTURE MINIMUM LEASE PAYMENTS

2007-2008	\$ 57,970
2008-2009	57,970
2009-2010	<u>53,139</u>
Total	<u>\$ 169,079</u>

6. COMMITMENTS AND CONTINGENCIES

The School receives a substantial portion of its operating funding from the State of Oregon. 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, which then flow through to the School. 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 the School's operations can not be determined.

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ART TECH CHARTER SCHOOL
CLACKAMAS COUNTY, OREGON

AUDITORS' COMMENTS AND DISCLOSURES

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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

January 10, 2008

2006-07 AUDITORS' COMMENTS AND DISCLOSURES

Oregon Administrative Rules 162-10-000 through 162-16-000 of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required statements and schedules are set forth in preceding pages of this report. Required comments and disclosures related to our audit of such statements and schedules are set forth as follows:

REPORT ON INTERNAL ACCOUNTING CONTROL

We have audited the basic financial statements of Art Tech Charter School, Wilsonville, Oregon, as of and for the year ended June 30, 2007 and have issued our report thereon dated January 10, 2008.

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 basic financial statements are free of material misstatement.

The management of Art Tech Charter School, Wilsonville, Oregon, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of basic financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of Art Tech Charter School, Wilsonville, Oregon, for the year ended June 30, 2007, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

ART TECH CHARTER SCHOOL
2006-07 AUDITORS' COMMENTS AND DISCLOSURES

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. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

The significant deficiencies noted are contained in our management letter dated January 10, 2008.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not consider any of the significant deficiencies noted to be material weaknesses.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses as defined above.

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all the phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

This report is intended solely for the information and use of management and the State of Oregon, Secretary of State, Division of Audits and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

ACCOUNTING RECORDS

The accounting records are adequate for audit.

BUDGET TRANSACTIONS

Not applicable under ORS 338.

2006 - 2007 AND 2007 - 2008 BUDGETS

Not applicable under ORS 338.

INVESTMENTS

There were no investments during the year.

PUBLIC CONTRACTS AND PURCHASING

Not applicable under ORS 338.

ART TECH CHARTER SCHOOL
2006-07 AUDITORS' COMMENTS AND DISCLOSURES

INSURANCE AND FIDELITY BONDS

Details concerning insurance and fidelity bond coverage were reviewed during the audit. The coverage provided appears to meet legal requirements. We do not have the professional expertise to state whether the insurance coverage is adequate.

STATUTORY BONDED DEBT LIMITATION

Not applicable under ORS 338. There is no bonded debt.

COLLATERAL SECURING BANK DEPOSITS

Based on our testing, there appeared to be compliance with the legal requirements related to the amount and adequacy of collateral pledged by depositories to secure the funds.

STATE HIGHWAY

There were no programs funded from state highway funds during the year ended June 30, 2007.

OUTSTANDING WARRANTS

Not applicable under ORS 338.

PROGRAMS FUNDED FROM OUTSIDE SOURCES

We reviewed and tested, to the extent we considered necessary in the circumstances, transactions and reports relative to federal and state grant programs. Since less than \$500,000 in federal financial assistance was expended for the year ended June 30, 2007, it was not necessary to perform, nor did we perform, tests in accordance with the Federal Single Audit Act, as amended (U.S. Office of Management and Budget Circular A-133).

STATE ACADEMY FUND DISTRIBUTION INFORMATION

We did not perform the procedures recommended by the Oregon Secretary of State, Audits Division, regarding the compliance with the requirements of ORS 327.013 as further defined by the Oregon State Department of Education pertaining to the School's calculation and reporting of the factors used to compute the State School Fund distribution for the year ended June 30, 2007 since all such information is accounted for by the West Linn Wilsonville School District and such information can be found in their audit report.

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

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