

CYBER VILLAGE ACADEMY  
ST. PAUL, MINNESOTA

Financial Statements and  
Supplemental Information

Year Ended  
June 30, 2014

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CYBER VILLAGE ACADEMY

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INTRODUCTORY SECTION

CYBER VILLAGE ACADEMY

Board and Administration  
Year Ended June 30, 2014

**BOARD**

	<u>Board Position</u>
Justin Wewers	Chairperson
Robyn Consoer	Vice-Chairperson
Megan Cole	Treasurer
Amanda Reding	Secretary
Christy Buxman	Member
Mark Goodell	Member
Cheryl Neima	Member
Lauren Odle	Member
Bill Taylor	Member

**ADMINISTRATION**

David Glick	Director
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FINANCIAL SECTION

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PRINCIPALS

Thomas M. Montague, CPA  
Thomas A. Karnowski, CPA  
Paul A. Radosevich, CPA  
William J. Lauer, CPA  
James H. Eichten, CPA  
Aaron J. Nielsen, CPA  
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board and Management of  
Cyber Village Academy  
St. Paul, Minnesota

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of Cyber Village Academy (the Academy) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy'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 Academy'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 Academy'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.

(continued)

## **OPINIONS**

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, major fund, and the aggregate remaining fund information of the Academy as of June 30, 2014, and the respective changes in financial position, and the budgetary comparison for the General Fund 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, as listed in the table of contents, 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 supplemental 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 Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The introductory section and supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the Academy.

The supplemental information and UFARS Compliance Table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

(continued)

## **Prior Year Comparative Information**

We have previously audited the Academy's 2013 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, major fund, and the aggregate remaining fund information in our report dated September 18, 2013. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Malloy, Montague, Karnowski, Radosevich & Co., P. A.*

Minneapolis, Minnesota

October 3, 2014

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# CYBER VILLAGE ACADEMY

## Management's Discussion and Analysis Year Ended June 30, 2014

This section of Cyber Village Academy's (the Academy) annual financial report presents management's discussion and analysis of the Academy's financial performance during the fiscal year ended June 30, 2014. Please read it in conjunction with the other components of the Academy's annual financial report.

### FINANCIAL HIGHLIGHTS

The Academy's assets exceeded its liabilities at June 30, 2014, resulting in a total net position of \$350,835. The Academy's net position increased \$135,705 during the fiscal year ended June 30, 2014.

At June 30, 2014, the Academy's General Fund reported an ending fund balance of \$340,940, an increase of \$134,518 from the beginning of the year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of the following parts:

- Independent Auditor's Report;
- Management's Discussion and Analysis;
- Basic financial statements, including the entity-wide financial statements, fund financial statements, and the notes to basic financial statements; and
- Individual fund financial statements and schedules presented as supplemental information.

The following explains the two types of statements included in the basic financial statements:

#### Entity-Wide Financial Statements

The entity-wide financial statements (Statement of Net Position and Statement of Activities) report information about the Academy as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes *all* of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two entity-wide financial statements report the Academy's *net position* and how it has changed. Net position—the difference between the Academy's assets, deferred outflows of resources, liabilities, and deferred inflows of resources—is one measure of the Academy's financial health or *position*. Over time, increases or decreases in the Academy's net position are indicators of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the Academy requires consideration of additional non-financial factors, such as changes in the Academy's student population and the condition of academy buildings and other facilities. In the entity-wide financial statements, the Academy's activities are all shown in one category titled "governmental activities." These activities, including elementary and secondary regular instruction, special education instruction, and administration, are primarily financed with state aids.

## Fund Financial Statements

The fund financial statements provide more detailed information about the Academy's *funds*, focusing on its most significant "major" funds, rather than the Academy as a whole. Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs. All of the funds currently maintained by the Academy are "governmental" fund types. Governmental funds generally focus on: 1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the entity-wide financial statements, we provide additional information (reconciliation schedules) on the governmental fund statements that explain the relationship (or differences) between these two types of financial statement presentations.

## FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Table 1 is a summarized view of the Academy's Statement of Net Position for the last two fiscal years:

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current and other assets	\$ 507,014	\$ 394,077
Capital assets, net of depreciation	9,215	8,282
<b>Total assets</b>	<b><u>\$ 516,229</u></b>	<b><u>\$ 402,359</u></b>
<b>Liabilities</b>		
Current and other liabilities	<b><u>\$ 165,394</u></b>	<b><u>\$ 187,229</u></b>
<b>Net position</b>		
Net investment in capital assets	\$ 9,215	\$ 8,282
Restricted for food service	680	426
Unrestricted	340,940	206,422
<b>Total net position</b>	<b><u>\$ 350,835</u></b>	<b><u>\$ 215,130</u></b>

The Academy's financial position is the product of many factors. For example, determination of the Academy's investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, may produce a significant difference in the calculated amounts.

The Academy's total net position at June 30, 2014 was \$135,705 higher than the prior year. Total assets increased \$113,870 while current and other liabilities decreased \$21,835.

