

**ORACLE CHARTER SCHOOL
FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION**

June 30, 2010

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Oracle Charter School

We have audited the accompanying balance sheets of Oracle Charter School (the School) as of June 30, 2010 and 2009, 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, 2010 and 2009, 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 20, 2010 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 20, 2010

ORACLE CHARTER SCHOOL

Balance Sheets

June 30,	2010	2009
Assets		
Current assets:		
Cash	\$ 510,273	\$ 330,329
Grants and other receivables (Note 2)	86,989	86,740
Inventory	8,272	11,086
Prepaid expenses	42,864	73,630
	<u>648,398</u>	<u>501,785</u>
Property and equipment, net (Note 3)	<u>865,127</u>	<u>814,223</u>
	<u>\$ 1,513,525</u>	<u>\$ 1,316,008</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 17,592	\$ 1,957
Accounts payable	17,285	18,869
Accrued expenses	313,550	336,341
	<u>348,427</u>	<u>357,167</u>
Long-term debt (Note 5)	61,213	7,696
Net assets:		
Unrestricted	995,902	951,145
Temporarily restricted	107,983	-
	<u>1,103,885</u>	<u>951,145</u>
	<u>\$ 1,513,525</u>	<u>\$ 1,316,008</u>

See accompanying notes.

Statements of Activities

For the years ended June 30,	2010	2009
Changes in unrestricted net assets:		
Support and revenue:		
Public school districts:		
Revenue - resident student enrollment	\$ 3,491,418	\$ 3,407,881
Revenue - students with disabilities	343,144	257,476
Federal grants	351,902	255,770
Interest and other income	10,734	47,647
Net assets released from restrictions	4,517	-
	<u>4,201,715</u>	<u>3,968,774</u>
Total support and revenue		
Expenses:		
Program expenses:		
Regular education	2,339,344	2,474,790
Special education	246,546	181,710
Other program	625,079	226,394
Supporting services:		
Management and general	945,989	914,217
Total expenses	<u>4,156,958</u>	<u>3,797,111</u>
Change in unrestricted net assets	44,757	171,663
Changes in temporarily restricted net assets:		
Contributions	112,500	-
Net assets released from restrictions	(4,517)	-
Change in temporarily restricted net assets	<u>107,983</u>	<u>-</u>
Change in net assets	152,740	171,663
Net assets - beginning	<u>951,145</u>	<u>779,482</u>
Net assets - ending	<u>\$ 1,103,885</u>	<u>\$ 951,145</u>

Statements of Cash Flows

For the years ended June 30,	2010	2009
Operating activities:		
Change in net assets	\$ 152,740	\$ 171,663
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	146,529	134,292
Changes in other operating assets and liabilities:		
Grants and other receivables	(249)	182,777
Inventory	2,814	(11,086)
Prepaid expenses	30,766	(55,079)
Accounts payable	(1,584)	(67,205)
Accrued expenses	(22,791)	116,456
Deferred revenue	-	(640)
Contributions restricted for long-term purposes	(112,500)	-
Net operating activities	195,725	471,178
Investing activities:		
Property and equipment expenditures	(122,193)	(117,123)
Financing activities:		
Net payments on short-term borrowings	-	(100,000)
Payments on long-term debt	(6,088)	(1,956)
Proceeds from contributions restricted for long-term purposes	112,500	-
Net financing activities	106,412	(101,956)
Net change in cash	179,944	252,099
Cash - beginning	330,329	78,230
Cash - ending	\$ 510,273	\$ 330,329

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 eighth through twelfth grade. The School has been chartered through July 2014 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 October 20, 2010 (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.

Restricted Net Assets:

Temporarily restricted net assets are those whose use by the School has been limited by donors to a specific time period or purpose. Temporarily restricted net assets at June 30, 2010 are restricted for building restoration.

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.

Contributions:

Contributions are reported at fair value at the date the contribution is made. Contributions are recorded as restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same reporting period are shown as unrestricted support.

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 no longer subject to examination by Federal and State taxing authorities for years prior to 2007.

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 statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

2. Grants and Other Receivables:

	2010	2009
Grants	\$ 59,835	\$ 82,980
Related party (Note 8)	9,542	-
Other	17,612	3,760
	<u>\$ 86,989</u>	<u>\$ 86,740</u>

3. Property and Equipment:

	2010	2009
Building improvements	\$ 786,192	\$ 739,364
Instructional equipment	431,750	382,888
Office equipment	202,378	100,635
	<u>1,420,320</u>	<u>1,222,887</u>
Less accumulated depreciation	555,193	408,664
	<u>\$ 865,127</u>	<u>\$ 814,223</u>

4. Short-Term Borrowings:

The School has available a \$150,000 unsecured bank demand line of credit with interest payable at prime plus .75%, subject to a 4% floor. No amounts were outstanding at June 30, 2010 and June 30, 2009.

