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**AGORA CYBER CHARTER SCHOOL**

**ANNUAL FINANCIAL REPORT**

***Year Ended June 30, 2009***

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## **INTRODUCTORY SECTION**

TABLE OF CONTENTS

	<u>Page No.</u>
<b>INTRODUCTORY SECTION</b>	
Table of Contents .....	1
<b>FINANCIAL SECTION</b>	
Independent Auditors' Report .....	2
Management's Discussion and Analysis (Unaudited).....	4
Basic Financial Statements	
Governmental Fund Balance Sheet/Statement of Net Deficit .....	8
Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Deficit/Statement of Activities .....	9
Notes to the Basic Financial Statements .....	10
Required Supplementary Information	
Budgetary Comparison Schedule .....	19
Note to the Required Supplementary Information.....	20
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	21
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	23
<b>ADDITIONAL INFORMATION - MAJOR FEDERAL AWARD PROGRAMS AUDIT</b>	
Schedule of Expenditures of Federal Awards .....	25
Notes to the Schedule of Expenditures of Federal Awards .....	26
Schedule of Findings and Questioned Costs .....	27

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## **FINANCIAL SECTION**



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## Independent Auditors' Report

To the Board of Trustees  
Agora Cyber Charter School  
Wayne, Pennsylvania

We have audited the accompanying financial statements of the governmental activities and the major Governmental Fund of the Agora Cyber Charter School as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agora Cyber Charter School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major Governmental Fund of the Agora Cyber Charter School as of June 30, 2009, and the changes in financial position thereof for the year 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 June 13, 2011, on our consideration of the Agora Cyber Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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* and should be considered in assessing the results of our audit.

To the Board of Trustees  
Agora Cyber Charter School  
Wayne, Pennsylvania

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and budgetary comparison information on pages 19 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agora Cyber Charter School's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

*Maillie, Falconiere & Co., LLP*  
Oaks, Pennsylvania  
June 13, 2011

**AGORA CYBER CHARTER SCHOOL**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
*Year Ended June 30, 2009*

The Board of Trustees of the Agora Cyber Charter School (the School) offers readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

## FINANCIAL HIGHLIGHTS

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- At the close of the current fiscal year, the School reports an ending fund deficit of \$1,729,000. This balance was the result of a \$355,562 excess in revenue over expenditures for the year ended June 30, 2009.
- Total revenues increased by approximately \$18,488,912 due to an increase in the student population, increased rates and increased federal funding.
- The School's cash balance at June 30, 2009, was \$496,166, representing a decrease of \$32,270 from June 30, 2008.
- The School has balances due to K12 Pennsylvania, LLC and The Cynwyd Group, LLC totaling \$12,028,214 pursuant to the terms of management agreements.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements as presented comprise three components: Management's Discussion and Analysis (this section), the basic financial statements and supplementary information.

### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The statement of net deficit presents information on all of the School's assets and liabilities, with the difference between the two reported as net assets (deficit). Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements report on the function of the School that is principally supported by subsidies from school districts whose constituents attend the School.

**AGORA CYBER CHARTER SCHOOL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2009*

**Fund Financial Statements**

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or purposes. The School, like governmental-type entities, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School has only one fund type, the Governmental General Fund.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Supplementary Information**

The General Fund budgetary comparison schedule is presented for purposes of additional analysis.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Management has adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which requires a comparative analysis of current and prior periods.

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current assets	\$ 18,488,970	\$ 8,004,967
Capital assets, net	216,565	43,010
<b>TOTAL ASSETS</b>	<u>18,705,535</u>	<u>8,047,977</u>
<b>LIABILITIES</b>	<u>20,217,970</u>	<u>10,089,529</u>
<b>NET DEFICIT</b>	<u>\$ (1,512,435)</u>	<u>\$ (2,041,552)</u>

As noted earlier, net assets (deficit) may serve over time as a useful indicator of a school's financial position. In the case of the School, liabilities exceed assets by \$1,512,435 as of June 30, 2009, a decrease of \$529,117 from June 30, 2008.

The School's revenues are predominately local area school district's funds based on the student enrollment. For the year ended June 30, 2009, the School's total revenues of \$44,317,076 exceeded total expenditures of \$43,787,959 by \$529,117. In the previous year, expenditures exceeded revenues by \$1,281,090.

