ORACLE CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2013

ORACLE CHARTER SCHOOL

Table of Contents

June 30, 2013

Financial Statements

Independent Auditors' Report

Financial Statements

Notes to Financial Statements

Additional Information

Schedule of Expenses

Reporting Required by *Government Auditing Standards*

Independent Auditors' 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*

Schedule of Findings and Responses

Lumsden McCormick LLP
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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, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express 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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Accompanying Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013, on our consideration of the School's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Lumsden & McCormick, LLP

October 31, 2013

Balance Sheets

June 30,	2013	2012
Assets		
Current assets:		
Cash	$ 1,013,982	$ 1,007,212
Grants and other receivables (Note 2)	198,240	234,394
Inventory	12,145	11,019
Prepaid expenses	155,091	88,226
	1,379,458	1,340,851
Property and equipment, net (Note 3)	1,039,806	1,024,889
	$ 2,419,264	$ 2,365,740
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt (Note 5)	$ 11,469	$ 17,121
Accounts payable	47,845	29,158
Accrued expenses	370,829	407,083
	430,143	453,362
Long-term debt (Note 5)	70,480	26,260
Net assets:		
Unrestricted	1,670,858	1,560,951
Unrestricted - board designated	247,783	299,593
Temporarily restricted	-	25,574
	1,918,641	1,886,118
	$ 2,419,264	$ 2,365,740

See accompanying notes.

Statements of Activities

For the years ended June 30,	2013	2012
Changes in unrestricted net assets:		
Support and revenue:		
Public school districts:		
Revenue - resident student enrollment	$ 4,089,200	$ 3,916,065
Revenue - students with disabilities	464,618	445,790
Federal grants	263,316	339,997
State grants	24,906	86,926
Interest and other income	48,978	66,911
Net assets released from restrictions	25,574	76,242
Total support and revenue	4,916,592	4,931,931
Expenses:		
Program expenses:		
Regular education	3,250,685	2,949,218
Special education	336,122	429,887
Other program	186,218	160,069
Supporting services:		
Management and general	1,085,470	1,059,203
Total expenses	4,858,495	4,598,377
Change in unrestricted net assets	58,097	333,554
Changes in temporarily restricted net assets:		
Net assets released from restrictions	(25,574)	(76,242)
Change in net assets	32,523	257,312
Net assets - beginning	1,886,118	1,628,806
Net assets - ending	$ 1,918,641	$ 1,886,118

See accompanying notes.

Statements of Cash Flows

For the years ended June 30,	2013	2012
Operating activities:		
Change in net assets	$ 32,523	$ 257,312
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	192,059	139,680
Loss on disposal of property and equipment	21,318	-
Changes in other operating assets and liabilities:		
Grants and other receivables	36,154	(120,953)
Inventory	(1,126)	(4,666)
Prepaid expenses	(66,865)	22,129
Accounts payable	18,687	26,188
Accrued expenses	(36,254)	127,458
Net operating activities	196,496	447,148
Investing activities:		
Property and equipment expenditures	(146,153)	(324,876)
Financing activities:		
Payments on long-term debt	(43,573)	(17,831)
Net change in cash	6,770	104,441
Cash - beginning	1,007,212	902,771
Cash - ending	$ 1,013,982	$ 1,007,212

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 ninth through twelfth grade. The School has been chartered through July 2018 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. Contributed assets are recorded at fair value at the time received. Depreciation is provided over estimated asset service lives using the straight-line method. 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, 2012 were 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 2010.

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.

Subsequent Events:

The School has evaluated events and transactions for potential recognition or disclosure in the financial statements through October 31, 2013 (the date the financial statements were available to be issued).

Reclassifications:

The financial statements for the year ended June 30, 2012 have been reclassified to conform with the presentation adopted for June 30, 2013.

2. Grants and Other Receivables:

	2013	2012
Grants	$ 183,178	$ 181,620
Resident student enrollment	15,036	23,441
Related party (Note 8)	-	9,542
Other	26	19,791
	$ 198,240	$ 234,394

3. Property and Equipment:

	2013	2012
Building improvements	$ 1,206,425	$ 1,114,158
Instructional and office equipment	786,497	738,157
	1,992,922	1,852,315
Less accumulated depreciation	953,116	827,426
	$ 1,039,806	$ 1,024,889

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, 2013 and June 30, 2012.

5. Long-Term Debt:

	2013	2012
Equipment loans, varying monthly installments including interest ranging from 0% to 9%, secured by related equipment, due through March 2018.	$ 81,949	$ 43,381
Less current portion	11,469	17,121
	$ 70,480	$ 26,260

Aggregate maturities on long-term debt subsequent to June 30, 2013 are:

2014	$ 11,469
2015	16,542
2016	18,094
2017	19,791
2018	16,053
	$ 81,949

6. Pension Plan:

The School has a contributory defined contribution pension plan covering essentially all employees. The School contributes a percentage of non union employees' salaries to the plan, subject to certain limitations.