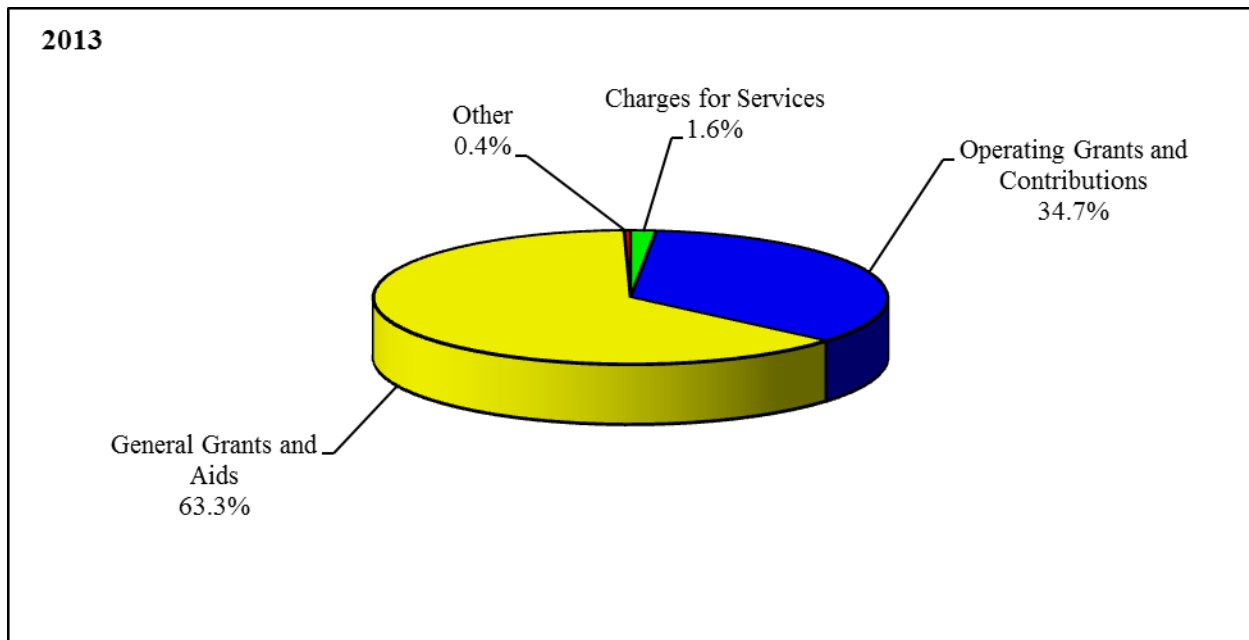
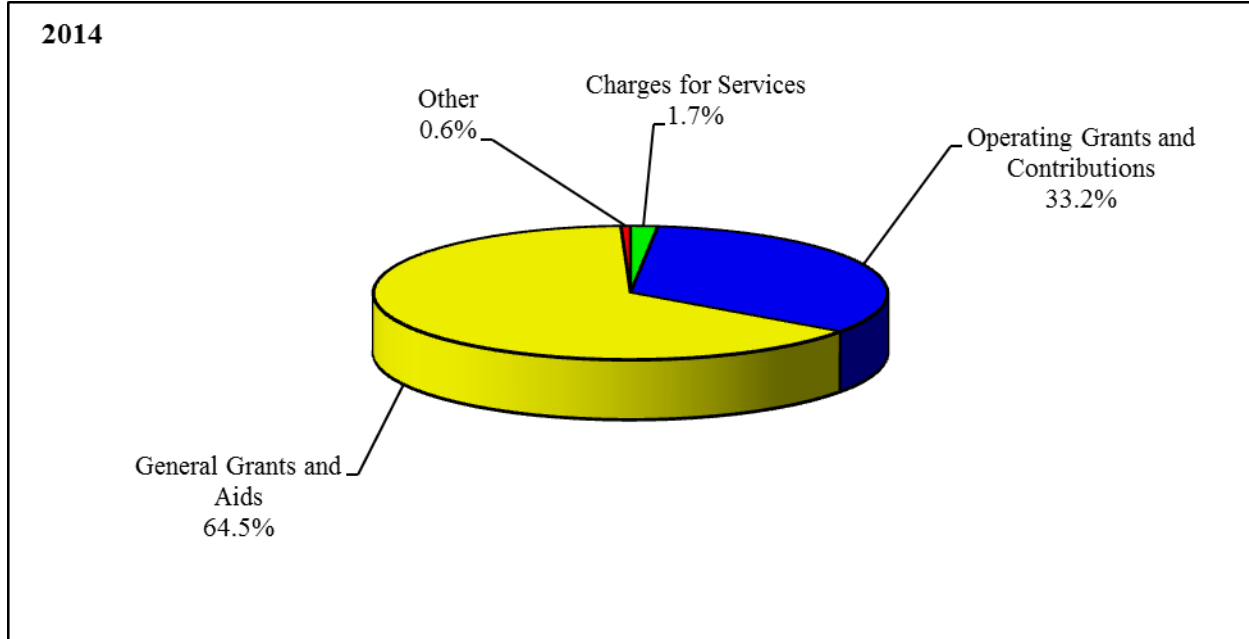
Table 2 presents a condensed version of the Academy's Change in Net Position for the last two years:

<b>Table 2</b>		
<b>Change in Net Position</b>		
<b>for the Years Ended June 30, 2014 and 2013</b>		
	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>Revenue</b>		
Program revenues		
Charges for services	\$ 31,005	\$ 27,619
Operating grants and contributions	597,893	593,763
General revenues		
General grants and aids	1,159,487	1,083,115
Other	10,112	7,303
<b>Total revenue</b>	<u>1,798,497</u>	<u>1,711,800</u>
<b>Expenses</b>		
Administration	108,813	96,648
District support services	156,089	145,039
Elementary and secondary regular instruction	704,012	739,222
Special education instruction	337,610	356,071
Instructional support services	1,025	298
Pupil support services	9,310	2,050
Sites and buildings	338,537	288,219
Fiscal and other fixed cost programs	6,228	8,380
Food service	1,098	1,617
Interest and fiscal charges	70	2,208
<b>Total expenses</b>	<u>1,662,792</u>	<u>1,639,752</u>
<b>Change in net position</b>	<u><u>\$ 135,705</u></u>	<u><u>\$ 72,048</u></u>

This format is presented on an accrual basis of accounting and it includes all of the governmental activities of the Academy. This statement includes depreciation expense, but excludes capital asset purchase costs. Total revenues increased 5.1 percent in 2014, mainly due to the Academy earning more state aid than last year. The Academy earned more general education aid (reported in general grants and aids) due to increases in both the number of students served and the general education formula allowance. The Academy also earned more charter school lease aid (reported in operating grants and contributions) this year due to increases in both the number of students served and approved lease expenses. Expenses increased 1.4 percent, as sites and buildings costs were higher due to an increase in the amount of leased space used by the Academy.