**AGORA CYBER CHARTER SCHOOL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2009*

	<u>2009</u>	<u>2008</u>
<b>REVENUES</b>		
Program revenues		
Local educational agency assistance	\$ 42,429,511	\$ 25,098,559
State sources	434,591	318,652
Federal sources	<u>1,452,974</u>	<u>410,953</u>
<b>TOTAL REVENUES</b>	<u>44,317,076</u>	<u>25,828,164</u>
<b>EXPENDITURES</b>		
Instruction	30,765,221	18,825,313
Support services	<u>13,022,738</u>	<u>8,283,941</u>
<b>TOTAL EXPENDITURES</b>	<u>43,787,959</u>	<u>27,109,254</u>
<b>CHANGE IN NET DEFICIT</b>	529,117	(1,281,090)
<b>NET DEFICIT, BEGINNING</b>	<u>(2,041,552)</u>	<u>(760,462)</u>
<b>NET DEFICIT, ENDING</b>	<u>\$ (1,512,435)</u>	<u>\$ (2,041,552)</u>

**Governmental Fund**

The focus of the School's Governmental Fund is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

The School's Governmental Fund (the General Fund) reported an ending fund deficit of \$1,729,000.

**Budget Variations**

The actual revenues represent a decrease from budgeted revenues of \$8,826,841 due to less than expected increases in enrollment.

Actual expenditures decreased \$7,573,160 from the budget, due mainly to a decrease in instruction services of \$6,729,232.

**AGORA CYBER CHARTER SCHOOL**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
*Year Ended June 30, 2009*

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2009, the School's investment in capital assets for its governmental activities totaled \$216,565 (net of accumulated depreciation). This investment in capital assets consists primarily of computer equipment and software licenses.

Major capital assets purchased during the year included Odyssey Perpetual software licenses used as a supplemental program for math and reading and text to speech software for some of the School's special needs students.

Additional information on the School's capital assets can be found in Note I of this report.

**Long-Term Debt**

The School does not have any long-term liabilities at this time.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The School's primary source of revenue, the per student subsidy provided by the local school districts, will increase by approximately \$9,500,000 for fiscal year 2009-2010, due to increased enrollment from approximately 4,200 to approximately 5,300 students.

**FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE SCHOOL**

Except as listed above, there are no known future events that will financially impact the School.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

The financial report is designed to provide interested parties a general overview of the School's finances. Questions regarding any of the information provided in this report should be addressed to the Head of School, Agora Cyber Charter School, 995 Old Eagle School Road, Suite 315, Wayne, PA 19087.

**AGORA CYBER CHARTER SCHOOL**

**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET DEFICIT**

June 30, 2009

	<u>General Fund</u>	<u>Adjustments (Note D)</u>	<u>Statement of Net Deficit</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	\$ 496,166	\$ -	\$ 496,166
State subsidies receivable	133,353	-	133,353
Federal subsidies receivable	755,702	-	755,702
Local receivables	17,080,273	-	17,080,273
Prepaid expenses	<u>23,476</u>	<u>-</u>	<u>23,476</u>
<b>TOTAL CURRENT ASSETS</b>	<b>18,488,970</b>	<b>-</b>	<b>18,488,970</b>
<b>CAPITAL ASSETS, net</b>	<u>-</u>	<u>216,565</u>	<u>216,565</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 18,488,970</u></b>	<b><u>\$ 216,565</u></b>	<b><u>\$ 18,705,535</u></b>
<b>LIABILITIES AND FUND DEFICIT/NET DEFICIT</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 7,931,512	\$ -	\$ 7,931,512
Due to K12 Pennsylvania, LLC	11,821,234	-	11,821,234
Due to The Cynwyd Group, LLC	206,980	-	206,980
Deferred revenue	<u>258,244</u>	<u>-</u>	<u>258,244</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>20,217,970</u></b>	<b><u>-</u></b>	<b><u>20,217,970</u></b>
<b>FUND DEFICIT/NET DEFICIT</b>			
Fund deficit			
Unreserved			
Undesignated	<u>(1,729,000)</u>	<u>1,729,000</u>	<u>-</u>
<b>TOTAL LIABILITIES AND FUND DEFICIT</b>	<b><u>\$ 18,488,970</u></b>		
Net deficit			
Invested in capital assets, net		216,565	216,565
Unrestricted		<u>(1,729,000)</u>	<u>(1,729,000)</u>
<b>TOTAL NET DEFICIT</b>		<b><u>(1,512,435)</u></b>	<b><u>(1,512,435)</u></b>
<b>TOTAL LIABILITIES AND NET DEFICIT</b>		<b><u>\$ 216,565</u></b>	<b><u>\$ 18,705,535</u></b>

See accompanying notes to the basic financial statements.

