



***21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL***

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**Year Ended June 30, 2014**



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## INDEPENDENT AUDITOR'S REPORT

**To the Board of School Directors  
21<sup>st</sup> Century Cyber Charter School  
Exton, Pennsylvania**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of 21st Century Cyber Charter School, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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 from material misstatement.

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

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

## 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 each major fund of 21<sup>st</sup> Century Cyber Charter School, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule - general fund, and the schedules of funding progress - postemployment benefits plan 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2015, on our consideration of the 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* in considering the Charter School's internal control over financial reporting and compliance.

*Herbein + Company, Inc.*

**Reading, Pennsylvania  
January 13, 2015**



## 21ST CENTURY CYBER CHARTER SCHOOL

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplementary Information

June 30, 2014

The discussion and analysis of 21st Century Cyber Charter School's (Charter School) financial performance provides an overall review of the Charter School's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the Charter School's financial performance as a whole. Readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the Charter School's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999.

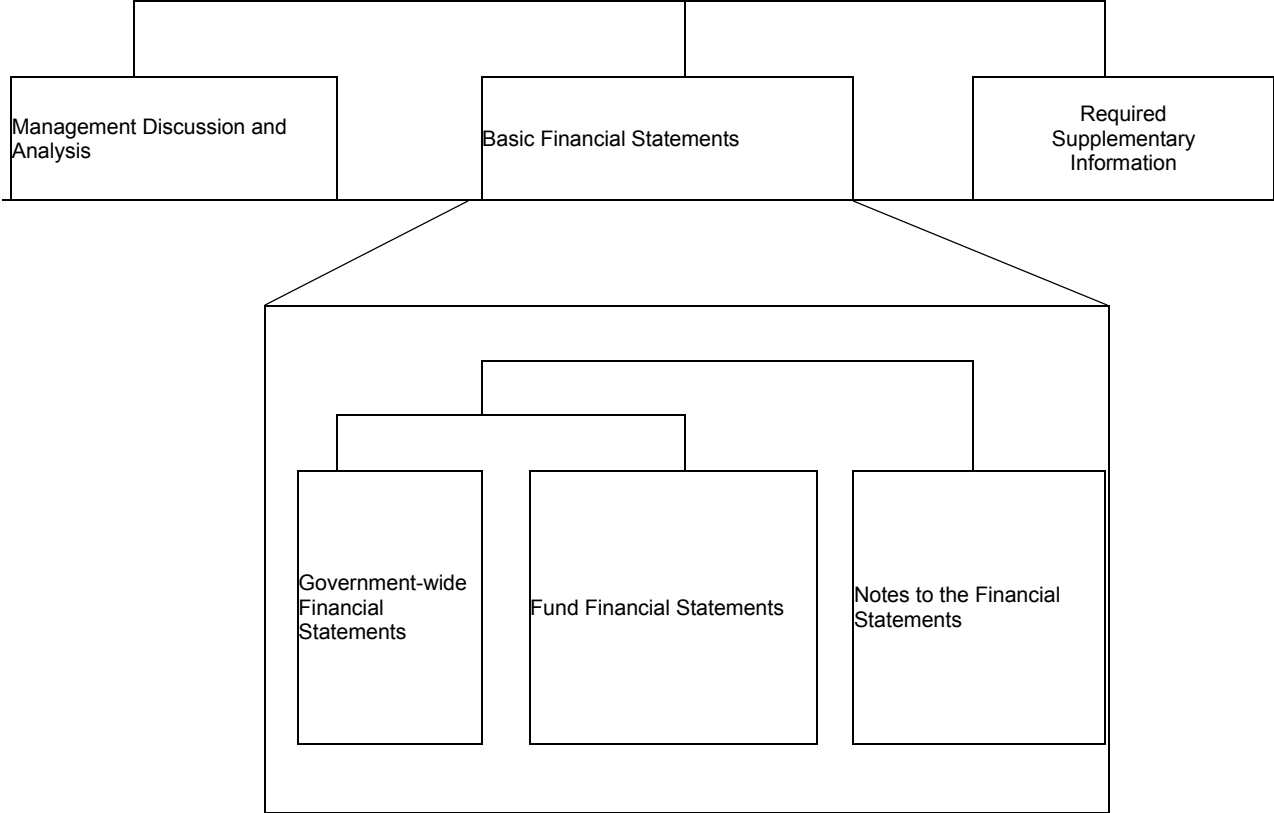
### FINANCIAL HIGHLIGHTS

The 21st Century Cyber Charter School's financial results for the 2013-2014 school year resulted in a total net position of \$5,850,695 and a Governmental Fund balance of \$2,656,897 at June 30, 2014. The June 30, 2012-2013 net position was \$4,559,950 and fund balance was \$4,372,726.

Governmental fund total assets at June 30, 2014 were \$5,028,548 compared to the June 30, 2013 balance of \$5,479,465.

The primary source of revenue for the Charter School is tuition charged to school districts at rates determined by the completion of PDE from 363.

**Figure 1**  
**Required Components of 21st Century Cyber Charter School's Financial Report**



**OVERVIEW OF FINANCIAL STATEMENTS**

Figure 2 summarizes the major features of the Charter School's financial statements. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

**Figure 2**  
**21st Century Cyber Charter School's**  
**Government-wide and Fund Financial Statements**

		<b>Fund Statements</b>
	<b>Government-wide Statements</b>	<b>Governmental Funds</b>
Scope	Entire 21st Century Cyber Charter School (except fiduciary funds)	The activities of the Charter School that are not proprietary or fiduciary, such as education, administration and community services
Required financial statements	Statement of net position Statement of activities	Balance Sheet Statement of revenues, expenditures, and changes in fund balance
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, current and noncurrent, and deferred inflows and outflows of resources	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or noncurrent liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

## Government-wide Statements

The government-wide statements report information about the Charter School as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all governmental assets and liabilities. Current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Charter School's net position and how it has changed. Net position, the difference between assets and liabilities, is one way to measure the Charter School's financial health or position. Over time, increases or decreases in net position are an indication of whether the Charter School's financial health is improving or deteriorating.

