

**AGORA CYBER CHARTER SCHOOL**

**ANNUAL FINANCIAL REPORT**

*Year Ended June 30, 2012*

## **INTRODUCTORY SECTION**

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INTRODUCTORY SECTION

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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, 2012, which collectively comprise the Agora Cyber Charter 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 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, 2012, 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 (GAAP).

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2013, 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 evidence sufficient 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. The schedule of expenditures of federal and state awards, required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate 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 other 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 schedule of expenditures of federal and state awards are fairly stated in all material respects in relation to the financial statements as a whole.

*Maille, Falconiero & Company, LLP*

Oaks, Pennsylvania  
February 27, 2013

**AGORA CYBER CHARTER SCHOOL**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
*Year Ended June 30, 2012*

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, 2012. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

**FINANCIAL HIGHLIGHTS**

- Total revenues increased by \$28,224,974 due to 35% increase in the student population from fiscal year 2011.
- The School's total assets exceeded total liabilities as of June 30, 2012 by \$12,457,464. This balance was the result of a \$6,611,292 excess in revenue over expenditures for the year ended June 30, 2012.
- The School's cash balance at June 30, 2012, was \$7,970,743 representing an increase of \$977,767 from June 30, 2011.

**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 assets presents information on all of the School's assets and liabilities, with the difference between the two reported as net assets. 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, 2012*

**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>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current assets	\$ 35,737,621	\$ 21,233,312
Capital assets, net	92,831	193,759
<b>TOTAL ASSETS</b>	<u>35,830,452</u>	<u>21,427,071</u>
<b>LIABILITIES</b>	<u>23,372,988</u>	<u>15,580,899</u>
<b>NET ASSETS</b>	<u>\$ 12,457,464</u>	<u>\$ 5,846,172</u>

As noted earlier, net assets may serve over time as a useful indicator of a school's financial position. In the case of the School, assets exceed liabilities by \$12,457,464 as of June 30, 2012, an increase of \$6,611,292 from June 30, 2011.

The School's revenues are predominately local area school district's funds based on the student enrollment. For the year ended June 30, 2012, the School's total revenues of \$99,322,189 exceeded total expenditures of \$92,710,897 by \$6,611,292. In the previous year, revenues exceeded expenditures by \$4,346,396.

**AGORA CYBER CHARTER SCHOOL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2012*

	<u>2012</u>	<u>2011</u>
<b>REVENUES</b>		
Program revenues		
Local educational agency assistance	\$ 95,353,911	\$ 66,069,598
State sources	837,773	915,386
Federal sources	<u>3,130,505</u>	<u>4,112,231</u>
<b>TOTAL REVENUES</b>	<u>99,322,189</u>	<u>71,097,215</u>
<b>EXPENDITURES</b>		
Instruction	59,101,737	48,994,942
Support services	<u>33,609,160</u>	<u>17,755,877</u>
<b>TOTAL EXPENDITURES</b>	<u>92,710,897</u>	<u>66,750,819</u>
<b>CHANGE IN NET ASSETS</b>	6,611,292	4,346,396
<b>NET ASSETS, BEGINNING</b>	<u>5,846,172</u>	<u>1,499,776</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 12,457,464</u>	<u>\$ 5,846,172</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 balance of \$12,364,633, of which \$9,350,861 has been assigned for future PSERS contributions, future lease payments beyond the current charter, additional learning center development costs, increase in K-8 foreign language and middle/high school non-specialist instruction and future potential legal expenses. These amounts represent the segregation of a portion of the fund balance for future PSERS rate changes, committed payments and financial risks and are therefore, not available for appropriations. The unassigned fund balance equates to 3.2% of the total General Fund expenditures.

**Budget Variations**

The School's budgeted revenue and other financing sources were based on a budgeted average enrollment of 7,321, in the amount of \$72,567,917. The actual revenues represent an increase from budgeted revenues of \$26,754,272, with an actual average enrollment of 9,184, which was 1,863 students higher than expected.