**AGORA CYBER CHARTER SCHOOL**  
**GOVERNMENTAL FUND STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND DEFICIT/**  
**STATEMENT OF ACTIVITIES**  
*Year Ended June 30, 2009*

	<u>General Fund</u>	<u>Adjustments (Note D)</u>	<u>Statement of Activities</u>
<b>REVENUES</b>			
Program revenues			
Local educational agency assistance	\$ 42,429,511	\$ -	\$ 42,429,511
State sources	434,591	-	434,591
Federal sources	<u>1,452,974</u>	-	<u>1,452,974</u>
<b>TOTAL REVENUES</b>	<u>44,317,076</u>	<u>-</u>	<u>44,317,076</u>
<b>EXPENDITURES</b>			
Instruction	30,765,221	-	30,765,221
Support services	12,972,365	50,373	13,022,738
Capital outlay	223,928	(223,928)	-
<b>TOTAL EXPENDITURES</b>	<u>43,961,514</u>	<u>(173,555)</u>	<u>43,787,959</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	355,562	(355,562)	-
<b>CHANGE IN FUND DEFICIT/ NET DEFICIT</b>	-	529,117	529,117
<b>FUND DEFICIT/NET DEFICIT AT BEGINNING OF YEAR</b>	<u>(2,084,562)</u>	<u>43,010</u>	<u>(2,041,552)</u>
<b>FUND DEFICIT/NET DEFICIT AT END OF YEAR</b>	<u>\$ (1,729,000)</u>	<u>\$ 216,565</u>	<u>\$ (1,512,435)</u>

*See accompanying notes to the basic financial statements.*

**AGORA CYBER CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

**NOTE A ORGANIZATION**

The Agora Cyber Charter School (the "School") is organized as a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The School operates a cyber charter school in Wayne, Pennsylvania, under an approved charter received from the Pennsylvania Department of Education, acting pursuant to authority conferred under Act 88. The School's initial operations began on July 1, 2005.

The mission of the Agora Cyber Charter School is to provide an innovative, intense academic preparation that inspires and educates students to achieve the highest levels of academic knowledge and skills and develop proficiency in the design and use of new computer technologies and scientific research. Through a combination of computer-supported instruction in the home, face-to-face meetings and video conferencing with a certified teacher, specifically tailored research-based curriculum and access to a community of experts in science and technology, our students will be fully prepared to be leaders in the digital age.

**NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The basic financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the School are described below. The School also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements.

The School presents the General Fund as its major Governmental Fund. The General Fund is used for general operating purposes of the School. The General Fund accounts for all financial resources.

**Financial Statement Presentation and Measurement Focus**

The government-wide financial statements--the statement of net deficit and the statement of activities--report on the School as a whole. The statement of activities presents a comparison between the direct expenses and revenues of each function of the School's activities. Revenues that are not classified as program revenues, including statutory funding from state and local governments, are presented as general revenues. These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. On an accrual basis, revenues are recorded when earned, and expenses are recorded when the liability is incurred.

**AGORA CYBER CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

Governmental Fund financial statements provide information about the School's funds. The emphasis of fund financial statements is on the major Governmental Fund, which is the School's General Fund. These financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures to the extent they have matured. General capital acquisitions are reported as expenditures in the General Fund.

**Budgetary Data**

An annual budget is adopted for the General Fund using the modified accrual basis of accounting. The budgetary comparison schedule of the General Fund presents the budget filed with and accepted by the Pennsylvania Department of Education as its budgeted amounts. The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. The School reviews and authorizes a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board of Trustees is then called for the purpose of adopting the proposed budget.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board of Trustees.
4. The budget must be filed with the Pennsylvania Department of Education by July 31.

The budget is controlled by the School's Business Administrator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board of Education. The Board of Trustees may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

As part of the formal budgetary control, purchase orders, contracts and other commitments from the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year-end are reported as a reservation of fund balance for subsequent year expenditures for the Governmental Fund. A reserve for encumbrances is not reported on the government-wide financial statements.

**AGORA CYBER CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

**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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Cash**

Investments with an original maturity of three months or less at the time they are purchased by the School are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. The School does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life is not.

