

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

**June 30, 2011**

## 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, 2011 and 2010, 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, 2011 and 2010, 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 September 19, 2011 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.



September 19, 2011

ORACLE CHARTER SCHOOL

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**Balance Sheets**

June 30,	2011	2010
<b>Assets</b>		
Current assets:		
Cash	\$ 902,771	\$ 510,273
Grants and other receivables (Note 2)	113,441	86,989
Inventory	6,353	8,272
Prepaid expenses	110,355	42,864
	<u>1,132,920</u>	<u>648,398</u>
Property and equipment, net (Note 3)	<u>839,693</u>	<u>865,127</u>
	<u>\$ 1,972,613</u>	<u>\$ 1,513,525</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 18,148	\$ 17,592
Accounts payable	2,970	17,285
Accrued expenses	279,625	313,550
	<u>300,743</u>	<u>348,427</u>
Long-term debt (Note 5)	43,064	61,213
<b>Net assets:</b>		
Unrestricted	1,267,790	995,902
Unrestricted - board designated	259,200	-
Temporarily restricted	101,816	107,983
	<u>1,628,806</u>	<u>1,103,885</u>
	<u>\$ 1,972,613</u>	<u>\$ 1,513,525</u>

See accompanying notes.

ORACLE CHARTER SCHOOL

**Statements of Activities**

For the years ended June 30,	2011	2010
<b>Changes in unrestricted net assets:</b>		
Support and revenue:		
Public school districts:		
Revenue - resident student enrollment	\$ 3,826,015	\$ 3,491,418
Revenue - students with disabilities	438,226	343,144
Federal grants	312,609	351,902
Contributions	67,500	-
Interest and other income	33,760	10,734
Net assets released from restrictions	6,167	4,517
Total support and revenue	<u>4,684,277</u>	<u>4,201,715</u>
Expenses:		
Program expenses:		
Regular education	2,334,715	2,339,344
Special education	283,685	246,546
Other program	532,209	625,079
Supporting services:		
Management and general	1,002,580	945,989
Total expenses	<u>4,153,189</u>	<u>4,156,958</u>
<b>Change in unrestricted net assets</b>	<u>531,088</u>	<u>44,757</u>
<b>Changes in temporarily restricted net assets:</b>		
Contributions	-	112,500
Net assets released from restrictions	(6,167)	(4,517)
<b>Change in temporarily restricted net assets</b>	<u>(6,167)</u>	<u>107,983</u>
<b>Change in net assets</b>	<u>524,921</u>	<u>152,740</u>
Net assets - beginning	<u>1,103,885</u>	<u>951,145</u>
Net assets - ending	<u>\$ 1,628,806</u>	<u>\$ 1,103,885</u>

**Statements of Cash Flows**

For the years ended June 30,	2011	2010
<b>Operating activities:</b>		
Change in net assets	\$ 524,921	\$ 152,740
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	132,550	146,529
Changes in other operating assets and liabilities:		
Grants and other receivables	(26,452)	(249)
Inventory	1,919	2,814
Prepaid expenses	(67,491)	30,766
Accounts payable	(14,315)	(1,584)
Accrued expenses	(33,925)	(22,791)
Contributions restricted for long-term purposes	-	(112,500)
<b>Net operating activities</b>	<b>517,207</b>	<b>195,725</b>
<b>Investing activities:</b>		
Property and equipment expenditures	(107,116)	(122,193)
<b>Financing activities:</b>		
Payments on long-term debt	(17,593)	(6,088)
Proceeds from contributions restricted for long-term purposes	-	112,500
<b>Net financing activities</b>	<b>(17,593)</b>	<b>106,412</b>
<b>Net change in cash</b>	<b>392,498</b>	<b>179,944</b>
Cash - beginning	510,273	330,329
Cash - ending	\$ 902,771	\$ 510,273

**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 ninth 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 September 19, 2011 (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. 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, 2011 and 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 2008.

#### 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.

#### Reclassification:

The June 30, 2010 financial statements have been reclassified to conform with the presentation adopted for June 30, 2011.

### 2. Grants and Other Receivables:

	2011	2010
Grants	\$ 3,795	\$ 59,835
Resident student enrollment	75,682	-
Related party (Note 8)	9,542	9,542
Other	24,422	17,612
	<u>\$ 113,441</u>	<u>\$ 86,989</u>

### 3. Property and Equipment:

	2011	2010
Building improvements	\$ 744,779	\$ 655,771
Instructional and office equipment	1,090,370	1,072,262
	<u>1,835,149</u>	<u>1,728,033</u>
Less accumulated depreciation	995,456	862,906
	<u>\$ 839,693</u>	<u>\$ 865,127</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, 2011 and June 30, 2010.