Actual expenditures increased \$21,915,249 from the budget, due mainly to meet the support of the 1,863 average enrollment over the budgeted number of students.

**AGORA CYBER CHARTER SCHOOL**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
*Year Ended June 30, 2012*

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2012, the School's investment in capital assets for its governmental activities totaled \$92,831 (net of accumulated depreciation). This investment in capital assets for fiscal year 2011-2012 consisted of office equipment and computer hardware.

Additional information on the School's capital assets can be found in Note H 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**

Though the cyber charter school concept is now widely-accepted as an alternative to the traditional brick and mortar model, the issue concerning how cyber charter schools are funded will likely be a continual discussion point in the foreseeable future. Most recent proposed legislation includes additional exclusions to Pennsylvania Department of Education's 363 Form – "School Districts Calculation of Selected Expenditures Per Average Daily Membership", which would lower the amount per student a charter school could receive. The rapid growth also leads to burdens on administration to increase staff, educational programs, support services to meet student needs and demand. For fiscal year 2012-2013, the School's primary source of revenue, the per student subsidy provided by the local school districts, is budgeted to increase by \$28,406,837 for fiscal year 2012-2013, due to projected increased enrollment from 9,184 to 11,926 students.

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

Although the School has seen a significant increase each year in enrollment, the extreme growth seen in fiscal year 2011-2012 is unlikely to continue. The School's solid financial position is expected to help manage the variances in enrollment from one year to the next.

**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 ASSETS

June 30, 2012

	<u>General Fund</u>	<u>Adjustments (Note D)</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	\$ 7,970,743	\$ -	\$ 7,970,743
State subsidies receivable	358,729	-	358,729
Federal subsidies receivable	336,155	-	336,155
Local receivables	26,943,195	-	26,943,195
Other current assets	53,309	-	53,309
Prepaid expenses	75,490	-	75,490
	<u>35,737,621</u>	<u>-</u>	<u>35,737,621</u>
<b>TOTAL CURRENT ASSETS</b>	<b>35,737,621</b>	<b>-</b>	<b>35,737,621</b>
<b>CAPITAL ASSETS, net</b>	<u>-</u>	<u>92,831</u>	<u>92,831</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 35,737,621</b></u>	<u><b>\$ 92,831</b></u>	<u><b>\$ 35,830,452</b></u>
<b>LIABILITIES AND FUND BALANCE/NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 23,166,988	\$ -	\$ 23,166,988
Deferred revenue	206,000	-	206,000
	<u>23,372,988</u>	<u>-</u>	<u>23,372,988</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>23,372,988</b>	<b>-</b>	<b>23,372,988</b>
<b>FUND BALANCE/NET ASSETS</b>			
Fund balance			
Nonspendable	75,490	(75,490)	-
Assigned			
Falls learning center lease payments	1,563,681	(1,563,681)	-
PSERS commitment	3,487,180	(3,487,180)	-
Potential legal expenses	500,000	(500,000)	-
K-8 foreign language program	830,000	(830,000)	-
Increased instructional support programs	970,000	(970,000)	-
Additional learning centers	2,000,000	(2,000,000)	-
Unassigned	2,938,282	(2,938,282)	-
<b>TOTAL FUND BALANCE</b>	<u>12,364,633</u>	<u>(12,364,633)</u>	<u>-</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><b>\$ 35,737,621</b></u>		
<b>Net assets</b>			
Invested in capital assets, net		92,831	92,831
Unrestricted		12,364,633	12,364,633
<b>TOTAL NET ASSETS</b>		<u>12,457,464</u>	<u>12,457,464</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u><b>\$ 92,831</b></u>	<u><b>\$ 35,830,452</b></u>

See accompanying notes to the basic financial statements.