Capital assets of the School are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Leasehold improvements	7-9
Computer software	1-3
Computer hardware	3-5

**Accrued Liabilities and Long-Term Obligations**

All payables are reported on the government-wide financial statements. In general, Governmental Fund payables that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the fund.

**Net Assets (Deficit)**

Net assets (deficit) represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**AGORA CYBER CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

**Funding**

The School is funded primarily from the local school district in which a student resides by receiving an amount equal to the calculation of selected expenditures per average daily membership for each child attending the School. Funding is recognized as revenue as it is earned. The rate of funding per student is determined on an annual basis. The Commonwealth of Pennsylvania makes contributions on behalf of the School for the employer's share of retirement payments and social security payments.

**NOTE C DEPOSITS**

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a bank failure, the School's deposits may not be returned to it. The School does not have a policy in place for custodial credit risk. As of June 30, 2009, \$573,885 of the School's bank balance of \$823,885 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ <u>573,885</u>
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**NOTE D RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Total fund deficit and the net change in fund deficit of the School's Governmental Fund differs from net deficit and changes in net deficit of the governmental activities reported in the statement of net deficit and statement of activities. This difference primarily results from the long-term economic focus of the statement of net deficit and statement of activities versus the current financial resources focus of the Governmental Fund balance sheet and statement of revenues, expenses and changes in fund deficit.

The following are reconciliations of fund deficit to net deficit and the net change in fund deficit to the net change in net deficit.

TOTAL FUND DEFICIT--MODIFIED ACCRUAL BASIS	\$ (1,729,000)
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Amount reported in the statement of net deficit is different because:

Capital assets are not financial resources and are not reported in the Governmental Fund statements	<u>216,565</u>
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NET DEFICIT--FULL ACCRUAL BASIS	\$ <u>(1,512,435)</u>
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**AGORA CYBER CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

NET CHANGE IN FUND DEFICIT--MODIFIED ACCRUAL BASIS \$ 355,562

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenses in the statement of revenues, expenses and changes in fund deficit; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation

Capital assets	223,928
Depreciation	<u>(50,373)</u>

CHANGE IN NET DEFICIT OF GOVERNMENTAL FUND--FULL ACCRUAL BASIS \$ 529,117

**NOTE E COMMITMENTS AND CONTINGENCIES**

**Management Agreement**

In May 2006, the School entered into an agreement with The Cynwyd Group, LLC to manage and operate the administration and educational facilities, if any, of the School. Under the terms of the agreement, the School must pay an oversight fee of 7% of the qualified gross revenues of the facility plus reimbursement, including, without limitation, employment costs and other fees as noted in the management agreement. The oversight agreement was terminated in October 2009 (see Notes F and N). The amount recorded as oversight expense for the year ended June 30, 2009, was less than 7% of qualified gross revenues due to the settlement agreement signed in October 2009 (see Note N).

In May 2006, The Cynwyd Group, LLC entered into an agreement with K12 Pennsylvania, LLC to provide educational products, administrative and technology services to the School. The agreement is effective until June 30, 2016. Fees consist of the following:

- Administrative services fee - 15% of qualified gross revenues and public contributions and grants.
- Technology services fee - 7% of qualified gross revenues and public contributions and grants.
- Other fees as noted in the management agreement.

Fees charged by K12 Pennsylvania, LLC for the year ended June 30, 2009, were as follows:

Oversight fee	\$ 1,959,804
Technology services fee	3,102,195
Administrative services fee	6,647,562

**AGORA CYBER CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

**NOTE F RELATED-PARTY TRANSACTIONS**

The School has entered into a management oversight agreement with The Cynwyd Group, LLC (see Note E). The Cynwyd Group, LLC is owned and operated by an Ex-Officio of the School. During the year ended June 30, 2009, \$1,813,800 in management fees was paid to The Cynwyd Group, LLC. As of June 30, 2009, \$206,980 was due to The Cynwyd Group, LLC for outstanding oversight management fees.

The School also entered into a lease agreement with The Cynwyd Group, LLC (see Note H). Rent of \$280,250 was paid to The Cynwyd Group, LLC during the year ended June 30, 2009.

**NOTE G RECEIVABLES**

Receivables as of June 30, 2009, consist primarily of subsidies from federal, state and local authorities. Of the total receivables, \$7,561,157 is being held in an escrow account controlled by the Pennsylvania Department of Education. All receivables are considered by management to be fully collectible, and no allowance for doubtful accounts has been recorded.