Governmental activities – All of the Charter School's basic services are included here, such as instruction, administration and pupil health.

## Fund Financial Statements

The fund financial statements provide more detailed information about the Charter School's funds. The Charter School has no non-major governmental, proprietary or fiduciary funds and reports all activity as governmental funds.

Governmental Funds – Includes the Charter School's basic services and generally (1) focuses on how cash and other financial assets can readily be converted into cash inflows and outflows and (2) identifies balances left at year-end that are available for spending. Financial results are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets. The governmental fund statements provide a detailed short-term view of the Charter School's operations and the services provided. Governmental fund information helps the reader determine the level of financial resources that can be spent in the near future to finance the Charter School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

FINANCIAL ANALYSIS OF THE 21ST CENTURY CYBER CHARTER SCHOOL AS A WHOLE

The Charter School’s total net position was \$5,850,695 as of June 30, 2014.

<b>Figure 3 Condensed Statement of Net Position</b>		
<b>June 30, 2014</b>		
	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2014</b>
Current and other assets	\$ 5,479,465	\$ 5,028,548
Capital Assets	<u>\$ 398,406</u>	<u>\$ 3,886,897</u>
Total Assets	\$ 5,877,871	\$ 8,915,445
Current and other liabilities	\$ 1,106,739	\$ 2,371,651
Long-term liabilities	<u>\$ 211,182</u>	<u>\$ 693,099</u>
Total Liabilities	\$ 1,317,921	\$ 3,064,750
Net Position		
Invested in capital assets, net of related debt	\$ 398,406	\$ 3,475,638
Unrestricted	<u>\$ 4,161,544</u>	<u>\$ 2,375,057</u>
Total Net Position	\$ 4,559,950	\$ 5,850,695
Total Liabilities and Net Position	\$ 5,877,871	\$ 8,915,445

Current assets at June 30, 2014 included cash of \$3,503,534, intergovernmental and other receivables of \$1,431,138, prepaid expenses of \$81,255 and deposits of \$12,621. The intergovernmental receivables were higher as a result of increased subsidy payments. The Charter School purchased and renovated the new building located at 126 Wallace Avenue, which resulted in a \$3,488,491 increase in net capital assets.

Total liabilities increased in 2013-2014. Accounts payable balances were \$1,923,502, compared to the prior year balance of \$610,194. The increase of \$1,313,308 is a result of amounts due for services rendered, construction cost and expenses paid on behalf of 21CCCS as well as additional purchases. Accrued salaries and benefits decreased from \$484,778 at June 30, 2013 to \$428,906 at June 30, 2014, a result of the 2013-2014 staffing changes. The compensated absences accrual, which reflects the value of unused vacation time increased from \$75,716 to \$101,635 (current portion is \$115 + long-term portion \$101,520) as of June 30, 2014. The long term liability related to GASB 45 – Accounting for Other Postemployment Benefits increased by \$44,739 to \$180,205 at the end of 2013-2014 school year.

**Figure 4**  
**Changes in Net Position from Operating Results**

<b>June 30, 2014</b>		
	<b>Governmental Activities</b>	
<b>Revenues</b>	<b>2013</b>	<b>2014</b>
Program Revenues		
Charges for services	\$ 8,525,204	\$ 9,638,604
Operating grants and contributions	\$ 366,364	\$ 488,908
Capital grants and contributions	\$ 0	\$ 0
Investment Earnings	<u>\$ 9,062</u>	<u>\$ 6,631</u>
<b>Total Revenues</b>	<b>\$ 8,900,630</b>	<b>\$ 10,134,143</b>
<b>Expenses</b>		
Instruction - Regular Programs	\$ 4,887,154	\$ 4,775,360
Instruction - Special Programs	\$ 684,951	\$ 791,097
Support Services	\$ 2,838,753	\$ 3,275,524
Interest on Long-Term Debt	<u>\$ 0</u>	<u>\$ 1,417</u>
<b>Total Expenses</b>	<b>\$ 8,410,858</b>	<b>\$ 8,843,398</b>
Increase (Decrease) in Net Position	\$ 489,772	\$ 1,290,745
Beginning Net Position	\$ 4,070,178	\$ 4,559,950
Ending Net Position	\$ 4,559,950	\$ 5,850,695

Growing enrollments in the Charter School and new/existing partnerships generated \$1,233,511 of additional tuition revenue in 2013-2014 compared to the prior school year.

Total expenses in 2013-2014 were approximately \$432,540 higher than in 2012-2013 due to increased staffing in the Business Administration department.

#### BUDGET HIGHLIGHTS

During the fiscal year, the Board authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the 21st Century Cyber Charter School. A schedule showing the Charter School's original and final budget amounts compared with amounts actually paid and received is provided in the financial statements.

Actual 2013-14 revenues were 2.7% lower than budgeted amounts, not inclusive of building renovations financing. Expenditures were \$1,509,881 lower than the final budget as overall spending levels were less than anticipated. Some new and current staff positions budgeted for 2013-14 were not filled during the school year or were filled later than planned. The Charter School experienced savings in the following other areas: postage costs partly due to more efficient shipping procedures and discounted services, conferences/travel were held to a minimum, computer repair cost, and marketing.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2014, the Charter School had \$ 3,886,897 invested in building improvements, furniture and computer equipment, net of depreciation.

