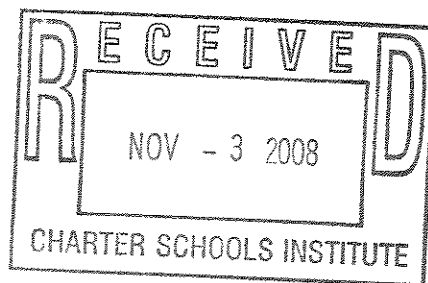


ORACLE CHARTER SCHOOL
FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION

June 30, 2008



 **Lumsden &
McCormick, LLP**
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Oracle Charter School
Buffalo, New York

We have audited the accompanying balance sheets of Oracle Charter School (the School) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 the School as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2008 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.



October 28, 2008

ORACLE CHARTER SCHOOL

Balance Sheets

June 30,	2008	2007
Assets		
Current assets:		
Cash	\$ 78,230	\$ 56,860
Grants and other receivables (Note 2)	269,517	338,894
Prepaid expenses	18,551	13,451
	<u>366,298</u>	<u>409,205</u>
Property and equipment, net (Note 3)	831,392	862,991
	<u>\$ 1,197,690</u>	<u>\$ 1,272,196</u>
Liabilities and Net Assets		
Current liabilities:		
Short-term borrowings (Note 4)	\$ 100,000	\$ -
Current portion of long-term debt (Note 5)	1,957	-
Accounts payable	86,074	69,092
Accrued expenses	219,885	177,394
Deferred revenue	640	660
	<u>408,556</u>	<u>247,146</u>
Long-term debt (Note 5)	9,652	-
Net assets- unrestricted	<u>779,482</u>	<u>1,025,050</u>
	<u>\$ 1,197,690</u>	<u>\$ 1,272,196</u>

See accompanying notes.

ORACLE CHARTER SCHOOL

Statements of Activities

For the years ended June 30,	2008	2007
Changes in unrestricted net assets:		
Support and revenue:		
Public school districts:		
Revenue - resident student enrollment	\$ 2,472,021	\$ 2,300,324
Revenue - students with disabilities	167,569	200,105
Federal grants	155,917	98,329
State grants	112,859	309,379
Contributions	-	200
Interest and other income	102,566	51,738
Total support and revenue	<u>3,010,932</u>	<u>2,960,075</u>
Expenses:		
Program expenses:		
Regular education	2,378,136	1,711,332
Special education	135,005	137,959
Other program	184,899	157,256
Supporting services:		
Management and general	558,460	572,129
Total expenses	<u>3,256,500</u>	<u>2,578,676</u>
Increase (decrease) in net assets	(245,568)	381,399
Net assets - beginning	<u>1,025,050</u>	<u>643,651</u>
Net assets - ending	<u>\$ 779,482</u>	<u>\$ 1,025,050</u>

ORACLE CHARTER SCHOOL

Statements of Cash Flows

For the years ended June 30,	2008	2007
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (245,568)	\$ 381,399
Adjustments to reconcile increase (decrease) in net assets to net cash flows from operating activities:		
Depreciation	121,369	99,966
Changes in other operating assets and liabilities:		
Grants and other receivables	69,377	(4,155)
Prepaid expenses	(5,100)	(4,910)
Accounts payable	16,982	(75,612)
Accrued expenses	42,491	114,176
Deferred revenue	(20)	152
Net cash flows from (for) operating activities	(469)	511,016
Cash flows for investing activities:		
Property and equipment expenditures	(89,770)	(365,788)
Cash flows from financing activities:		
Net proceeds from (payments on) short-term borrowings	100,000	(99,000)
Proceeds from long-term debt	12,447	-
Payments on long-term debt	(838)	-
Net cash flows from (for) financing activities	111,609	(99,000)
Net increase in cash	21,370	46,228
Cash - beginning	56,860	10,632
Cash - ending	\$ 78,230	\$ 56,860

See accompanying notes.