**NOTE H LEASES**

**Operating Lease**

The School entered into a three-year lease with City Line Investors, LP on September 30, 2005, with a commencement date of October 1, 2005. This lease expired in September 2008 and was not renewed.

The School also entered into a lease for its Devon location in November 2007 with The Cynwyd Group, LLC (a related party). The lease was scheduled to expire June 30, 2016, but was terminated in October 2009 (see Note N). Future minimum lease payments are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2010	\$ <u><u>103,000</u></u>

Rent expense for the year ended June 30, 2009, was \$336,627.

**AGORA CYBER CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

**NOTE I CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009
Leasehold improvements	\$ 5,032	\$ 8,595	\$ -	\$ 13,627
Computer equipment	47,059	42,877	-	89,936
Computer software	-	172,456	-	172,456
Office equipment	7,718	-	-	7,718
	<u>59,809</u>	<u>223,928</u>	<u>-</u>	<u>283,737</u>
Accumulated depreciation	<u>(16,799)</u>	<u>(50,373)</u>	<u>-</u>	<u>(67,172)</u>
	<u>\$ 43,010</u>	<u>\$ 173,555</u>	<u>\$ -</u>	<u>\$ 216,565</u>

Depreciation expense for the year ended June 30, 2009, was \$50,373 and was charged to support services in the statement of activities.

**NOTE J DEFERRED REVENUE**

During the year ended June 30, 2007, the School received \$205,500 in federal funding from a charter school implementation grant. As of June 30, 2009, management was not able to determine whether the funds have been spent, and, accordingly, the amount has been recorded as deferred revenue. To the best of its knowledge, outside counsel has advised management that any pending claims related to the implementation grant remain outstanding.

**NOTE K RETIREMENT PLAN**

Schools in the Commonwealth of Pennsylvania participate in a state administered pension program. Under the program, contributions are made by each of three parties--the School, the state and the employee. All full-time employees of the School and part-time employees who meet certain minimum employment requirements participate in the program.

**Plan Description**

**Name of Plan:** Public School Employees' Retirement System (the "System").

**Type of Plan:** Governmental cost-sharing multiple-employer defined benefit plan.

**Benefits:** Retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments, healthcare insurance premium assistance to qualifying annuitants.

**AGORA CYBER CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

**Authority:** The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C. S. 8101-8535).

**Annual Financial Report:** The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, PO Box 125, Harrisburg, PA 17108-0125. This publication is also available on the PSERS website at [www.psers.state.pa.us/publications/cafr/index.htm](http://www.psers.state.pa.us/publications/cafr/index.htm).

**Funding Policy**

**Authority:** The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth.

**Contribution Rates**

**Member Contributions**

- Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System after June 30, 2001, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

**Employer Contributions:** Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2009, the rate of employer's contribution was 4.76% of covered payroll. The 4.76% rate is composed of a pension contribution rate of 4.00% for pension benefits and .76% for healthcare insurance premium assistance.

The School's contribution to PSERS for the years ended June 30, 2009, 2008 and 2007, was \$329,977, \$247,395 and \$86,582, respectively, equal to the required contribution for each year.

**AGORA CYBER CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2009*

**NOTE L GRANTS**

The School participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2009, may be impaired. With the exception of Note J, in the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**NOTE M RISK MANAGEMENT**

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for such risks. There has been no significant reduction in insurance coverage of the School's policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past two years.

**NOTE N SUBSEQUENT EVENTS**

In April 2009, the Pennsylvania Department of Education filed an administrative motion against the School's Board of Trustees that alleged mismanagement and failure of fiduciary responsibility. As a result of this motion, an escrow account was established to accumulate tuition payments due to the School. The escrow is controlled by the Pennsylvania Department of Education. In October 2009, a settlement was reached on this matter that resulted in the resignation of all members of the Board, installation of new Board members approved by the Department of Education and the termination of both the School's management agreement and an office lease with The Cynwyd Group, LLC.

The former Board incurred legal fees of \$565,000 during the six-month period between the filing of the motion and final settlement. As part of the aforementioned settlement, PDE agreed to release funds from the School's escrow account to pay \$1,700,000 to The Cynwyd Group, LLC. As a result of the cancelation of the lease with The Cynwyd Group, LLC and a new lease with GPX Wayne Office Properties, L.P. effective in December 2009, School rental fees will be reduced by approximately \$125,000 per year. The new lease for the current Wayne location is for a term expiring in June 2015.