<b>Figure 5 Capital Assets (net of depreciation)</b>		
<b>June 30, 2014</b>		
	<b>Governmental Activities</b>	
	<b>2013</b>	<b>2014</b>
Construction in Progress	\$ 0	\$3,501,445
Building Improvements	\$ 19,322	\$18,630
Furniture & Computer Equipment	\$ 379,084	\$ 366,822
<b>Total</b>	<b>\$ 398,406</b>	<b>\$3,886,897</b>

**Debt Administration**

The 21st Century Cyber Charter School had debt of \$411,259 for 126 Wallace Avenue building renovations as of June 30, 2014.

**ECONOMIC FACTORS AND THE CHARTER SCHOOL’S FUTURE**

The 21<sup>st</sup> Century Cyber Charter School is continued to increase its teaching staff in 2013-2014 in order to accommodate increased enrollments and to expand class offerings and related services. Management has expanded the role of teaching assistants which allows teachers to service more students. In addition, as enrollments have increased, so has the demand for special education services. Several of the new teaching positions required special education certifications and in 2013-2014 an increase in special education teachers has helped to bridge the gap from the increase in student enrollment for special education.

On October 31, 2013 the process was completed for the settlement of the property located at 126 Wallace Avenue in Downingtown. Renovations are still being completed as of June 2014. Both leases at 805 Springdale Drive and 782 Springdale Drive expired on August 31, 2013; therefore the leases were amended in 2012-13 to extend the lease agreement to June 30, 2014. The 21CCCS staff moved into the new location during the summer of 2014.

21CCCS was notified in June 2011 that its charter had been renewed effective July 1, 2011 for another 5 years. The Charter School also made Annual Yearly Progress (AYP) in 2010-2011, one of only two cyber charter schools in Pennsylvania to do so and repeated AYP achievement as one of only three cyber charter schools in Pennsylvania with 2011-2012 school year. The Charter School is the only statewide cyber charter to have achieved AYP for five consecutive years (2004-2005 through 2008-2009). Beginning in 2012 the Department of Education recalculated the figures to determine Annual Yearly Progress. The new recalculation classifies charters as districts and not as individual schools when calculating AYP.

In 2006, the 21<sup>st</sup> Century Cyber Charter School and the Chester County Intermediate Unit entered into an agreement that established a virtual program to offer online classes to students enrolled in school districts throughout the Commonwealth. The program, under the name of Brandywine Virtual Academy (BVA), offers online courses for original credit course and credit recovery during the school year and summer school. The Charter School staff had managed the program since BVA's inception, in early 2011-12, the CCIU took on a larger role and began managing BVA's day-to-day operations and expanding its services. The Charter School's new role is to provide instructional services (teachers and curriculum) only to Partnership students. This agreement was terminated on June 30, 2014.

The Board of Trustees has maintained the agreement between 21CCCS and the CCIU to provide accounting, human resources, and other services. The Board of Trustees determined this agreement will end as of June 30, 2014. In March 2014, with the resolution between 21CCCS and CCIU the new 21CCCS Business Administrator was assigned to develop a new department with a payroll clerk and two fiscal assistants to replace the CCIU positions that will no longer be contracted. Several CCIU staff members continue to work with the school daily to service the Charter School's needs.

The Pennsylvania School Employees Retirement System (PSERS) retirement rate for 2013-14 was 16.93% of qualified wages. The 2013-2014 rate is an increase over the 2012-2013 PSERS rate of 12.36%. The employer contribution rate for fiscal year 2014-2015 and 2015-16 will be 21.40% and 25.84% respectively. This rate was determined by PSERS' actuary and is subject to certification by the PSERS Board of Trustees.

PSERS has developed tentative projections for the employer contribution rate for future years that range from 21.40% to 26.96%. These tentative projections are based on the actual investment returns and potential actuarial experience losses for the 2013-2014 fiscal year and will have a significant impact on future operations.

To date, no legislation has been passed regarding cyber charter school funding. The Board of Trustees has approved a program stabilization fund to provide financial assistance to the Charter School, if needed, when the legislation is approved.

#### CONTACTING THE 21ST CENTURY CYBER CHARTER SCHOOL FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the Charter School's finances and to show accountability for the money received. If you have questions about this report or wish to request additional financial information, please contact the Open Records Officer, 21st Century Cyber Charter School, 805 Springdale Drive, Exton, PA 19341, 484-875-5400.

21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2014

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 3,503,534
Intergovernmental Receivables	1,431,138
Prepaid Expenses	81,255
Deposits	12,621
Capital Assets Not Being Depreciated:	
Construction in Progress	3,501,445
Capital Assets, Net of Accumulated Depreciation	
Building Improvements	18,630
Furniture and Computer Equipment	366,822
	<u>8,915,445</u>
<b>TOTAL ASSETS</b>	<u>8,915,445</u>
<b>LIABILITIES</b>	
Accounts Payable	1,923,502
Accrued Liabilities	10,000
Accrued Salaries and Benefits	428,906
Unearned Revenues	9,243
Noncurrent Liabilities	
Due Within One Year	8,665
Construction Loan	402,709
Long-Term Portion of Compensated Absences	101,520
Postemployment Benefits Obligation	180,205
	<u>3,064,750</u>
<b>TOTAL LIABILITIES</b>	<u>3,064,750</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	3,475,638
Unrestricted	2,375,057
	<u>5,850,695</u>
<b>TOTAL NET POSITION</b>	<u>\$ 5,850,695</u>

See accompanying notes.