### 5. Long-Term Debt:

	2011	2010
Equipment loans, varying monthly installments including interest ranging from 0% to 9%, secured by related equipment, due through March 2015.	\$ 61,212	\$ 78,805
Less current portion	18,148	17,592
	<u>\$ 43,064</u>	<u>\$ 61,213</u>

Aggregate maturities on long-term debt subsequent to June 30, 2011 are:

2012	\$ 18,148
2013	16,730
2014	15,048
2015	11,286
	<u>\$ 61,212</u>

### 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. 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 for non union employees was \$25,800 and \$26,300 for the years ended June 30, 2011 and 2010.

### 7. Operating Lease:

The School leases property under the terms of operating leases. Rental expense was \$357,000 for the years ended June 30, 2011 and 2010.

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 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%.

Future minimum lease rentals to be paid to the building owner, based on debt at June 30, 2011, are:

2012	\$ 357,240
2013	357,240
2014	357,240
2015	357,240
2016	357,240
Thereafter	<u>1,428,960</u>
	<u>\$ 3,215,160</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. The School received a contribution of \$112,500 from the building owner in 2010, which is restricted for building restoration, and an unrestricted contribution of \$67,500 in 2011.

The School paid expenses on behalf of the building owner in 2010 and are included in accounts receivable at June 30, 2011 and 2010.

Summarized financial data of Oracle Building Corporation as of and for the years ended June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Assets	\$ 958,370	\$ 995,680
Liabilities	<u>1,261,738</u>	<u>1,239,717</u>
Net liabilities	<u>\$ (303,368)</u>	<u>\$ (244,037)</u>
Revenues	\$ 357,240	\$ 355,000
Expenses	<u>416,571</u>	<u>468,008</u>
Change in net liabilities	<u>\$ (59,331)</u>	<u>\$ (113,008)</u>

#### 9. Cash Flows Information:

Net cash flows from operating activities reflect cash payments for interest totaling \$556 and \$274 for 2011 and 2010.

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

We have audited the financial statements of Oracle Charter School as of and for the year ended June 30, 2011 and 2010, and have issued our report thereon dated September 19, 2011, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenses is presented for the 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. The 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.



September 19, 2011

ORACLE CHARTER SCHOOL

**Additional Information  
Schedule of Expenses**

For the year ended June 30, 2011 (with comparative totals for 2010)

	Program Services			Supporting Services		2011 Total	2010 Total
	Regular Education	Special Education	Other Program	Management and General			
Salaries	\$ 1,289,433	\$ 156,676	\$ 293,934	\$ 553,713	\$ 2,293,756	\$ 2,296,715	
Employee benefits and taxes	266,897	32,430	60,840	114,611	474,778	463,787	
Advertising	37,789	4,592	8,614	16,228	67,223	61,058	
Contracted services	106,135	12,896	24,194	45,576	188,801	156,740	
Dues and subscriptions	-	-	-	-	-	5,615	
Insurance	23,596	2,867	5,379	10,133	41,975	41,557	
Interest	313	38	71	134	556	274	
Occupancy	200,823	24,401	45,778	86,238	357,240	357,249	
Postage	5,666	688	1,291	2,433	10,078	10,996	
Supplies and materials	95,522	11,607	21,775	41,019	169,923	176,519	
Office expense	27,310	3,318	6,225	11,727	48,580	47,906	
Other expenses	13,425	1,631	3,060	5,764	23,880	27,423	
Payroll processing	1,370	167	313	589	2,439	1,048	
Professional fees	73,363	8,914	16,723	31,504	130,504	122,646	
Repairs and maintenance	34,688	4,215	7,907	14,896	61,706	70,233	
Staff development	23,008	2,796	5,245	9,880	40,929	64,825	
Telephone	9,748	1,184	2,222	4,186	17,340	17,109	
Utilities	51,117	6,211	11,652	21,951	90,931	88,729	
	<u>2,260,203</u>	<u>274,631</u>	<u>515,223</u>	<u>970,582</u>	<u>4,020,639</u>	<u>4,010,429</u>	
Depreciation	74,512	9,054	16,986	31,998	132,550	146,529	
Total	<u>\$ 2,334,715</u>	<u>\$ 283,685</u>	<u>\$ 532,209</u>	<u>\$ 1,002,580</u>	<u>\$ 4,153,189</u>	<u>\$ 4,156,958</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, 2011, and have issued our report thereon dated September 19, 2011. 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 was not designed to identify all deficiencies in the internal control that might be deficiencies, 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.



September 19, 2011