Figures A and B show further analysis of these revenue sources and expense functions:

**Figure A – Sources of Revenue for Fiscal Years 2014 and 2013**

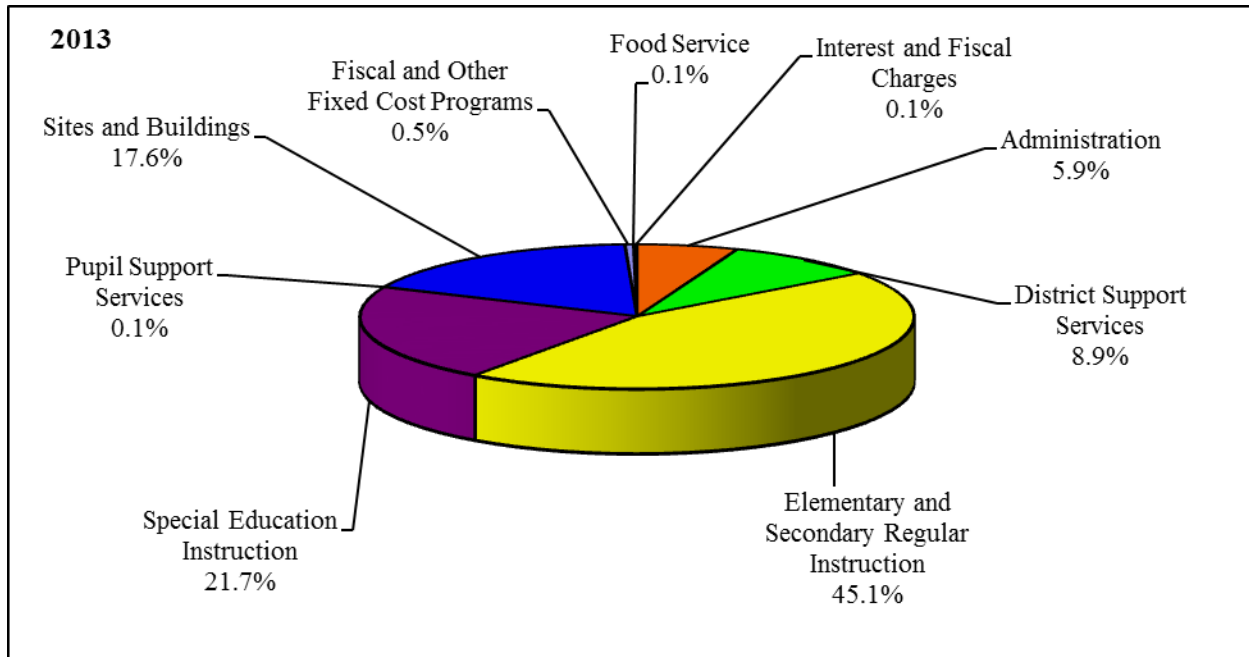
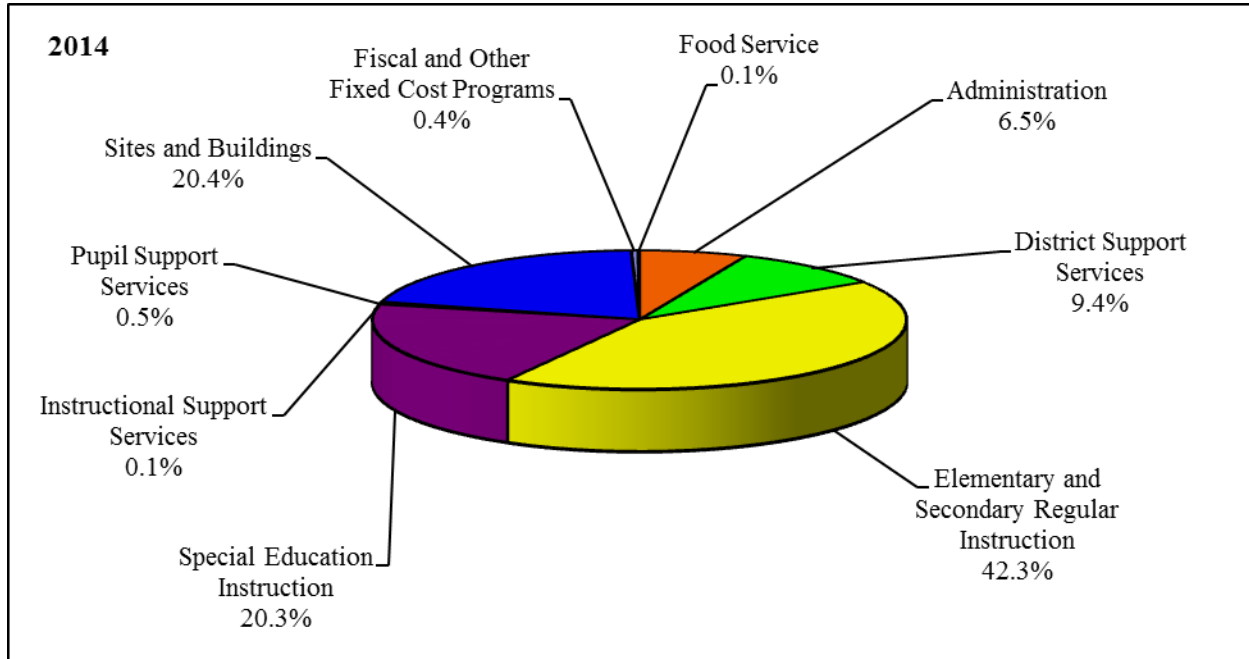


The largest share of the Academy’s revenue is received from the state, including most of the general and operating grants. This significant reliance on the state for funding has placed tremendous pressure on charter schools as a result of unpredictable and inconsistent funding from the state.

The Academy’s total revenues were \$1,798,497 for the year ended June 30, 2014, which is an increase of \$86,697 from the prior year.



**Figure B – Expenses for Fiscal Years 2014 and 2013**



The Academy’s cost of all governmental activities for 2014 was \$1,662,792, which is an increase of \$23,040 from the prior year. The increase was primarily in sites and buildings, which was caused by increases in the amount of space leased by the Academy for its operations.