21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenue		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
<b>Governmental Activities:</b>				
<b>Instruction:</b>				
Regular	\$ 4,775,360	\$ 5,205,809	\$ 236,006	\$ 666,455
Special	791,097	862,655	102,166	173,724
Total Instructional Services	<u>5,566,457</u>	<u>6,068,464</u>	<u>338,172</u>	<u>840,179</u>
<b>Support Services:</b>				
Instructional Student Support Services	1,095,865	1,194,223	81,698	180,056
Administration and Financial	1,531,221	1,669,407	63,666	201,852
Operation & Maintenance of Plant Services	648,438	706,510	5,372	63,444
Total Support Services	<u>3,275,524</u>	<u>3,570,140</u>	<u>150,736</u>	<u>445,352</u>
<b>Noninstructional Services:</b>				
Interest on Long-Term Debt	1,417	-	-	(1,417)
Total Noninstructional Services	<u>1,417</u>	<u>-</u>	<u>-</u>	<u>(1,417)</u>
<b>Total Governmental Activities</b>	<u>\$ 8,843,398</u>	<u>\$ 9,638,604</u>	<u>\$ 488,908</u>	1,284,114
<b>General Revenues:</b>				
				Investment Earnings
				<u>6,631</u>
<b>Change in Net Position</b>				1,290,745
<b>Net Position - Beginning</b>				<u>4,559,950</u>
<b>Net Position - Ending</b>				<u>\$ 5,850,695</u>

See accompanying notes.

**21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL**

**BALANCE SHEET - GOVERNMENTAL FUND**

**June 30, 2014**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 3,503,534
Intergovernmental Receivables	1,431,138
Prepaid Expenditures	81,255
Deposits	<u>12,621</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 5,028,548</u></u></b>
 <b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 1,923,502
Accrued Liabilities	10,000
Accrued Salaries and Benefits	428,906
Unearned Revenues	<u>9,243</u>
<b>TOTAL LIABILITIES</b>	<b>2,371,651</b>
 <b>FUND BALANCE</b>	
Nonspendable Fund Balance: Prepaid Expenditures and Deposits	93,876
Committed Fund Balance:	
Future Capital Equipment/Software/Furniture Purchases	60,000
Future Curriculum Development Costs	44,000
New Initiatives Fund	300,000
Future Program Stabilization Fund	1,400,000
Assigned Fund Balances:	
2014 - 2015 Budgeted Revenue Shortfall	269,577
PSERS Retirement Rate Increases	360,371
Unassigned Fund Balance	<u>129,073</u>
<b>TOTAL FUND BALANCE</b>	<b><u>2,656,897</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u><u>\$ 5,028,548</u></u></b>

21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL

RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET TO THE  
GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2014

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Amounts reported for governmental activities on the statement of net position (page 3) are different because:

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUND (page 5)</b>			\$	2,656,897
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$4,349,749 and the accumulated depreciation is \$462,852.				3,886,897
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:				
	Postemployment Benefits Obligation	\$	(180,205)	
	Construction Loan		(411,259)	
	Long-Term Portion of Compensated Absences		<u>(101,635)</u>	<u>(693,099)</u>
<b>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</b>			\$	<u>5,850,695</u>

**21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUND**

**For the Year Ended June 30, 2014**

	<u>General Fund</u>
<b>REVENUES</b>	
Local Sources	\$ 9,787,370
State Sources	<u>346,775</u>
<b>TOTAL REVENUES</b>	10,134,145
 <b>EXPENDITURES</b>	
Current:	
Instruction	5,399,268
Support Services	3,357,946
Capital Outlay	3,502,602
Debt Service - Interest	<u>1,417</u>
<b>TOTAL EXPENDITURES</b>	<u>12,261,233</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	(2,127,088)
 <b>OTHER FINANCING SOURCES</b>	
Proceeds from Issuance of Construction Loan	<u>411,259</u>
<b>NET CHANGE IN FUND BALANCE</b>	(1,715,829)
 <b>FUND BALANCE - BEGINNING</b>	<u>4,372,726</u>
<b>FUND BALANCE - ENDING</b>	<u><u>\$ 2,656,897</u></u>

**21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL**

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2014**

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**Amounts reported for governmental activities in the statement of activities (page 4) are different because:**

**NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND (page 7) \$ (1,715,829)**

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital Outlays	\$ 3,601,318	
Less: Depreciation Expense	<u>(112,827)</u>	3,488,491

In the statement of activities, certain operating expenses - compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used. (25,919)

Issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. However, neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these transactions in the statement of activities is shown below:

Issuance of Construction Loan		(411,259)
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Postemployment benefits are recognized when they are paid on the fund statements. With the implementation of GASB #45, an estimated liability for future benefits due will be phased in over several years. This amount represents the difference between the estimated annual cost and the amount paid as reported in the statement of activities. (44,739)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,290,745**

## 21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

The 21<sup>st</sup> Century Cyber Charter School (Charter School) was originally chartered through West Chester Area School District. The Charter School was established in April 2001 and began operations in July 2001. Effective July 1, 2006, the Charter School became chartered directly through the Pennsylvania Department of Education. The current charter expires June 30, 2015.

The Charter School is located in Exton, Pennsylvania and was established to provide services to students located in Pennsylvania.

The Charter School is governed by a board made up of the executive directors of the Bucks, Chester, Delaware and Montgomery County Intermediate Units, two school district superintendents from each county, and three parent members.

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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##### A. Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include only statements of the Charter School.

The Charter School used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, boards, councils, etc) within its reporting entity. The criteria used by the Charter School for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the Charter School reviews the applicability of the following criteria. The Charter School is financially accountable for:

- Organizations that make up the legal Charter School entity.
- Legally separate organizations if Charter School officials appoint a voting majority of the organizations' governing body and the Charter School is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Charter School as defined below.

**Impose its will** - If the Charter School can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization.

**Financial benefit or burden** - exists if the Charter School (1) is entitled to the organization's resources; (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization; or (3) is obligated in some manner for the debt of the organization.

## 21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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##### A. Reporting Entity - continued

- Organizations that are fiscally dependent on the Charter School. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the Charter School.

