



# Oracle Charter School

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oraclecharterschool.org

October 20, 2009

Mr. David Hruby  
Associate Vice President of Finance  
Charter Schools Institute  
State University of New York  
41 State Street, Suite 700  
Albany, NY 12207

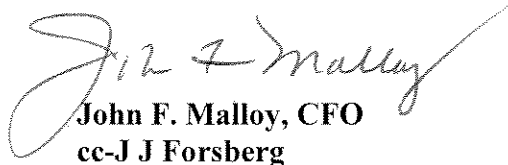
Re: Annual Audit Reports

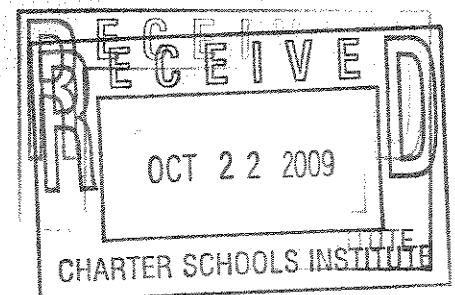
Dear Mr. Hruby:

Enclosed are our audit reports for the year ended June 30, 2009 and the related pieces of correspondence.

Please let me know if you have any questions regarding same.

Very truly yours,

  
John F. Malloy, CFO  
cc-J J Forsberg



October 5, 2009

The Board of Trustees  
Oracle Charter School  
Buffalo, New York

In planning and performing our audit of the financial statements of Oracle Charter School (the School) as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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 was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. In addition, because of inherent limitation in any internal control, errors or fraud may occur and not be detected by such controls.

#### **OTHER COMMENTS AND MATTERS**

##### **Segregation of Duties**

Consistent with other organizations of similar size, certain accounting functions have limited segregation of duties due to small staff size. While this weakness is mitigated by active Board oversight, we recommend management consider opportunities to document and strengthen internal controls. Specifically, we suggest management consider:

- Have the front office staff that opens mail make a listing of all checks received prior to forwarding to the accounting staff.

- Have an individual outside of the accounting function with appropriate authority receive the unopened bank statements and compare activity against the listing of checks received for unusual activity.
- Implement procedures to review and document approval of the monthly bank reconciliations.
- Implement procedures to review and document approval of payroll registers prior to distribution of paychecks.

As the School grows, we recommend a periodic review of accounting procedures to incorporate other separation of related duties to the extent possible based on available personnel.

**Expense Reports**

During our testing, we noted that the Head of School's expense reports were approved by the Administrative Manager. We recommend that an individual who does not report to the Head of School, such as a board member, approve the Head of School's expense reports.

**Approved Vendor List**

We recommend the School maintain an approved vendor list to mitigate the risk of payments to fictitious vendors.

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This communication is intended solely for the information and use of the Board of Trustees, management and others within the School, and is not intended to be and should not be used by anyone other than these specified parties.



October 5, 2009

The Finance Committee  
Oracle Charter School  
Buffalo, New York

We have audited the financial statements of the Oracle Charter School (the School) for the year ended June 30, 2009 and have issued our report thereon dated. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated June 24, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

#### *Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Useful lives of property and equipment.
- Allocation of certain expenses.

Management's process for determining the above estimates is based on firm concepts and reasonable assumptions of future events. We evaluated these key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

*Footnote Disclosures*

The disclosures in the financial statements are neutral, consistent, and clear. We evaluated the disclosures in relation to the financial statements as a whole and determined that they are reasonable.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We made no adjustments as a result of our auditing procedures.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated October 5, 2009.

**Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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This information is intended solely for the use of The Finance Committee and management of Oracle Charter School and is not intended to be and should not be used by anyone other than these specified parties.





## Oracle Charter School

888 Delaware Avenue  
Buffalo, NY 14209  
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oraclecharterschool.org

October 27, 2009

The Board of Trustees  
Oracle Charter School  
Buffalo, New York

Re: Response to Management Letter of Lumsden & McCormick, LLP

We have reviewed the comments of our auditors in their letter dated October 5, 2009 and provide the following:

### Segregation of Duties

- The front office personnel will record checks as they are received before forwarding same to the accounting office.
- The front office personnel will open the bank statements and compare the activity to the check listing they had prepared.
- The CFO will continue to prepare the bank reconciliation but it will be reviewed by the Administrative Manager.
- The Administrative Manager will approve the payroll register worksheet prior to the submission of the payroll to the computer service bureau and compare same to the payroll register when checks are received.

### Expense Reports

The expense reports of the Head of School will be approved either by the Board Chairman or Treasurer.

### Approved Vendor List

An approved Vendor List will be provided to the Board Treasurer for his review and approval each Month.

Respectfully submitted,

  
John F. Malloy, CFO

ORACLE CHARTER SCHOOL  
FINANCIAL STATEMENTS  
WITH ADDITIONAL INFORMATION

June 30, 2009

**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, 2009 and 2008, 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, 2009 and 2008, 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 5, 2009 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 5, 2009

ORACLE CHARTER SCHOOL

**Balance Sheets**

June 30,	2009	2008
<b>Assets</b>		
Current assets:		
Cash	\$ 330,329	\$ 78,230
Grants and other receivables (Note 2)	86,740	269,517
Inventory	11,086	-
Prepaid expenses	73,630	18,551
	<u>501,785</u>	<u>366,298</u>
Property and equipment, net (Note 3)	814,223	831,392
	<u>\$ 1,316,008</u>	<u>\$ 1,197,690</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Short-term borrowings (Note 4)	\$ -	\$ 100,000
Current portion of long-term debt (Note 5)	2,326	1,957
Accounts payable	18,869	86,074
Accrued expenses	336,341	219,885
Deferred revenue	-	640
	<u>357,536</u>	<u>408,556</u>
Long-term debt (Note 5)	7,327	9,652
Net assets- unrestricted	<u>951,145</u>	<u>779,482</u>
	<u>\$ 1,316,008</u>	<u>\$ 1,197,690</u>

See accompanying notes.