Approximately 62.7 percent of the Academy’s 2014 expenses were in categories directly related to providing instruction, which includes: elementary and secondary regular instruction, special education instruction, and instructional support services. An additional 20.4 percent of the Academy’s expenses were related to leasing and maintaining the Academy’s school site.

## Analysis of the General Fund

Table 3 is a summarized view of the Academy's General Fund financial position for the last two years:

	<u>2014</u>	<u>2013</u>
Total assets	\$ 506,156	\$ 393,651
Total liabilities	<u>165,216</u>	<u>187,229</u>
Total fund balance	<u><u>\$ 340,940</u></u>	<u><u>\$ 206,422</u></u>

Total fund balance in the General Fund increased \$134,518 during the year ended June 30, 2014.

Table 4 presents the Academy's General Fund activity for the last two years:

	<u>2014</u>			<u>2013</u>	
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>	<u>Actual</u>
Total revenue	\$ 1,853,020	\$ 1,769,702	\$ 1,797,145	\$ 27,443	\$ 1,709,915
Total expenditures	<u>1,844,095</u>	<u>1,754,275</u>	<u>1,662,627</u>	<u>(91,648)</u>	<u>1,646,205</u>
Net change in fund balances	<u><u>\$ 8,925</u></u>	<u><u>\$ 15,427</u></u>	<u><u>\$ 134,518</u></u>	<u><u>\$ 119,091</u></u>	<u><u>\$ 63,710</u></u>

During the fiscal year ended June 30, 2014, the Academy adopted budget amendments to adjust revenue and expenditure appropriations in response to information and conditions existing at mid-year. General Fund revenue for fiscal 2014 was over the final budget by \$27,443, mainly due to the difficulty of accurately projecting student enrollment and state revenue adjustments. General Fund expenditures were under budget by \$91,648, mainly in salary and benefits, due to lower than projected Q Comp and teacher bonuses, employee turnover, and employees opting out of health insurance.

### Food Service Special Revenue Fund

The Academy's Food Service Special Revenue Fund is used to account for a school milk program, partially funded with federal grant dollars. Revenues exceeded expenditures by \$254 in this fund for the year ended June 30, 2014.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Table 5 shows the Academy's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Capital assets, depreciated			
Furniture and equipment	\$ 81,792	\$ 80,088	\$ 1,704
Leasehold improvements	775	775	-
Total capital assets, depreciated	<u>82,567</u>	<u>80,863</u>	<u>1,704</u>
Less accumulated depreciation			
Furniture and equipment	(72,732)	(72,116)	(616)
Leasehold improvements	(620)	(465)	(155)
Total accumulated depreciation	<u>(73,352)</u>	<u>(72,581)</u>	<u>(771)</u>
Total	<u>\$ 9,215</u>	<u>\$ 8,282</u>	<u>\$ 933</u>
Depreciation expense	<u>\$ 1,327</u>	<u>\$ 5,258</u>	<u>\$ (3,931)</u>

Additional details of the Academy's capital assets activity can be found in the notes to the basic financial statements.

### Debt Administration

The Academy had no long-term liabilities outstanding during the last two fiscal years.

## FACTORS BEARING ON THE ACADEMY'S FUTURE

The Academy is dependent on the state of Minnesota for much of its revenue. In recent years, legislated revenue increases have made it difficult to meet the instructional program needs and increased costs due to inflation for Minnesota charter schools.

The basic general education revenue for all Minnesota charter schools was \$5,302 per pupil unit for 2014. The Legislature has provided for the equivalent of a 2.0 percent increase in basic general education aid for the 2015 fiscal year. The Academy's ability to attract and retain students will determine the amount of state aid it earns.

The state's financial condition, and the need to utilize accounting shifts such as increasing the holdback on charter school state aid payments to balance the state budget, has a significant impact on the Academy's cash flow. In fiscal 2014, the state was able to restore the payment schedule for state aids to 90 percent of current year funding, which was 3.6 percent higher than amounts received in fiscal 2013, which improved the Academy's cash flow.

## **CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT**

These financial statements are designed to provide our customers, investors, and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about these statements or need additional financial information, contact Cyber Village Academy, 768 Hamline Avenue South, St. Paul, Minnesota 55116.

BASIC FINANCIAL STATEMENTS

CYBER VILLAGE ACADEMY

Statement of Net Position  
as of June 30, 2014

(With Partial Comparative Information as of June 30, 2013)

	Governmental Activities	
	2014	2013
Assets		
Cash and temporary investments	\$ 251,799	\$ 11,251
Receivables		
Accounts	719	1,730
Due from other governmental units	230,960	354,953
Prepaid items	23,536	26,143
Capital assets, net of accumulated depreciation	<u>9,215</u>	<u>8,282</u>
Total assets	<u>\$ 516,229</u>	<u>\$ 402,359</u>
Liabilities		
Salaries and benefits payable	\$ 131,644	\$ 135,771
Accounts and contracts payable	22,270	47,719
Unearned revenue	<u>11,480</u>	<u>3,739</u>
Total liabilities	165,394	187,229
Net position		
Net investment in capital assets	9,215	8,282
Restricted for food service	680	426
Unrestricted	<u>340,940</u>	<u>206,422</u>
Total net position	<u>350,835</u>	<u>215,130</u>
Total liabilities and net position	<u>\$ 516,229</u>	<u>\$ 402,359</u>

See notes to basic financial statements

CYBER VILLAGE ACADEMY

Statement of Activities  
Year Ended June 30, 2014

(With Partial Comparative Information for the Year Ended June 30, 2013)