On December 1, 2010, the School entered into a ten-year lease for 13,335 square feet of flexible space in a portion of a building at 3300 Henry Avenue, Philadelphia, Pennsylvania, to be used as a drop-in learning center for residents of Southeastern Pennsylvania.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**AGORA CYBER CHARTER SCHOOL**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
*Year Ended June 30, 2009*

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Program revenues				
Local educational agency assistance	\$ 51,646,917	\$ 51,646,917	\$ 42,429,511	\$ (9,217,406)
State sources	235,000	235,000	434,591	199,591
Federal sources	1,262,000	1,262,000	1,452,974	190,974
<b>TOTAL REVENUES</b>	<u>53,143,917</u>	<u>53,143,917</u>	<u>44,317,076</u>	<u>(8,826,841)</u>
<b>EXPENDITURES</b>				
Instruction	37,494,453	37,494,453	30,765,221	6,729,232
Support services	13,923,221	13,923,221	12,972,365	950,856
Operating of noninstructional services	117,000	117,000	-	117,000
Capital outlay	-	-	223,928	(223,928)
<b>TOTAL EXPENDITURES</b>	<u>51,534,674</u>	<u>51,534,674</u>	<u>43,961,514</u>	<u>7,573,160</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	1,609,243	1,609,243	355,562	(1,253,681)
<b>OTHER FINANCING USES</b>				
Budgetary reserve	(674,647)	(674,647)	-	674,647
<b>NET CHANGE IN FUND DEFICIT</b>	934,596	934,596	355,562	(579,034)
<b>FUND DEFICIT AT BEGINNING OF YEAR</b>	(2,084,562)	(2,084,562)	(2,084,562)	-
<b>FUND DEFICIT AT END OF YEAR</b>	<u>\$ (1,149,966)</u>	<u>\$ (1,149,966)</u>	<u>\$ (1,729,000)</u>	<u>\$ (579,034)</u>

*See accompanying note to the required supplementary information.*

**AGORA CYBER CHARTER SCHOOL**  
**NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
*Year Ended June 30, 2009*

**NOTE A      BUDGETARY INFORMATION**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual appropriations lapse at fiscal year-end.

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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**

To the Board of Trustees  
Agora Cyber Charter School  
Wayne, Pennsylvania

We have audited the financial statements of the governmental activities and the major Governmental Fund of the Agora Cyber Charter School as of and for the year ended June 30, 2009, which collectively comprise the Agora Cyber Charter School's basic financial statements and have issued our report thereon dated June 13, 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 Agora Cyber Charter 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 Agora Cyber Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agora Cyber Charter 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 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.

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 internal control over financial reporting 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.

To the Board of Trustees  
Agora Cyber Charter School  
Wayne, Pennsylvania

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Agora Cyber Charter 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*.~~

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

*Matthei, Falcone & Co. LLP*

Oaks, Pennsylvania  
June 13, 2011



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**Independent Auditors' Report on Compliance With Requirements  
That Could Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133**

To the Board of Trustees  
Agora Cyber Charter School  
Wayne, Pennsylvania

## **COMPLIANCE**

We have audited the Agora Cyber Charter School's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agora Cyber Charter School's major federal programs for the year ended June 30, 2009. Agora Cyber Charter School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Agora Cyber Charter School's management. Our responsibility is to express an opinion on the Agora Cyber Charter School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agora Cyber Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agora Cyber Charter School's compliance with those requirements.

As described in item FA-09-1 in the accompanying schedule of findings and questioned costs, the Agora Cyber Charter School did not comply with requirements regarding reporting that are applicable to its Title I grant. Compliance with such requirements is necessary, in our opinion, for the Agora Cyber Charter School to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Agora Cyber Charter School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2009.

To the Board of Trustees  
Agora Cyber Charter School  
Wayne, Pennsylvania

## INTERNAL CONTROL OVER COMPLIANCE

Management of the Agora Cyber Charter School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Agora Cyber Charter School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agora Cyber Charter School's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item FA-09-1 to be a material weakness.

Agora Cyber Charter School's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Agora Cyber Charter School's responses, and, accordingly, we express no opinion on the responses.