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Organization and Purpose:

Oracle Charter School (the School) operates a charter school in the City of Buffalo, New York (the City) approved by the Charter School Institute of the State University of New York. The School currently offers classes from seventh grade through eleventh grade, and plans to add one grade per year until twelfth grade is reached. The School has been chartered through June 2009 and continued operations are contingent upon approval of its charter renewal.

Cash:

Cash in financial institutions potentially subjects the School to concentrations of credit risk, since it may exceed insured limits at various times throughout the year.

Accounts Receivable:

Accounts receivable are stated at the amounts management expects to collect from outstanding balances. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to bad debts expense and a credit to accounts receivable. An allowance for doubtful accounts is considered unnecessary by management because all significant amounts deemed uncollectible are written off each year.

Property and Equipment:

Property and equipment is stated at cost net of accumulated depreciation. Depreciation is provided over estimated asset service lives. Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

Deferred Revenue:

Certain grant awards are recognized as exchange transactions and are reflected in the accompanying financial statements as deferred revenue until related services are performed.

Enrollment Fees:

The School is reimbursed based on the approved operating expense per pupil of the public school district in which the pupil resides. The amount received each year from the resident district is the product of the approved operating expense per pupil and the full time equivalent enrollment of the students in the Charter School residing in the district. The School's enrollment fees are received primarily from the City.

Fees and Grants:

The School is the recipient of awards and reimbursements from federal, state and local sources. The awards and reimbursements are subject to compliance and financial audits by the funding source. Management believes no significant adjustments are necessary to recognized amounts.

Income Taxes:

The School is a 501(c)(3) organization exempt from taxation under Section 501(a) of the Internal Revenue Code.

Use of 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cost Allocation:

The School's costs of providing its various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

2. Grants and Other Receivables:

	2008	2007
Grants	\$ 154,134	\$ 194,107
Resident student enrollment	111,655	140,111
Other	3,728	4,676
	<u>\$ 269,517</u>	<u>\$ 338,894</u>

3. Property and Equipment:

	2008	2007
Building improvements	\$ 661,127	\$ 630,723
Instructional equipment	366,758	331,231
Office equipment	77,879	54,040
	<u>1,105,764</u>	<u>1,015,994</u>
Less accumulated depreciation	274,372	153,003
	<u>\$ 831,392</u>	<u>\$ 862,991</u>

4. Short-Term Borrowings:

The School has available a \$200,000 unsecured bank demand line of credit with interest payable at prime plus .75%. The line is annually reviewed and renewed. Amounts outstanding under this line totaled \$100,000 and \$0 at June 30, 2008 and 2007.

5. Long-Term Debt:

	2008	2007
Equipment loan, monthly installments of \$258 including interest at 9%, secured by related equipment, due February 2013.	\$ 11,609	\$ -
	<u>11,609</u>	<u>-</u>
Less current portion	1,957	-
	<u>\$ 9,652</u>	<u>\$ -</u>

Aggregate maturities on long-term debt subsequent to June 30, 2008 are:

2009	\$ 1,957
2010	2,326
2011	2,544
2012	2,783
2013	1,999
	<u>\$ 11,609</u>

6. Pension Plan:

The School has a contributory defined contribution pension plan covering substantially all employees. The School contributes a percentage of covered employees' salaries to the plan, subject to certain limitations. The School's pension expense was \$45,300 and \$33,200 for the years ended June 30, 2008 and 2007.

7. Operating Lease:

The School leases property under the terms of a non-cancelable operating lease. Rental expense was \$325,000 and \$289,997 for the years ended June 30, 2008 and 2007.

The School has entered into various agreements with the building owner, a company related to the School through common management, and the developer of the School building. Pursuant to such agreements, the School's rent is an amount equivalent to the debt service on borrowings incurred by the building owner at rates ranging from 7% - 20%. The agreement also provides for the building owner to pay a developer fee of \$267,352, as well as incur additional debt in future years relative to building renovations in conjunction with the School's expected increase in enrollment.