Functions/Programs	2014			2013	
	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
Administration	\$ 108,813	\$ -	\$ -	\$ (108,813)	\$ (96,648)
District support services	156,089	-	-	(156,089)	(145,039)
Elementary and secondary regular instruction	704,012	30,707	39,682	(633,623)	(661,630)
Special education instruction	337,610	-	330,669	(6,941)	(18,484)
Instructional support services	1,025	-	-	(1,025)	(298)
Pupil support services	9,310	-	-	(9,310)	(1,878)
Sites and buildings	338,537	-	226,488	(112,049)	(84,073)
Fiscal and other fixed cost programs	6,228	-	-	(6,228)	(8,380)
Food service	1,098	298	1,054	254	268
Interest and fiscal charges	70	-	-	(70)	(2,208)
Total governmental activities	<u>\$ 1,662,792</u>	<u>\$ 31,005</u>	<u>\$ 597,893</u>	(1,033,894)	(1,018,370)
General revenues					
General grants and aids				1,159,487	1,083,115
Other general revenues				10,112	7,303
Total general revenues				<u>1,169,599</u>	<u>1,090,418</u>
Change in net position				135,705	72,048
Net position – beginning				<u>215,130</u>	<u>143,082</u>
Net position – ending				<u>\$ 350,835</u>	<u>\$ 215,130</u>

See notes to basic financial statements

CYBER VILLAGE ACADEMY

Balance Sheet  
Governmental Funds  
as of June 30, 2014

(With Partial Comparative Information as of June 30, 2013)

	General Fund	Nonmajor Fund	Total Governmental Funds	
		Food Service Special Revenue Fund	2014	2013
Assets				
Cash and temporary investments	\$ 250,941	\$ 858	\$ 251,799	\$ 11,251
Receivables				
Accounts	719	–	719	1,730
Due from other governmental units	230,960	–	230,960	354,953
Prepaid items	23,536	–	23,536	26,143
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 506,156</u>	<u>\$ 858</u>	<u>\$ 507,014</u>	<u>\$ 394,077</u>
Liabilities and Fund Balances				
Liabilities				
Salaries and benefits payable	\$ 131,644	\$ –	\$ 131,644	\$ 135,771
Accounts and contracts payable	22,092	178	22,270	47,719
Unearned revenue	11,480	–	11,480	3,739
Total liabilities	<u>165,216</u>	<u>178</u>	<u>165,394</u>	<u>187,229</u>
Fund balances				
Nonspendable for prepaid items	23,536	–	23,536	26,143
Restricted for food service	–	680	680	426
Unassigned	317,404	–	317,404	180,279
Total fund balances	<u>340,940</u>	<u>680</u>	<u>341,620</u>	<u>206,848</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 506,156</u>	<u>\$ 858</u>	<u>\$ 507,014</u>	<u>\$ 394,077</u>

See notes to basic financial statements



CYBER VILLAGE ACADEMY

Reconciliation of the Balance Sheet to the  
Statement of Net Position  
Governmental Funds  
as of June 30, 2014

(With Partial Comparative Information as of June 30, 2013)

	2014	2013
Total fund balances – governmental funds	\$ 341,620	\$ 206,848
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.</p>		
Cost of capital assets	82,567	80,863
Accumulated depreciation	(73,352)	(72,581)
Total net position – governmental activities	\$ 350,835	\$ 215,130

See notes to basic financial statements

CYBER VILLAGE ACADEMY

Statement of Revenue, Expenditures, and Changes in Fund Balances  
 Governmental Funds  
 Year Ended June 30, 2014  
 (With Partial Comparative Information for the Year Ended June 30, 2013)

	General Fund	Nonmajor Fund	Total Governmental Funds	
		Food Service Special Revenue Fund	2014	2013
<b>Revenue</b>				
Federal sources	\$ 47,366	\$ 1,054	\$ 48,420	\$ 72,168
State sources	1,692,594	–	1,692,594	1,595,956
Local sources				
Investment earnings	99	–	99	79
Other	57,086	298	57,384	43,597
Total revenue	1,797,145	1,352	1,798,497	1,711,800
<b>Expenditures</b>				
Current				
Administration	108,813	–	108,813	96,648
District support services	155,397	–	155,397	148,413
Elementary and secondary regular instruction	705,792	–	705,792	739,524
Special education instruction	337,610	–	337,610	355,743
Instructional support services	1,025	–	1,025	298
Pupil support services	9,310	–	9,310	2,050
Sites and buildings	338,382	–	338,382	288,064
Fiscal and other fixed cost programs	6,228	–	6,228	8,380
Food service	–	1,098	1,098	1,617
Debt service				
Principal	–	–	–	4,877
Interest and fiscal charges	70	–	70	2,208
Total expenditures	1,662,627	1,098	1,663,725	1,647,822
Net change in fund balances	134,518	254	134,772	63,978
<b>Fund balances</b>				
Beginning of year	206,422	426	206,848	142,870
End of year	\$ 340,940	\$ 680	\$ 341,620	\$ 206,848

See notes to basic financial statements

CYBER VILLAGE ACADEMY

Reconciliation of the Statement of  
Revenue, Expenditures, and Changes in Fund Balances  
to the Statement of Activities  
Governmental Funds  
Year Ended June 30, 2014

(With Comparative Actual Amounts for the Year Ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
Total net change in fund balances – governmental funds	\$ 134,772	\$ 63,978
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded in net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	2,260	8,451
Depreciation expense	(1,327)	(5,258)
Repayment of long-term debt principal does not affect the change in net position. However, it reduces fund balances.		
Capital leases	<u>–</u>	<u>4,877</u>
Change in net position – governmental activities	<u>\$ 135,705</u>	<u>\$ 72,048</u>