Based on the foregoing criteria, the 21<sup>st</sup> Century Cyber Charter School has determined it has no component units.

##### B. Basis of Presentation - Government-Wide Financial Statements

Government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting entity, except for its fiduciary activities. All fiduciary activities are reported only in the fund financial statements. The government-wide statements include separate columns for the governmental and business-type activities of the primary government, as well as any discretely presented component units. Governmental activities, which normally are supported by intergovernmental revenues and other nonexchange transactions, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The Charter School presently only has governmental activities.

Governmental activities are supported by intergovernmental revenues. The statement of activities demonstrates the level to which the direct expenses of a given function to the Charter School are offset by the program revenues related to that function. Direct expenses are those that are directly related to and clearly identified with a function. Program revenues include charges to customers or others who purchase, use or directly benefit from services or goods provided by a given function or grants and contributions that are restricted to meet the operational or capital requirements of a function. Other items not includable in program revenues are reported as general revenues.

##### C. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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**C. Basis of Presentation - Fund Financial Statements - continued**

**The Charter School reports the Following Major Governmental Fund:**

**General Fund:** The general fund is the general operating fund of the Charter School. It is used to account for all financial resources. All activities of the Charter School are accounted for through this fund.

The Charter School does not currently have any enterprise or fiduciary funds.

**D. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus*, and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Charter School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the Charter School.

21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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**E. Budgetary Information**

**1. Budgetary Basis of Accounting**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations, except unexpended grant appropriations and encumbrances, lapse at fiscal year-end. The Charter School's 2013-2014 budget was prepared and approved by the board of directors prior to submitting the budget to the Pennsylvania Department of Education.

All budget amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions of the annual budget during the year.

**F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance**

**1. Cash and Cash Equivalents**

The Charter School's reporting entity considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**2. Receivables**

As all of the intergovernmental receivables are due from local school districts and the Pennsylvania Department of Education (PDE), management believes that they are fully collectible. Thus, no allowance has been deemed necessary or reported in the accompanying financial statements.

**3. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The costs of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**4. Capital Assets, Depreciation, and Amortization**

The Charter School's capital assets with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the Charter School values these capital assets at the estimated fair value of the item at the date of its donation.

21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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**F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued**

**4. Capital Assets, Depreciation, and Amortization - continued:**

The Charter School generally capitalizes assets with a cost of \$1,500 or more as purchase and construction outlays occur. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

<u>Assets</u>	<u>Years</u>
Building improvements	20 - 50
Furniture and computer equipment	5 - 20

Interest costs incurred during the construction phase of capital assets are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets.

**5. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Charter School presently has no items that qualify for reporting in these categories.

21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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**F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued**

**6. Unearned Revenues**

Revenues that are received but not earned are reported as unearned revenues in the government-wide, governmental and proprietary funds financial statements. Unearned revenues arise when resources are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Charter School has legal claim to the resources, the liability for unearned revenue is removed from the respective financial statements and revenue is recognized.

**7. Net Position Flow Assumptions**

Sometimes the Charter School will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the Charter School's policy to consider restricted resources to have been depleted before unrestricted resources is applied.

**8. Fund Balance Flow Assumptions**

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The Charter School's policy states there are no restrictions placed on the order of the unrestricted fund balances used when an expenditure is incurred for a purpose in which unrestricted fund balance amounts are available under committed, assigned or unassigned fund balance. The decision will be made at the discretion of the director/CEO.

**9. Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Charter School itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

**21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance – continued**

**9. Fund Balance Policies - continued**

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Charter School's highest level of decision-making authority. The board of directions is the highest level of decision-making authority for the Charter School that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The director/CEO or designee may assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**G. Revenues and Expenditures**

**1. Program Revenues**

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operations or capital requirements of a particular function or segment. Other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. Tuition Revenue - School Districts**

Local sources revenue includes tuition revenue which represents the tuition paid by various school districts for the students enrolled in the Charter School who reside within that particular school district. This revenue is earned and recognized during the applicable school year, net of any refunds.

**3. Compensated Absences**

The Charter School allows employees to accumulate sick and vacation leave based on contractual agreements. An employee must be with the Charter School for ten years before they are eligible for a pay-out of sick days. Once eligible, employees are paid at 50% of their per diem rate, up to a maximum of \$7,500.

**21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**H. Other Use of Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

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**Deposits**

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Charter School does not have a policy for custodial credit risk. As of June 30, 2014, the carrying amount of the Charter School's deposits was \$3,503,534 and the bank balance was \$3,494,320. Of the bank balance, \$250,000 was covered by federal depository insurance and \$3,244,320 of the Charter School's bank balance was exposed to custodial credit risk but covered by collateralization requirements in accordance with Act 72.

**NOTE 3 - INTERGOVERNMENTAL RECEIVABLES**

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As all of the intergovernmental and state receivables are due from local school districts and the Pennsylvania Department of Education (PDE), management believes that they are fully collectible. Thus, no allowance has been deemed necessary or recorded in the accompanying financial statements.

The intergovernmental receivables balance of \$1,431,138 is comprised of receivables from numerous districts and the Pennsylvania Department of Education as of June 30, 2014. Balances not remitted by the school districts will be withheld from the school's basic education subsidy and paid by the Pennsylvania Department of Education.