Future minimum lease rentals to be paid to the building owner, based on debt at June 30, 2008, are:

2009	\$ 319,000
2010	369,000
2011	324,000
2012	316,000
2013	316,000
Thereafter	<u>2,211,169</u>
	<u>\$ 3,855,169</u>

8. Related Party Transactions:

The School operates in a building owned by a 501(c)(3) nonprofit organization, Oracle Building Corporation (the building owner), which is related to the School through common management and Trustees. The School has a lease agreement with the building owner (note 7). The building owner entered into an agreement with the developer, KBSD, LLP (KBSD), who holds a mortgage on the building. KBSD is also a related party, as a Trustee of the School has a direct ownership interest in KBSD. In addition to the lease payments paid directly to KBSD as described in note 7, the School received \$63,799 from KBSD in 2008, which may be used for building renovations, other capital expenditures or operating expenses of the School.

Summarized financial data of Oracle Building Corp as of and for the years ended June 30, 2008 and 2007 is as follows:

	2008	2007
Assets	<u>\$ 1,060,698</u>	<u>\$ 1,096,023</u>
Liabilities	<u>\$ 1,178,382</u>	<u>\$ 1,136,201</u>
Net assets	<u>\$ (117,684)</u>	<u>\$ (40,178)</u>
Revenues	<u>\$ 325,000</u>	<u>\$ 289,997</u>
Expenses	<u>\$ 402,506</u>	<u>\$ 306,521</u>
Change in net assets	<u>\$ (77,506)</u>	<u>\$ (16,524)</u>

**INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION**

The Board of Trustees
Oracle Charter School
Buffalo, New York

Our report on our audits of the basic financial statements of Oracle Charter School for 2008 and 2007 appears on page 1. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on page 9 is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Lumsden & McCormick, LLP

October 28, 2008

ORACLE CHARTER SCHOOL

**Additional Information
Schedule of Expenses**

For the year ended June 30, 2008 (with comparative totals for 2007)

	Program Services			Supporting Services	2008 Total	2007 Total
	Regular Education	Special Education	Other Program	Management and General		
Salaries	\$ 1,320,656	\$ 78,968	\$ 108,152	\$ 208,922	1,716,698	\$ 1,291,735
Employee benefits and taxes	254,550	15,221	20,846	40,269	330,886	214,247
Advertising	-	-	-	6,043	6,043	10,545
Contracted services	-	-	-	52,273	52,273	25,576
Dues and subscriptions	5,940	355	486	940	7,721	2,886
Insurance	-	-	-	39,446	39,446	34,499
Interest	1,993	119	163	315	2,590	1,806
Occupancy	305,605	18,274	25,027	48,345	397,251	373,187
Postage	-	-	-	4,702	4,702	5,603
Student activities	8,500	-	-	-	8,500	38,598
Printing	4,449	266	364	704	5,783	5,450
Supplies and materials	53,946	1,009	1,383	2,671	59,009	48,460
Office expense	9,125	546	747	1,443	11,861	13,609
Other expenses	7,265	434	595	1,149	9,443	12,371
Payroll processing	1,168	70	96	185	1,519	1,146
Professional fees	-	-	-	98,818	98,818	69,428
Repairs and maintenance	70,830	4,235	5,800	11,205	92,070	100,218
Staff development	51,954	3,107	4,255	8,219	67,535	35,429
Telephone	19,022	1,137	1,558	3,009	24,726	10,645
Textbooks	74,752	-	-	-	74,752	62,882
Travel	9,265	554	759	1,466	12,044	16,218
Utilities	85,747	5,127	7,022	13,565	111,461	104,172
	2,284,767	129,422	177,253	543,689	3,135,131	2,478,710
Depreciation	93,369	5,583	7,646	14,771	121,369	99,966
Total	\$ 2,378,136	\$ 135,005	\$ 184,899	\$ 558,460	\$ 3,256,500	\$ 2,578,676

See auditors' report on additional information.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

The Board of Trustees
Oracle Charter School
Buffalo, New York

We have audited the financial statements of Oracle Charter School (the School) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement 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. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, New York State Department of Education, federal awarding agencies and pass-through entities. It is not intended to be and should not be used by anyone other than these specified parties.



October 28, 2008