See notes to basic financial statements

CYBER VILLAGE ACADEMY

General Fund  
 Statement of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual  
 Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>Revenue</b>				
Federal sources	\$ 52,798	\$ 52,890	\$ 47,366	\$ (5,524)
State sources	1,748,122	1,672,712	1,692,594	19,882
Local sources				
Investment earnings	50	50	99	49
Other	52,050	44,050	57,086	13,036
Total revenue	<u>1,853,020</u>	<u>1,769,702</u>	<u>1,797,145</u>	<u>27,443</u>
<b>Expenditures</b>				
Current				
Administration	97,676	102,470	108,813	6,343
District support services	159,152	168,359	155,397	(12,962)
Elementary and secondary regular instruction	850,609	757,612	705,792	(51,820)
Special education instruction	377,581	371,857	337,610	(34,247)
Instructional support services	300	200	1,025	825
Pupil support services	3,100	3,100	9,310	6,210
Sites and buildings	347,197	342,197	338,382	(3,815)
Fiscal and other fixed costs programs	8,380	8,380	6,228	(2,152)
Debt service				
Interest and fiscal charges	100	100	70	(30)
Total expenditures	<u>1,844,095</u>	<u>1,754,275</u>	<u>1,662,627</u>	<u>(91,648)</u>
Net change in fund balances	<u>\$ 8,925</u>	<u>\$ 15,427</u>	134,518	<u>\$ 119,091</u>
<b>Fund balances</b>				
Beginning of year			<u>206,422</u>	
End of year			<u>\$ 340,940</u>	

See notes to basic financial statements

# CYBER VILLAGE ACADEMY

Notes to Basic Financial Statements  
June 30, 2014

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. Reporting Entity**

Cyber Village Academy (the Academy) is an outcome-based charter school established June 16, 1997 in accordance with Minnesota Statute § 124D.10. The Academy is required to operate under a charter agreement with an entity that has been approved by the Minnesota Department of Education (MDE) to be a charter school “authorizer.” The authorizer monitors and evaluates the Academy’s performance, and periodically determines whether to renew its charter. The Academy’s authorizer is Innovative Quality Schools. Aside from its responsibilities as authorizer, Innovative Quality Schools has no authority or control over the Academy, and is not financially accountable for it. Therefore, the Academy is not considered to be a component unit of Innovative Quality Schools. The Academy’s financial statements include all funds, departments, agencies, boards, commissions, and other organizations for which the Academy is considered to be financially accountable.

Extracurricular student activities, if any, are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the school board can elect to either control or not control extracurricular activities. The Academy’s Board has elected to control extracurricular activities; therefore, any extracurricular student activity accounts are included in the Academy’s General Fund.

Component units are legally separate entities for which the Academy (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit’s governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the Academy.

### **B. Basis of Statement Presentation**

As required by state law, the Academy operates as a nonprofit corporation under Minnesota Statute § 317A. However, state law also requires that the Academy comply with Uniform Financial Accounting and Reporting Standards for Minnesota School Districts, which mandates the use of a governmental fund accounting structure.

### **C. Entity-Wide Financial Statement Presentation**

The entity-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the Academy. Generally, the effect of material interfund activity has been removed from the entity-wide financial statements. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other internally directed revenues are reported instead as general revenues.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The entity-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 when all eligibility requirements imposed by the provider have been met.

The Academy applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest is considered an indirect expense and is reported separately on the Statement of Activities.

### **D. Fund Financial Statement Presentation**

Separate fund financial statements are provided for the governmental funds. Major governmental funds are reported in separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

- 1. Revenue Recognition** – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Academy generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to Minnesota Statutes.
- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and compensated absences, if any, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

### **Description of Funds**

The existence of the various academy funds has been established by the MDE. Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

#### **Major Governmental Fund**

**General Fund** – The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

#### **Nonmajor Governmental Fund**

**Food Service Special Revenue Fund** – The Food Service Special Revenue Fund is used to account for the Academy’s child nutrition program.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **E. 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 disclosures of contingent amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

### **F. Budgeting**

Each June, the Board adopts an annual budget for the following fiscal year for all governmental funds, which are prepared on the same modified accrual basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end.

### **G. Cash and Investments**

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled balances are allocated to the respective funds on the basis of cash participation by each fund.

Investments, if any, are reported at fair value. The Academy held no investments at June 30, 2014 or during the year then ended.

### **H. Receivables**

When necessary, the Academy utilizes an allowance for uncollectible accounts to value its receivables. However, the Academy considers all of its current receivables to be collectible.

### **I. Prepaid Items**

Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items. Prepaid items are recorded as expenditures/expenses at the time of consumption.

### **J. Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Academy defines capital assets as those with an initial, individual cost of \$500 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives is not capitalized.

Capital assets are recorded in the entity-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed by the Academy, no salvage value is taken into consideration for depreciation purposes. Useful lives vary, ranging from 3 to 10 years for furniture, equipment, and leasehold improvements.

### **K. Compensated Absences**

Substantially all of the Academy's employees are entitled to personal leave at various rates. Employees cannot carry over and are not compensated for unused personal leave at year-end; therefore, no long-term liability for unused compensated absences has been recorded.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### L. Income Taxes

The Academy is exempt from federal and state income taxes under Internal Revenue Service Code § 501(c)(3). The Academy is subject to tax on income from any unrelated business.

The Academy is subject to the recognition requirements for uncertain income tax positions as required by the Financial Accounting Standards Board (FASB) Accounting Standards Codification 740-10 (formerly known as FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*), with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Academy has analyzed tax positions taken for filing with the Internal Revenue Service and state jurisdiction where they operate. The Academy believes that income tax filing positions will be sustained upon examination and do not anticipate any adjustments that would result in a material adverse effect on their respective financial condition, results of operations, or cash flows. Accordingly, the Academy has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at June 30, 2014.

The Academy is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods. Open audit periods for the Academy are the years ended June 30, 2011, 2012, and 2013.

### M. Risk Management

The Academy is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation. The Academy carries commercial insurance for these risks. Settled claims have not exceeded coverage in any of the past three fiscal years. There were no significant reductions in the Academy's insurance coverage in fiscal 2014.

### N. Net Position

In the entity-wide financial statements, net position represent the difference between assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any). Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other elements of net position that does not meet the definition of "restricted" or "net investment in capital assets."

### O. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.



## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the Academy for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the Board itself or by an official to which the governing body delegates the authority.
- **Unassigned** – The residual classification for the General Fund which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the Academy's policy to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, it is the Academy's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

The Academy's Board has formally adopted a fund balance policy goal regarding the minimum unassigned fund balance for the General Fund. The policy establishes a goal to increase fund balance by 1.33 percent per year in the years where the Academy does not incur unforeseen expenditures and state holdback does not exceed 10 percent, with an ultimate fund balance goal of 20 percent of expenditures. At June 30, 2014, the unassigned fund balance of the General Fund was 19.1 percent of expenditures.