ORACLE CHARTER SCHOOL

**Statements of Activities**

For the years ended June 30,	2009	2008
<b>Changes in unrestricted net assets:</b>		
Support and revenue:		
Public school districts:		
Revenue - resident student enrollment	\$ 3,407,881	\$ 2,472,021
Revenue - students with disabilities	257,476	167,569
Federal grants	255,770	155,917
State grants	-	112,859
Interest and other income	47,647	102,566
	<u>3,968,774</u>	<u>3,010,932</u>
<b>Expenses:</b>		
Program expenses:		
Regular education	2,474,790	2,378,136
Special education	181,710	135,005
Other program	226,394	184,899
Supporting services:		
Management and general	914,217	558,460
Total expenses	<u>3,797,111</u>	<u>3,256,500</u>
Increase (decrease) in net assets	171,663	(245,568)
Net assets - beginning	<u>779,482</u>	<u>1,025,050</u>
Net assets - ending	<u>\$ 951,145</u>	<u>\$ 779,482</u>

ORACLE CHARTER SCHOOL

**Statements of Cash Flows**

For the years ended June 30,	2009	2008
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets	\$ 171,663	\$ (245,568)
Adjustments to reconcile increase (decrease) in net assets to net cash flows from operating activities:		
Depreciation	134,292	121,369
Changes in other operating assets and liabilities:		
Grants and other receivables	182,777	69,377
Inventory	(11,086)	-
Prepaid expenses	(55,079)	(5,100)
Accounts payable	(67,205)	16,982
Accrued expenses	116,456	42,491
Deferred revenue	(640)	(20)
<b>Net cash flows from (for) operating activities</b>	<b>471,178</b>	<b>(469)</b>
<b>Cash flows for investing activities:</b>		
Property and equipment expenditures	(117,123)	(89,770)
<b>Cash flows from financing activities:</b>		
Net proceeds from (payments on) short-term borrowings	(100,000)	100,000
Proceeds from long-term debt	-	12,447
Payments on long-term debt	(1,956)	(838)
<b>Net cash flows from (for) financing activities</b>	<b>(101,956)</b>	<b>111,609</b>
<b>Net increase in cash</b>	<b>252,099</b>	<b>21,370</b>
Cash - beginning	78,230	56,860
<b>Cash - ending</b>	<b>\$ 330,329</b>	<b>\$ 78,230</b>

See accompanying notes.

**Notes to Financial Statements**

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**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 eighth through twelfth grade. The School has been chartered through July 2010 and continued operations are contingent upon approval of its charter renewal.

**Subsequent Events:**

The School has evaluated events and transactions for potential recognition or disclosure in the financial statements through Oct 5, 2009 (the date the financial statements were available to be issued).

**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.

The School believes it is subject to examination by Federal and State taxing authorities for all years since its inception (2005).

**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.

ORACLE CHARTER SCHOOL

**Additional Information**  
**Schedule of Expenses**

For the year ended June 30, 2009 (with comparative totals for 2008)

	Program Services			Supporting	2009	2008
	Regular Education	Special Education	Other Program	Management and General		
Salaries	\$ 1,345,815	\$ 101,006	\$ 124,710	\$ 433,030	\$ 2,004,561	\$ 1,716,698
Employee benefits and taxes	307,178	22,890	28,841	98,882	457,791	330,886
Advertising	-	-	-	15,199	15,199	6,043
Contracted services	72,886	5,431	6,843	23,463	108,623	52,273
Dues and subscriptions	4,978	371	467	1,602	7,418	7,721
Insurance	-	-	-	38,544	38,544	39,446
Interest	1,995	149	187	642	2,973	2,590
Occupancy	251,625	18,750	23,625	81,000	375,000	397,251
Postage	6,467	482	607	2,082	9,638	4,702
Student activities	34,950	-	-	-	34,950	8,500
Printing	1,143	85	107	368	1,703	5,783
Supplies and materials	95,284	7,100	8,946	30,673	142,003	59,009
Office expense	22,001	1,639	2,066	7,082	32,788	11,861
Other expenses	16,250	1,211	1,526	5,230	24,217	9,443
Payroll processing	1,313	98	123	423	1,957	1,519
Professional fees	-	-	-	78,806	78,806	98,818
Repairs and maintenance	57,514	4,286	5,400	18,514	85,714	92,070
Staff development	65,025	4,845	6,105	20,933	96,908	67,535
Telephone	11,267	840	1,058	3,627	16,792	24,726
Textbooks	10,988	-	-	-	10,988	74,752
Travel	10,485	781	984	3,376	15,626	12,044
Utilities	67,516	5,031	6,339	21,734	100,620	111,461
	2,384,680	174,995	217,934	885,210	3,662,819	3,135,131
Depreciation	90,110	6,715	8,460	29,007	134,292	121,369
Total	\$ 2,474,790	\$ 181,710	\$ 226,394	\$ 914,217	\$ 3,797,111	\$ 3,256,500

**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, 2009, and have issued our report thereon dated October 5, 2009. 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.

A handwritten signature in cursive script that reads "Lunden & McCormick, LLP".

October 5, 2009