The School's pension expense was $29,000 and $25,900 for the years ended June 30, 2013 and 2012.

7. Operating Lease:

The School has entered into occupancy related 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 an interest rate of 20%. The agreement also provides for the building owner to pay a developer fee of $267,352 over the term of the lease with interest at 20%.

Rental expenses under the agreements above were $360,083 and $357,120 for the years ended June 30, 2013 and 2012. Expense for 2013 includes certain voluntary accelerated payments that will reduce commitments for subsequent years.

Future minimum lease rentals to be paid to the building owner, based on debt at June 30, 2013, are:

2014	$ 315,870
2015	315,870
2016	315,870
2017	315,870
2018	315,870
Thereafter	631,740
	$ 2,211,090

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 School periodically pays expenses on behalf of the building owner, and unreimbursed amounts are included in accounts receivable at June 30, 2012.

Summarized financial data of Oracle Building Corporation as of and for the years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Assets	$ 884,350	$ 991,929
Liabilities	1,117,756	1,216,313
Net liabilities	$ (233,406)	$ (224,384)
Revenues	$ 360,083	$ 367,240
Expenses	369,105	288,256
Change in net liabilities	$ (9,022)	$ 78,984

9. Cash Flows Information:

Net cash flows from operating activities reflect cash payments for interest totaling $3,879 and $317 for 2013 and 2012.

Noncash investing and financing activities excluded from the 2013 statement of cash flows include $82,141 of equipment acquired through long-term debt financing.

Additional Information
Schedule of Expenses

For the year ended June 30, 2013 (with comparative totals for 2012)

	Program Services			Supporting Services		
	Regular Education	Special Education	Other Program	Management and General	2013 Total	2012 Total
Salaries	$ 1,889,552	$ 212,438	$ 89,387	$ 659,247	$ 2,850,624	2,660,703
Employee benefits and taxes	404,327	45,458	19,127	141,123	610,035	541,710
Advertising	30,076	3,381	1,423	10,497	45,377	56,131
Contracted services	95,067	6,947	-	530	102,544	188,149
Insurance	16,000	1,799	757	5,585	24,141	47,067
Interest	-	-	-	3,879	3,879	317
Occupancy	238,661	26,832	11,290	83,300	360,083	357,120
Postage	7,765	873	367	2,710	11,715	9,381
Supplies and materials	82,414	1,943	42,943	-	127,300	149,243
Office expense	29,274	3,291	1,385	10,218	44,168	48,415
Other expenses	21,937	-	5,587	42,254	69,778	12,200
Payroll processing	1,525	171	72	532	2,300	4,267
Professional fees	22,450	-	-	23,181	45,631	121,309
Repairs and maintenance	90,503	10,175	4,281	31,588	136,547	55,129
Staff development	16,787	1,887	794	5,859	25,327	39,945
Student testing and assessment	27,422	-	-	-	27,422	14,922
Technology	90,791	-	-	-	90,791	57,979
Telephone	6,013	676	284	2,099	9,072	12,645
Utilities	52,826	5,939	2,499	18,438	79,702	82,065
	3,123,390	321,810	180,196	1,041,040	4,666,436	4,458,697
Depreciation	127,295	14,312	6,022	44,430	192,059	139,680
Total	$ 3,250,685	$ 336,122	$ 186,218	$ 1,085,470	$ 4,858,495	$ 4,598,377

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INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of Oracle Charter School (the School), which comprise the balance sheet as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency that we consider to be a material weakness [2013-01].

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 or other matters that are required to be reported under *Government Auditing Standards*.

The School's Response to the Finding

The School's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The School's response was not subjected to the auditing procedure applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October 31, 2013

Schedule of Findings and Responses

For the year ended June 30, 2013

2013-01	**Condition:**	During the year, the School's payroll procedures lacked adequate controls and segregation of duties. Established procedures requiring review and sign off by someone independent of the payroll input process were not consistently performed.
	Criteria:	Adequate internal controls should be in place to ensure documentation is maintained to support approved wages, and payroll disbursements are properly approved and supported by accurate time records.
	Cause:	The hiring of a successor Chief Financial Officer in March 2013 resulted in procedural changes which reduced internal controls over payroll.
	Effect:	The School is reviewing the propriety of certain payroll transactions immediately prior to and subsequent to year end.
	Recommendation:	We recommend the School implement internal control procedures which segregate duties to the extent possible, as well as provide for documented support, review and approval of payroll transactions.
	Views of Responsible Officials and Planned Corrective Actions:	Management is in agreement with the recommendation and will review and implement revised procedures designed to create segregation of duties whereby no one individual has access to multiple areas within the same cycle and control procedures are performed timely and consistently.