### **P. Comparative Data/Reclassifications**

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year presentation.

## NOTE 2 – DEPOSITS

In accordance with applicable Minnesota Statutes, the Academy maintains deposits at depository banks authorized by the Board.

The following is considered the most significant risk associated with deposits:

**Custodial Credit Risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Academy’s deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The Academy’s policies do not further limit depository choices.

At June 30, 2014, the carrying value of the Academy’s deposits was \$251,799, and the bank balance was \$258,820. The Academy’s deposits were covered by federal depository insurance at year-end.

## NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, depreciated				
Furniture and equipment	\$ 80,088	\$ 2,260	\$ 556	\$ 81,792
Leasehold improvements	775	–	–	775
Total capital assets, depreciated	<u>80,863</u>	<u>2,260</u>	<u>556</u>	<u>82,567</u>
Less accumulated depreciation for				
Furniture and equipment	(72,116)	(1,172)	(556)	(72,732)
Leasehold improvements	(465)	(155)	–	(620)
Total accumulated depreciation	<u>(72,581)</u>	<u>(1,327)</u>	<u>(556)</u>	<u>(73,352)</u>
Total capital assets, depreciation	<u>\$ 8,282</u>	<u>\$ 933</u>	<u>\$ –</u>	<u>\$ 9,215</u>

Depreciation expense for the year was charged to the following governmental functions:

District support services	\$ 692
Elementary and secondary regular instruction	480
Sites and buildings	<u>155</u>
Total depreciation expense	<u>\$ 1,327</u>

## NOTE 4 – LOANS PAYABLE

On January 9, 2013, the Academy obtained a \$300,000 line of credit for cash flow purposes through a local bank. The line of credit matured on January 9, 2014 and had a variable interest rate at prime, as quoted in the Wall Street journal plus 1.94 percent. On January 9, 2014, the Academy obtained a new line of credit for \$300,000 under the same interest terms as the prior agreement that will mature on January 9, 2015.

The Academy did not draw on the lines of credit during the year ended June 30, 2014.

## NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Substantially all employees of the Academy are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by the Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a state-wide basis. Disclosures relating to these plans are as follows:

### Teachers' Retirement Association (TRA)

#### A. Plan Description

All teachers employed by the Academy are covered by defined benefit plans administered by the TRA. TRA members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356.

The TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for the TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989 receive the greater of the Tier I or Tier II benefits as described:

#### Tier I

Step Rate Formula	Percentage per Year
<b>Basic Plan</b>	
First 10 years	2.2 percent
All years after	2.7 percent
<b>Coordinated Plan</b>	
First 10 years if service years are prior to July 1, 2006	1.2 percent
First 10 years if service years are July 1, 2006 or after	1.4 percent
All other years of service if service years are prior to July 1, 2006	1.7 percent
All other years of service if service years are July 1, 2006 or after	1.9 percent

## **NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

With these provisions:

- Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- Three percent per year early retirement reduction factor for all years under normal retirement age.
- Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

### **Tier II**

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4.0 to 5.4 percent per year.

Members first employed after June 30, 1989 receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree—no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not receiving them are bound by the provisions in effect at the time they last terminated their public service.

The TRA publicly issues a comprehensive annual financial report presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA website at [www.minnesotatra.org](http://www.minnesotatra.org). Alternatively, a copy of the report may be obtained by writing the TRA at Teachers' Retirement Association, 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-4000 or by calling (651) 296-2409 or (800) 657-3669.

### **B. Funding Policy**

Minnesota Statutes, Chapter 354 sets the rates for employee and employer contributions. These statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 7.0 percent and 10.5 percent, respectively, of their annual covered salary during fiscal year 2014 as employee contributions. The TRA employer contribution rates are 7.0 percent for Coordinated Plan members and 11.0 percent for Basic Plan members during fiscal year 2014. Total covered payroll salaries for all TRA members state-wide during the fiscal years June 30, 2013, 2012, and 2011, were approximately \$3.92 billion, \$3.87 billion, and \$3.84 billion, respectively.

The Academy's contributions for the years ended June 30, 2014, 2013, and 2012 were \$46,110, \$43,032, and \$31,876, respectively, equal to the required contributions for each year as set by state statute.

## **NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

The 2010 Legislature approved employee and employer contribution rate increases to be phased-in over a four-year period beginning July 1, 2011. Employee and employer contribution rates increased by 0.5 percent on July 1 of each year of the four-year period, ending in 2014. Beginning July 1, 2014, TRA Coordinated Plan employee and employer contribution rates will each be 7.5 percent.

### **Public Employees' Retirement Association (PERA)**

#### **A. Plan Description**

All non-teacher full-time and certain part-time employees of the Academy are covered by defined benefit plans administered by the PERA. The PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

The PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statutes, and vest after five years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for the PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree—no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the GERF. That report may be obtained on the PERA website at [www.mnpera.org](http://www.mnpera.org); by writing to the PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling (651) 296-7460 or (800) 652-9026.

## NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

### B. Funding Policy

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Academy makes annual contributions to the pension plans equal to the amount required by state statutes. The GERP Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in fiscal 2014. In fiscal 2014, the Academy was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.25 percent for Coordinated Plan members.

The Academy's contributions to the GERP for the years ended June 30, 2014, 2013, and 2012 were \$11,245, \$9,581, and \$7,215, respectively. The Academy's contributions were equal to the required contributions for each year as set by state statute.

Beginning January 1, 2015, Coordinated Plan contribution rates will increase for employees and employers to 6.50 percent and 7.50 percent, respectively.