**21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2014**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Deletions/ Decrease/ Transfers</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Construction in Progress	\$ -	\$ 3,501,445	\$ -	\$ 3,501,445
Capital assets being depreciated:				
Building Improvements	20,764	-	-	20,764
Furniture and Computer Equipment	<u>727,667</u>	<u>99,873</u>	-	<u>827,540</u>
Total assets being depreciated	748,431	99,873	-	848,304
Less accumulated depreciation for:				
Building Improvements	(1,442)	(692)	-	(2,134)
Furniture and Computer Equipment	<u>(348,583)</u>	<u>(112,135)</u>	-	<u>(460,718)</u>
Total accumulated depreciation	<u>(350,025)</u>	<u>(112,827)</u>	-	<u>(462,852)</u>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET</b>	<u>\$ 398,406</u>	<u>\$ (12,954)</u>	<u>\$ -</u>	<u>\$ 385,452</u>
<b>GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET</b>	<u>\$ 398,406</u>	<u>\$ 3,488,491</u>	<u>\$ -</u>	<u>\$ 3,886,897</u>

Depreciation expense was charged to functions/programs of the governmental activities of the primary government as follows:

Instruction:	
Regular Education	\$ 42,888
Special Education	6,909
Support Services:	
Instructional Student Support	9,582
Administrative and Financial Support Services	<u>53,448</u>
<b>TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES</b>	<u>\$ 112,827</u>

**21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2014**

**NOTE 5 - LEASES**

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During the 2008/2009 school year, the Charter School entered into an operating-type lease agreement for office space at 805 Springdale Drive, Exton, PA that expired August 31, 2013. During the 2012/2013 fiscal year, the lease was extended through June 30, 2014. The Charter School is responsible for payment of utilities and real estate taxes and must also meet certain minimum insurance requirements.

Total rent charged to expense during 2014 for this commitment was \$208,666.

In May 2011, the Charter School entered into a short-term lease agreement for office space at 782 Springdale Drive, Exton, PA that commenced August 1, 2011 and expired August 31, 2013. During the 2012/2013 fiscal year, the lease was extended through June 30, 2014. The Charter School is responsible for payment of utilities and must meet certain minimum insurance requirements. Real estate taxes and maintenance fees are included in the rental amount.

Total rent charged to expense during 2014 for this commitment was \$79,276.

**NOTE 6 - LONG-TERM LIABILITIES**

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On March 24, 2014, the Charter School entered into a commercial construction to permanent loan agreement with a financial institution. The proceeds of the loan are being used to finance the renovation of the new facility at 126 Wallace Avenue. The loan agreement provides advances up to \$1,600,000 through the conversion date of April 1, 2015 or such other date as determined by the financial institution in its sole discretion. Interest only payments are due monthly at the wall street journal prime rate plus 50 basis points, with a floor of 4.00% through the conversion date. Commencing on the April 1, 2015, principal and interest payments are due monthly through maturity on March 1, 2035. The loan bears interest at a fixed rate of 4.25% per annum. As of June 30, 2014, the Charter School has advanced \$411,259. The agreement has a prepayment penalty that varies based upon the timing of the prepayment ranging from 1% to 5%. The loan may be prepaid in whole or in part through internal cash flow, if the collateral is sold to a disinterested third party, or if refinanced with the existing financial institution at any time without penalty. Otherwise full prepayment will result in a penalty charged.

**21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2014**

**NOTE 6 - LONG-TERM LIABILITIES - CONTINUED**

Subsequent to year end, the Charter School advanced the available \$1,600,000 from loan. These proceeds were used to reimburse the general fund for capital outlay paid with existing cash reserves and to fund outstanding commitments at June 30, 2014. The future annual payments required to satisfy the fully advanced loan for the years ending June 30 are as follows:

	<u>Principal</u>	<u>Interest</u>
2015	\$ 8,550	\$ 11,318
2016	52,589	66,620
2017	54,868	64,341
2018	57,245	61,964
2019	59,727	59,482
2020 - 2024	339,778	256,267
2025 - 2029	420,068	175,977
2030 - 2034	519,330	76,714
2035	<u>87,845</u>	<u>1,562</u>
	<u>\$ 1,600,000</u>	<u>\$ 774,245</u>

Long-term liability balance and activity, except for the postemployment benefit obligation, for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Construction Loan	\$ -	\$ 411,259	\$ -	\$ 411,259	\$ 8,550
Compensated Absences	<u>75,716</u>	<u>94,066</u>	<u>(68,147)</u>	<u>101,635</u>	<u>115</u>
<b>TOTAL GOVERNMENTAL LONG-TERM LIABILITIES</b>	<u>\$ 75,716</u>	<u>\$ 505,325</u>	<u>\$ (68,147)</u>	<u>\$ 512,894</u>	<u>\$ 8,665</u>

Payment on the outstanding loan is made by the general fund. The compensated absence liability will also be liquidated by the general fund. Total interest paid during the year ended June 30, 2014 was \$1,417.

## 21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

#### NOTE 7 - EMPLOYEES RETIREMENT PLAN

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##### **Plan Description**

The Charter School contributes to a governmental cost-sharing multiple employer defined benefit pension plan administered by the commonwealth of Pennsylvania Public School Employees Retirement System (PSERS). Benefit provisions of the Plan are established under the provisions of the PSERS code (“the Code”) and may be amended by an act of the Pennsylvania State Legislature. The Plan provides retirement, disability, and death benefits, legislatively mandated ad hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying plan members and beneficiaries. It also provides for refunds of a member’s accumulated contribution upon termination of a member’s employment in the public school sector. PSERS issues a publicly available financial report that includes financial statements for the plan. The report may be obtained by writing to: PSERS, PO Box 125, Harrisburg, PA 17108-0125. The report is also available on the PSERS website at [www.pasers.state.pa.us/publications/cafr/index.htm](http://www.pasers.state.pa.us/publications/cafr/index.htm).