**AGORA CYBER CHARTER SCHOOL**  
**GOVERNMENTAL FUND STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE/**  
**STATEMENT OF ACTIVITIES**  
*Year Ended June 30, 2012*

	<u>General Fund</u>	<u>Adjustments (Note D)</u>	<u>Statement of Activities</u>
<b>REVENUES</b>			
Program revenues			
Local educational agency assistance	\$ 95,353,911	\$ -	\$ 95,353,911
State sources	837,773	-	837,773
Federal sources	<u>3,130,505</u>	<u>-</u>	<u>3,130,505</u>
<b>TOTAL REVENUES</b>	<u>99,322,189</u>	<u>-</u>	<u>99,322,189</u>
<b>EXPENDITURES</b>			
Instruction	59,101,737	-	59,101,737
Support services	33,501,592	107,568	33,609,160
Capital outlay	6,640	(6,640)	-
<b>TOTAL EXPENDITURES</b>	<u>92,609,969</u>	<u>100,928</u>	<u>92,710,897</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	6,712,220	(6,712,220)	-
<b>CHANGE IN FUND BALANCE/ NET ASSETS</b>	-	6,611,292	6,611,292
<b>FUND BALANCE/NET ASSETS AT BEGINNING OF YEAR</b>	<u>5,652,413</u>	<u>193,759</u>	<u>5,846,172</u>
<b>FUND BALANCE/NET ASSETS AT END OF YEAR</b>	<u>\$ 12,364,633</u>	<u>\$ 92,831</u>	<u>\$ 12,457,464</u>

*See accompanying notes to the basic financial statements.*

**AGORA CYBER CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2012*

**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 assets 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, 2012*

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.

**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. The School defines a capital asset as an asset with an initial individual cost equal to or greater than \$1,000 and must also have an estimated useful life in excess of one year. 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**

Net assets 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.

**Fund Equity**

Beginning with the year ended June 30, 2011, the School has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the School's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- ***Nonspendable Fund Balance*** includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints. Fund balance types of this category are prepaid expenses.
- ***Restricted Fund Balance*** includes fund balance amounts that can be spent only for specific purposes stipulated by external resource providers or through enabling legislation.
- ***Committed Fund Balance*** includes fund balance amounts that are constrained for specific purposes that are internally imposed by the School through formal action of the highest level of decision-making authority and do not lapse at year-end. To be reported as committed, amounts cannot be used for any other purpose unless the School takes the same highest level action to remove or change the constraint.
- ***Assigned Fund Balance*** includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- ***Unassigned Fund Balance*** includes the residual classifications for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

The School Board Directors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. Assigned fund balance is intended to be used by the School for specific purposes but does not meet the criteria to be classified as restricted or committed.

**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.

**AGORA CYBER CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2012*

**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, 2012, \$9,230,784 of the School's bank balance of \$9,480,784 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ <u>9,230,784</u>
--------------------------------	---------------------

**NOTE D RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

TOTAL FUND BALANCE--MODIFIED ACCRUAL BASIS	\$ 12,364,633
Amount reported in the statement of net assets is different because:	
Capital assets are not financial resources and are not reported in the Governmental Fund statements	<u>92,831</u>
NET ASSETS--FULL ACCRUAL BASIS	<u>\$ 12,457,464</u>
NET CHANGE IN FUND BALANCE--MODIFIED ACCRUAL BASIS	\$ 6,712,220

Amounts reported in the statement of activities are different because:

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

Capital assets	6,640
Depreciation	<u>(107,568)</u>
CHANGE IN NET ASSETS--FULL ACCRUAL BASIS	<u>\$ 6,611,292</u>

**AGORA CYBER CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2012*

**NOTE E      COMMITMENTS AND CONTINGENCIES**

**Educational Products and Services Agreement**

On July 1, 2010, the School entered into an agreement with K12 Pennsylvania, LLC to provide educational products and administrative and technology services to the School. The agreement is effective until June 30, 2015. Fees consist of the following:

- Administrative services fee - 15% of qualified gross revenues and public contributions and grants for the first 7,000 students, 14% for the next 1,000 students and 13% thereafter.
- Technology services fee - 7% of qualified gross revenues and public contributions and grants.
- Other products and services fees as noted in the management agreement.