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



Oaks, Pennsylvania  
June 13, 2011

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**ADDITIONAL INFORMATION - MAJOR FEDERAL  
AWARD PROGRAMS AUDIT**

**AGORA CYBER CHARTER SCHOOL**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*Year Ended June 30, 2009*

<u>Federal Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Deferred) Revenue at July 1, 2008</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2009</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>										
<b>Passed through the Pennsylvania Department of Education</b>										
Title I Improving Basic Programs		84.010	013-081057	July 27, 2007 to September 30, 2008	\$ 528,506	\$ 477,985	\$ 209,610	\$ 268,375	\$ 268,375	\$ -
Title I Improving Basic Programs		84.010	013-091057	July 1, 2008 to September 30, 2009	1,039,627	158,554	-	796,460	796,460	637,906
Title I Improving Basic Programs		84.010	042-081057	June 16, 2008 to September 30, 2009	40,000	40,000	-	40,000	40,000	-
Title I Improving Basic Programs		84.010	042-091057	June 11, 2009 to September 30, 2010	98,000	-	-	13,757	13,757	13,757
Title II Improving Teacher Quality		84.367	020-081057	July 27, 2007 to September 30, 2008	25,733	-	17,155	-	-	17,155
Title II Improving Teacher Quality		84.367	020-091057	July 1, 2008 to September 30, 2009	46,144	46,144	-	46,144	46,144	-
Title V		84.367	020-091057	July 27, 2007 to September 30, 2009	709	473	(236)	709	709	-
IDEA-B		84.027	062-090023	July 1, 2007 to September 30, 2008	65,895	65,000	65,000	895	895	895
IDEA-B		84.027	062-100023	July 1, 2008 to June 30, 2009	286,634	<u>200,644</u>	<u>-</u>	<u>286,634</u>	<u>286,634</u>	<u>85,990</u>
<b>TOTAL FEDERAL AWARDS</b>						<b>\$ 988,800</b>	<b>\$ 291,529</b>	<b>\$ 1,452,974</b>	<b>\$ 1,452,974</b>	<b>\$ 755,703</b>

**Source Codes**

D - Direct funding  
i - Indirect funding

*See accompanying notes to the schedule of expenditures of federal awards.*

**AGORA CYBER CHARTER SCHOOL**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF**  
**FEDERAL AWARDS**  
*Year Ended June 30, 2009*

**NOTE A      GENERAL**

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the School. The School's reporting entity is defined in Note A to the School's financial statements. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included on the schedule.

**NOTE B      BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note B.

**AGORA CYBER CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*Year Ended June 30, 2009*

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of the Agora Cyber Charter School.
2. No instances of significant deficiencies relating to the audit of the financial statements are reported in the 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*.

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3. No instances of noncompliance material to the financial statements of the Agora Cyber Charter School were disclosed during the audit.
4. One material weakness relating to the audit of the major federal awards programs is reported in the Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major awards programs for the Agora Cyber Charter School expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The program tested as a major program was:

Program	CFDA
Title I	84.010
8. The threshold used for distinguishing Types A and B programs was \$300,000.
9. The Agora Cyber Charter School was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None.

**AGORA CYBER CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*Year Ended June 30, 2009*

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

**Material Weakness**

FA-09-1 TITLE I - CFDA No. 84.010

**Condition:** The Title I final expenditures report was not filed timely with the Pennsylvania Department of Education. In addition, one of the quarterly cash on hand reports for the Title I program was not filed timely, and the other three quarterly cash on hand reports were never filed. Lastly, the data collection report was never filed.

**Criteria:** The final expenditures report is a required report to be submitted at the end of the program period. Quarterly cash-on-hand reports are required to be submitted at the end of each calendar year quarter. Also, the data collection report is required to be submitted nine months following the year-end.

**Effect:** Failure to submit the above-mentioned reports in a timely manner could result in the suspension of the project's payments.

**Recommendation:** The Title Coordinator and the Finance Director should meet on a monthly basis to review compliance with federal financial awards in the area of financial reporting for all projects.

**Response:** As of June 8, 2011, the Agora Finance Manager, the Head of School and a member of the School Board Finance Committee meet on a monthly basis to review month-end financials and ensure the Charter School is in compliance with federal financial awards in the area of financial reporting for all projects. During this process, expenditures are reviewed against the corresponding budgets to ensure proper classification, appropriate spending levels and all financial reporting for all projects have been completed. In addition, an update of federal financial award compliance will be included in the monthly Board report.