##### **Funding Policy**

The contribution policy is set by the code and requires contributions by active employees and by participating employers. Active members who joined the system prior to July 22, 1983, contribute at 5.25 percent (Membership Class TC) or at 6.50 percent (Membership Class TD) of the member’s qualifying compensation. Members joining PSERS on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 6.25 percent (Membership Class TC) or at 7.50 percent (Membership Class TD) of the member’s qualifying compensation. Members joining PSERS after June 30, 2001 and who were active or inactive as of June 30, 2011 contribute at 7.50 percent (automatic Membership Class TD). For all new hires and for members who elected Class TD membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members joining PSERS on or after July 1, 2011 contribute at 7.50 percent (Membership Class TE) or at 10.30 percent (Membership Class TF). Both membership classes TE and TF contain a “shared risk” which allows for an increase in the contribution percentage up to an additional 2.00 percent based on market results.

The contributions required of participating employers are based upon an actuarial valuation and are expressed as a percentage of annual covered payroll during the period for which the amount is determined. For the fiscal year ended June 30, 2014, the rate of employer contribution was 16.93 percent of covered payroll. The 16.93 percent rate is comprised of a pension contribution rate of 16.00 percent for pension benefits and 0.93 percent for health insurance premium assistance. The Charter School’s contribution to PSERS for the fiscal years ended June 30, 2014, 2013, and 2012 was \$667,271, \$441,565, and \$292,214, respectively.

## 21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

#### NOTE 8 - POSTEMPLOYMENT BENEFITS

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##### Plan Description

The 21<sup>st</sup> Century Cyber Charter School administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The Plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Charter School's health insurance plan, which covers both active and retired members. The Retiree Health Plan does not issue a publicly available financial report.

##### Funding Policy

The required contribution is based on pay-as-you-go financing. For administrators with more than ten but less than twenty years of service with the Charter School, the retired plan member contributes the premium in excess of the flat-dollar Charter School contribution for medical insurance determined at the member's retirement for the retired plan member and their spouse. For administrators with twenty years or more with the Charter School the retired plan member must pay premiums for vision. The retired plan member must pay 50 percent of the cost of term life insurance. The premium sharing for medical insurance is limited to half of the retirees years of service and after that time the retired plan member is responsible for paying 100 percent of the premiums for medical insurance, and long-term care insurance is provided based on years of service with the Charter School paying 100 percent of the cost. Over age 65, the retiree must pay the premium in excess of the flat-dollar Charter School contribution determined at age 65. In addition, long-term care insurance is only provided for a period equal to half of the retiree's service.

Project staff are allowed to continue coverage for themselves and dependents until the member reaches Medicare age. The retiree is responsible for payment equal to the premium determined for the purposes of COBRA.

##### Annual OPEB Cost and Net OPEB Obligation

The Charter School's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Charter School's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Charter School's net OPEB obligation:

Annual required contribution	\$ 47,988
Interest on net OPEB obligation	6,096
Adjustment to annual required contribution	(9,345)
Annual OPEB Cost	<u>44,739</u>
Contributions made (estimated)	-
Estimated increase in net OPEB obligation	<u>44,739</u>
Net OPEB obligation - beginning of year	<u>135,466</u>
Net OPEB obligation - end of year	<u>\$ 180,205</u>

21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

NOTE 8 - POSTEMPLOYMENT BENEFITS - CONTINUED

The Charter School's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 44,739	0.0%	\$ 180,205
6/30/2013	30,201	0.0%	135,466
6/30/2012	31,056	0.0%	105,265

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$188,943, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$188,943. The covered payroll (annual payroll of active employees covered by the plan) was \$3,814,562, and the ratio of the UAAL to the covered payroll was 4.95%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about actuarial value of plan assets and actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2014**

**NOTE 8 - POSTEMPLOYMENT BENEFITS - CONTINUED**

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In the July 1, 2013 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.0 percent initially, decreasing 0.5 percent per year to a rate of 5.5 percent in 2016. Rates gradually decrease from 5.3 percent in 2017 to 4.2 percent in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The unfunded actuarial accrued liability is being amortized using single period amortization as of the end of the year based on level dollar, 24-year open period. This is the weighted average of service until retirement (active liability) and payment period (retired liability).

**NOTE 9 - RISK MANAGEMENT**

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The Charter School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for unemployment compensation, for which the Charter School retains risk of loss. For insured programs, there were no significant reductions in insurance coverages for the 2013/14 school year. Settlement amounts have not exceeded insurance coverage for the current year.

In an effort to contain costs related to commercial insurance, the Charter School through the Chester County Intermediate Unit has established an internal service fund to account for and finance its uninsured risks of loss. Under this program, the Charter School through the Chester County Intermediate Unit is self-insured for unemployment compensation purposes. The Charter School makes payments to the Chester County Intermediate Unit based on estimates of amounts needed to pay prior and current year claims and to establish a reserve for unexpected losses.

**NOTE 10 - COMMITMENTS**

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At June 30, 2014 the Charter School has entered into a number of contracts related to the building renovation project. Commitments outstanding totaled \$64,630 at June 30, 2014. The Charter School intends to use proceeds from the construction loan to satisfy these commitments.

## 21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

#### NOTE 11 - JOINT AGREEMENT

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The Charter School entered into an agreement with the Chester County Intermediate Unit on April 25, 2002, whereby the CCIU would provide the Charter School with office space, human resources, accounting, payroll, telecommunication, and janitorial services. In exchange, the Charter School would pay the CCIU an annual fee based on total activity. The arrangement was modified effective November 2008, when the Charter School moved to a separate location. Total fees paid under this agreement for the year ended June 30, 2014 was \$470,199.

The contract with the CCIU for administrative support was terminated June 30, 2014.

In addition, the Charter School pays consulting fees for specific CCIU employees to provide services to the Charter School. These consulting fees are based on a percentage of salaries and benefits for the following positions: accounting supervisor, accounts payable bookkeeper, and human resource generalist. Total fees paid for these services for the year ended June 30, 2014 were \$188,127. The CCIU billed the Charter School an additional \$29,051 for miscellaneous services including special education evaluations and services, book shipping services, Moodle access and design, and instructional equipment repair.