Fees charged by K12 Pennsylvania, LLC for the year ended June 30, 2012, were as follows:

Technology services fee	\$ 6,892,269
Administrative services fee	14,408,014
Other K12 products and services for online school, student materials and student computers	33,713,652

**NOTE F      RECEIVABLES**

Receivables as of June 30, 2012, consist primarily of subsidies from federal, state and local authorities. All receivables are considered by management to be fully collectible, and no allowance for doubtful accounts has been recorded.

**NOTE G      LEASES**

**Operating Lease**

In December 2009, the School entered into a 66-month lease for its Wayne location with GPX Wayne Office Properties, L.P. 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.

In addition, on February 15, 2012, the School added a four-month lease with GPX Wayne Office Properties, L.P. for additional space for its Wayne location. The lease on this additional space terminated on June 30, 2012.

In July 2012, the School leased an additional 7,733 square feet of office space at the Wayne location as an amendment to the original lease that expires June 30, 2015.

**AGORA CYBER CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2012*

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 559,249
2014	583,373
2015	594,321
2016	271,834
2017	279,310
2018 to 2021	<u>1,012,537</u>
	<u>\$ 3,300,624</u>

Rent expense for the year ended June 30, 2012, was \$419,944.

**NOTE H CAPITAL ASSETS**

Capital asset activity was as follows:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
Leasehold improvements	\$ 19,273	\$ -	\$ -	\$ 19,273
Computer equipment	197,808	4,160	-	201,968
Computer software	403,318	-	(400,958)	2,360
Office equipment	45,220	2,480	-	47,700
	<u>665,619</u>	<u>6,640</u>	<u>(400,958)</u>	<u>271,301</u>
Accumulated depreciation	<u>(471,860)</u>	<u>(107,568)</u>	<u>400,958</u>	<u>(178,470)</u>
	<u>\$ 193,759</u>	<u>\$ (100,928)</u>	<u>\$ -</u>	<u>\$ 92,831</u>

Depreciation expense for the year ended June 30, 2012, was \$107,568 and was charged to support services in the statement of activities.

**NOTE I 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, 2012, 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. Additionally in 2012, the School received \$500 from Pediatric Dental Associates, which was not spent as of June 30, 2012, and was, therefore, recorded as deferred revenue.

**NOTE J 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.

**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 and before July 1, 2011, 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.

**AGORA CYBER CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2012*

- Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

**Employer Contributions:** Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2012, the rate of employer's contribution was 8.65% of covered payroll. The 8.65% rate is composed of a pension contribution rate of 8.00% for pension benefits and .65% for healthcare insurance premium assistance.

The School's contribution to PSERS for the years ended June 30, 2012, 2011 and 2010, was \$1,708,676, \$687,136 and \$428,474, respectively, equal to the required contribution for each year.

**NOTE K 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, 2012, may be impaired. With the exception of Note I, 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 L 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.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**AGORA CYBER CHARTER SCHOOL**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
*Year Ended June 30, 2012*

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Program revenues				
Local educational agency assistance	\$ 69,479,129	\$ 69,479,129	\$ 95,353,911	\$ 25,874,782
State sources	907,000	907,000	837,773	(69,227)
Federal sources	2,181,788	2,181,788	3,130,505	948,717
<b>TOTAL REVENUES</b>	<u>72,567,917</u>	<u>72,567,917</u>	<u>99,322,189</u>	<u>26,754,272</u>
<b>EXPENDITURES</b>				
Instruction	46,706,630	46,706,630	59,101,737	(12,395,107)
Support services	23,988,090	23,988,090	33,501,592	(9,513,502)
Capital outlay	-	-	6,640	(6,640)
<b>TOTAL EXPENDITURES</b>	<u>70,694,720</u>	<u>70,694,720</u>	<u>92,609,969</u>	<u>(21,915,249)</u>
<b>NET CHANGE IN FUND BALANCE</b>	1,873,197	1,873,197	6,712,220	4,839,023
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>5,652,413</u>	<u>5,652,413</u>	<u>5,652,413</u>	<u>-</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 7,525,610</u>	<u>\$ 7,525,610</u>	<u>\$ 12,364,633</u>	<u>\$ 4,839,023</u>

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See accompanying note to the required supplementary information.