5. Long-Term Debt:

	2010	2009
Equipment loans, varying monthly installments including interest ranging from 0% to 9%, secured by related equipment, due through March 2015.	\$ 78,805	\$ 9,653
Less current portion	17,592	1,957
	<u>\$ 61,213</u>	<u>\$ 7,696</u>

Aggregate maturities on long-term debt subsequent to June 30, 2010 are:

2011	\$ 17,592
2012	17,831
2013	17,047
2014	15,048
2015	11,287
	<u>\$ 78,805</u>

6. Pension Plan:

The School has a contributory defined contribution pension plan covering essentially all employees. The School contributes a percentage of covered employees' salaries to the plan, subject to certain limitations. During the year ended June 30, 2010, the School entered into a collective bargaining agreement with its instructional staff and ceased contributions for union employees.

The School's pension expense was \$26,000 and \$69,000 for the years ended June 30, 2010 and 2009.

7. Operating Lease:

The School leases property under the terms of operating leases. Rental expense was \$357,000 and \$375,000 for the years ended June 30, 2010 and 2009.

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, 2010, are:

2011	\$ 341,203
2012	341,203
2013	341,203
2014	341,203
2015	341,203
Thereafter	<u>1,706,015</u>
	<u>\$ 3,412,030</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 a contribution \$112,500 from KBSD in 2010, which is restricted for building restoration.

The School paid expenses on behalf of the building owner in 2010.

Summarized financial data of Oracle Building Corporation as of and for the years ended June 30, 2010 and 2009 is as follows:

	<u>2010</u>	2009
Assets	<u>\$ 995,680</u>	\$ 1,025,373
Liabilities	<u>\$ 1,239,717</u>	\$ 1,156,402
Net assets	<u>\$ (244,037)</u>	\$ (131,029)
Revenues	<u>\$ 355,000</u>	\$ 375,000
Expenses	<u>\$ 468,008</u>	\$ 388,345
Change in net assets	<u>\$ (113,008)</u>	\$ (13,345)

9. Cash Flows Information:

Net cash flows from operating activities reflect cash payments for interest totaling \$274 and \$2,973 for 2010 and 2009.

Excluded from the 2010 statement of cash flows is equipment acquired with debt financing of \$75,240.

**INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION**

The Board of Trustees
Oracle Charter School

Our report on our audits of the basic financial statements of Oracle Charter School for 2010 and 2009 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.



October 20, 2010

ORACLE CHARTER SCHOOL

**Additional Information
Schedule of Expenses**

For the year ended June 30, 2010 (with comparative totals for 2009)

	Program Services			Supporting Services	2010 Total	2009 Total
	Regular Education	Special Education	Other Program	Management and General		
Salaries	\$ 1,366,528	\$ 143,540	\$ 365,117	\$ 421,530	\$ 2,296,715	\$ 2,004,561
Employee benefits and taxes	275,953	29,219	73,742	84,873	463,787	457,791
Advertising	-	-	-	61,058	61,058	15,199
Contracted services	93,260	9,875	24,922	28,683	156,740	108,623
Dues and subscriptions	3,341	354	893	1,027	5,615	7,418
Insurance	-	-	-	41,557	41,557	38,544
Interest	163	17	44	50	274	2,973
Occupancy	212,563	22,507	56,803	65,376	357,249	375,000
Postage	6,543	693	1,748	2,012	10,996	9,638
Supplies and materials	105,029	11,121	28,066	32,303	176,519	187,941
Office expense	28,504	3,018	7,617	8,767	47,906	34,491
Other expenses	16,317	1,728	4,360	5,018	27,423	24,217
Payroll processing	624	66	167	191	1,048	1,957
Professional fees	-	-	-	122,646	122,646	135,073
Repairs and maintenance	41,789	4,425	11,167	12,852	70,233	85,714
Staff development	38,571	4,084	10,307	11,863	64,825	56,267
Telephone	10,180	1,078	2,720	3,131	17,109	16,792
Utilities	52,794	5,590	14,108	16,237	88,729	100,620
	<u>2,252,159</u>	<u>237,315</u>	<u>601,781</u>	<u>919,174</u>	<u>4,010,429</u>	<u>3,662,819</u>
Depreciation	87,185	9,231	23,298	26,815	146,529	134,292
Total	<u>\$ 2,339,344</u>	<u>\$ 246,546</u>	<u>\$ 625,079</u>	<u>\$ 945,989</u>	<u>\$ 4,156,958</u>	<u>\$ 3,797,111</u>

**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

We have audited the financial statements of Oracle Charter School (the School) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 20, 2010. 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 opinion 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

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 blue ink that reads "Lyman & McCormick, LLP". The signature is written in a cursive, flowing style.

October 20, 2010