In September 2009, Chester County Intermediate Unit and the 21<sup>st</sup> Century Cyber Charter School entered into a cooperative agreement to provide online courses to students enrolled in the Brandywine Virtual Academy (BVA). BVA was created to provide individual students with courses necessary to graduate from high school for enrichment or remediation purposes. Under the agreement, 21st Century Cyber Charter School provides both credited and noncredited courses and the Intermediate Unit takes care of marketing the BVA program and related services. The original agreement covered a three-year term through June 2012 and was renewed in September 2012 for a 1-year term ending June 2013. During the 2013/14 year, the agreement was renewed for an additional one-year term ending June 30, 2014.

In 2013-2014, the Charter School billed the Chester County Intermediate Unit \$858,860 for providing instruction, curriculum, and other related expenses for the CCIU's Brandywine Virtual Academy. The balance outstanding related to those services at June 30, 2014 was \$175,182.

This agreement was not renewed for the 2014/15 year.

21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

**NOTE 12 - FUND BALANCE**

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Fund balance classifications for the general fund were as follows for the year ended June 30, 2014:

Nonspendable		
Prepaid Expenditures	\$	81,255
Deposits		12,621
Committed		
Future Capital Equipment Costs		60,000
Future Curriculum Development		44,000
New Initiatives Fund		300,000
Future Program Stabilization Fund		1,400,000
Assigned		
2014 - 2015 budgeted revenue shortfall		269,577
PSERS Retirement Rate Increases		360,371
Unassigned		<u>129,073</u>
Total Fund Balance	\$	<u>2,656,897</u>

The commitments were authorized by the board of school directors' motion to set aside resources to fund the commitments noted above. The assignments were authorized by the board through adoption of the 2014/2015 general fund budget.

**21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2014**

**NOTE 13 - NEW ACCOUNTING STANDARDS**

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The Government Accounting Standards Board (GASB) has issued the following standards which have not yet been implemented:

- Statement No. 68, Accounting and Financial Reporting for Pensions, which is required to be implemented by the year ending June 30, 2015. The objective of this statement is to improve accounting and financial reporting by governments for pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures. This statement also enhances note disclosure and required supplementary information for government pension plans. This pronouncement applies to employers that have a legal obligation to make contributions directly to a pension plan.
- Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68 will be implemented at the same time of implementation of 68.

Although the Charter School has not yet completed the analyses necessary to estimate the financial statement impact of these new pronouncements, it believes the result will have a negative impact on the financial position of the Charter School.

**REQUIRED SUPPLEMENTARY INFORMATION**

**21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

**For the Year Ended June 30, 2014**

	Original Budget	Final Budget	Actual	Variance
<b>REVENUES</b>				
Local Sources	\$ 10,013,590	\$ 10,030,360	\$ 9,787,370	\$ (242,990)
State Sources	337,503	387,793	346,775	(41,018)
<b>TOTAL REVENUES</b>	10,351,093	10,418,153	10,134,145	(284,008)
<b>EXPENDITURES</b>				
Instruction				
Regular Programs	5,502,728	5,155,927	4,611,397	544,530
Special Programs	992,616	935,205	749,050	186,155
Other Instructional Programs	52,185	52,185	38,821	13,364
Total Instruction	6,547,529	6,143,317	5,399,268	744,049
Support Services				
Pupil Personnel Services	494,520	379,710	400,353	(20,643)
Instructional Staff Services	656,877	629,129	587,234	41,895
Administrative Services	1,806,629	2,135,830	1,859,744	276,086
Pupil Health	80,609	87,367	50,428	36,939
Operation & Maintenance of Plant Services	608,732	575,161	460,187	114,974
Total Support Services	3,647,367	3,807,197	3,357,946	449,251
Capital Outlay	800,000	3,820,600	3,502,602	317,998
Debt Service	-	-	1,417	(1,417)
<b>TOTAL EXPENDITURES</b>	10,994,896	13,771,114	12,261,233	1,509,881
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(643,803)	(3,352,961)	(2,127,088)	1,225,873
<b>OTHER FINANCING SOURCES</b>				
Proceeds from Issuance of Construction Loan	-	1,600,000	411,259	(1,188,741)
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>\$ (643,803)</u>	<u>\$ (1,752,961)</u>	(1,715,829)	<u>\$ 37,132</u>
<b>FUND BALANCE - BEGINNING</b>			4,372,726	
<b>FUND BALANCE - ENDING</b>			<u>\$ 2,656,897</u>	

See note to required supplementary information.

21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL

SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT BENEFITS PLAN

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Governmental Activities	7/1/2013	\$ -	\$ 188,943	\$ 188,943	0.00%	\$ 3,814,562	4.95%
	7/1/2010	-	99,374	99,374	0.00%	2,337,687	4.25%
	7/1/2007	-	27,679	27,679	0.00%	1,451,354	1.91%

**21<sup>st</sup> CENTURY CYBER CHARTER SCHOOL**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2014**

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**BUDGETARY DATA**

The budget for the general fund is adopted on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.



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Independent Auditor's 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 School Directors  
21<sup>st</sup> Century Cyber Charter School  
Exton, Pennsylvania**

We have audited, 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, the financial statements of the governmental activities and each major fund of 21st Century Cyber Charter School as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise 21st Century Cyber Charter School's basic financial statements and have issued our report thereon dated January 13, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 21<sup>st</sup> Century Cyber Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 21<sup>st</sup> Century Cyber Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of 21<sup>st</sup> Century Cyber Charter School's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Charter School's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 21st Century 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*.

### **Purpose of this Report**

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

*Herbein + Company, Inc.*

**Reading, Pennsylvania**  
**January 13, 2015**