**AGORA CYBER CHARTER SCHOOL**  
**NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
*Year Ended June 30, 2012*

**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 basic financial statements of the Agora Cyber Charter School as of and for the year ended June 30, 2012, and have issued our report thereon dated February 27, 2013. 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**

Management of the Agora Cyber Charter School is responsible for establishing and maintaining effective 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 opinion 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 the 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.

*Maille, Falconier & Company, LLP*

Oaks, Pennsylvania  
February 27, 2013



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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 compliance of the Agora Cyber Charter School with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and 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 on the Agora Cyber Charter School's compliance with those requirements.

In our opinion, 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, 2012.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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.

*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.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Trustees, the Commonwealth of Pennsylvania, 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.

*Maille, Falconier & Company, LLP*

Oaks, Pennsylvania  
February 27, 2013

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

**AGORA CYBER CHARTER SCHOOL**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*Year Ended June 30, 2012*

<u>Federal Grantor/Project Title</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, 2011</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2012</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>									
<b>Passed through the Pennsylvania Department of Education</b>									
Title I Improving Basic Programs	84.010	013-121057	July 1, 2011 to September 30, 2012	\$ 1,706,578	\$ 1,609,570	\$ -	\$ 1,706,578	\$ 1,706,578	\$ 97,008
Title I Improving Basic Programs	84.010	042-11057	February 23, 2011 to September 30, 2012	46,180	46,180	-	46,180	46,180	-
Title I Improving Basic Programs	84.010	013-111057	July 19, 2010 to September 30, 2012	1,770,082	532,629	347,804	184,825	184,825	-
Title II Improving Teacher Quality	84.367	020-101057	July 1, 2009 to September 30, 2010	67,184	(3)	(3)	-	-	-
Title II Improving Teacher Quality	84.367	020-111057	July 19, 2011 to September 30, 2011	95,827	-	(23,942)	23,942	23,942	-
Title II Improving Teacher Quality	84.367	020-121057	July 1, 2011 to September 30, 2012	38,436	60,360	-	60,360	60,360	-
ARRA - Title I Part A Grants to LEA's	84.389	127-0101057	May 28, 2009 to September 30, 2011	1,331,712	-	(175,620)	175,621	175,621	1
<b>Passed through the Chester County Intermediate Unit</b>									
IDEA-B	84.027	062-1200024	July 1, 2011 to June 30, 2012	771,836	532,696	-	771,836	771,836	239,140
IDEA 619	84.027	131-110024B	July 1, 2011 to June 30, 2012	1,233	1,233	-	1,233	1,233	-
IDEA 619	84.027	131-110024B	July 1, 2011 to June 30, 2012	612	612	-	612	612	-
IDEA-B	84.027	062-110024	July 1, 2010 to June 30, 2011	637,371	53,727	53,727	-	-	-
ARRA - IDEA-B	84.391	127-100624	February 17, 2009 to September 30, 2011	713,734	241,264	81,946	159,318	159,318	-
<b>TOTAL FEDERAL AWARDS</b>					<u>\$ 3,078,268</u>	<u>\$ 283,912</u>	<u>\$ 3,130,505</u>	<u>\$ 3,130,505</u>	<u>\$ 336,149</u>

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, 2012*

**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 B 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, 2012*

**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*.
3. No instances of noncompliance material to the financial statements of the Agora Cyber Charter School were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are 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 an unqualified opinion.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:

Program	CFDA
Title I Cluster	84.010, 84.389

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.

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

None.

**AGORA CYBER CHARTER SCHOOL**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
*Year Ended June 30, 2012*

**FA-11-1      REPORTING**

***Description of Finding:*** Four quarterly cash on hand reports for the Title I program were never filed.

***Current Status:*** All four quarterly cash on hand reports were filed in the current year; therefore, this finding is no longer applicable.