## NOTE 6 – COMMITMENTS AND CONTINGENCIES

### A. Space Leases

The Academy has an agreement with Talmud Torah of St. Paul to lease space at 768 Hamline Avenue South, St. Paul, Minnesota 55116 for a five-year period ending June 30, 2015. Effective July 1, 2013, the parties amended to increase to include additional space for the remainder of the lease term. During the year ended June 30, 2014, the Academy paid \$272,727 under this lease agreement. Future minimum lease payments are as follows:

Year Ending June 30,	Amount
2015	\$ 344,212

### B. Federal and State Revenues

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the Academy expects such amounts, if any, to be immaterial.

### C. Future Change in Accounting Standards

Governmental Accounting Standards Board (GASB) Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for fiscal years beginning after June 15, 2014. The Academy has not yet determined the financial statement impact of adopting this new standard.

SUPPLEMENTAL INFORMATION

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CYBER VILLAGE ACADEMY

General Fund  
Comparative Balance Sheet  
as of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Cash and temporary investments	\$ 250,941	\$ 10,825
Receivables		
Accounts	719	1,730
Due from other governmental units	230,960	354,953
Prepaid items	<u>23,536</u>	<u>26,143</u>
Total assets	<u>\$ 506,156</u>	<u>\$ 393,651</u>
Liabilities and Fund Balances		
Liabilities		
Salaries and benefits payable	\$ 131,644	\$ 135,771
Accounts and contracts payable	22,092	47,719
Unearned revenue	<u>11,480</u>	<u>3,739</u>
Total liabilities	165,216	187,229
Fund balances		
Nonspendable for prepaid items	23,536	26,143
Unassigned	<u>317,404</u>	<u>180,279</u>
Total fund balances	<u>340,940</u>	<u>206,422</u>
Total liabilities and fund balances	<u>\$ 506,156</u>	<u>\$ 393,651</u>

CYBER VILLAGE ACADEMY

General Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual  
 Year Ended June 30, 2014  
 (With Comparative Actual Amounts for the Year Ended June 30, 2013)

	2014		Over (Under) Budget	2013
	Final Budget	Actual		Actual
<b>Revenue</b>				
Federal sources	\$ 52,890	\$ 47,366	\$ (5,524)	\$ 70,648
State sources	1,672,712	1,692,594	19,882	1,595,956
Local sources				
Investment earnings	50	99	49	79
Other	44,050	57,086	13,036	43,232
Total revenue	<u>1,769,702</u>	<u>1,797,145</u>	<u>27,443</u>	<u>1,709,915</u>
<b>Expenditures</b>				
<b>Current</b>				
<b>Administration</b>				
Salaries	80,000	77,661	(2,339)	71,380
Employee benefits	12,020	12,078	58	10,803
Purchased services	–	1,771	1,771	690
Supplies and materials	200	859	659	204
Other expenditures	10,250	16,444	6,194	13,571
Total administration	<u>102,470</u>	<u>108,813</u>	<u>6,343</u>	<u>96,648</u>
<b>District support services</b>				
Salaries	58,125	55,862	(2,263)	41,434
Employee benefits	23,403	14,185	(9,218)	17,074
Purchased services	77,381	82,204	4,823	78,002
Supplies and materials	4,200	1,616	(2,584)	4,336
Capital expenditures	1,500	–	(1,500)	3,653
Other expenditures	3,750	1,530	(2,220)	3,914
Total district support services	<u>168,359</u>	<u>155,397</u>	<u>(12,962)</u>	<u>148,413</u>
<b>Elementary and secondary regular instruction</b>				
Salaries	521,151	508,162	(12,989)	506,899
Employee benefits	151,486	126,135	(25,351)	143,229
Purchased services	14,200	13,955	(245)	20,897
Supplies and materials	58,875	52,298	(6,577)	33,133
Capital expenditures	6,800	2,260	(4,540)	4,799
Other expenditures	5,100	2,982	(2,118)	30,567
Total elementary and secondary regular instruction	<u>757,612</u>	<u>705,792</u>	<u>(51,820)</u>	<u>739,524</u>

(continued)

CYBER VILLAGE ACADEMY

General Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual (continued)  
 Year Ended June 30, 2014  
 (With Comparative Actual Amounts for the Year Ended June 30, 2013)

	2014		Over (Under) Budget	2013
	Final Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Special education instruction				
Salaries	187,215	164,167	(23,048)	178,168
Employee benefits	54,324	43,611	(10,713)	41,004
Purchased services	128,745	128,599	(146)	135,249
Supplies and materials	1,573	1,233	(340)	1,322
Total special education instruction	<u>371,857</u>	<u>337,610</u>	<u>(34,247)</u>	<u>355,743</u>
Instructional support services				
Purchased services	–	391	391	–
Supplies and materials	200	634	434	298
Total instructional support services	<u>200</u>	<u>1,025</u>	<u>825</u>	<u>298</u>
Pupil support services				
Purchased services	3,000	9,302	6,302	1,945
Supplies and materials	100	8	(92)	105
Total pupil support services	<u>3,100</u>	<u>9,310</u>	<u>6,210</u>	<u>2,050</u>
Sites and buildings				
Purchased services	341,577	338,291	(3,286)	287,450
Supplies and materials	100	91	(9)	101
Capital expenditures	520	–	(520)	513
Total sites and buildings	<u>342,197</u>	<u>338,382</u>	<u>(3,815)</u>	<u>288,064</u>
Fiscal and other fixed cost programs				
Purchased services	8,380	6,228	(2,152)	8,380
Debt service				
Principal	–	–	–	4,877
Interest and fiscal charges	100	70	(30)	2,208
Total debt service	<u>100</u>	<u>70</u>	<u>(30)</u>	<u>7,085</u>
Total expenditures	<u>1,754,275</u>	<u>1,662,627</u>	<u>(91,648)</u>	<u>1,646,205</u>
Net change in fund balances	<u>\$ 15,427</u>	134,518	<u>\$ 119,091</u>	63,710
Fund balances				
Beginning of year		<u>206,422</u>		<u>142,712</u>
End of year		<u>\$ 340,940</u>		<u>\$ 206,422</u>

CYBER VILLAGE ACADEMY

Food Service Special Revenue Fund  
 Comparative Balance Sheet  
 as of June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Cash and temporary investments	<u>\$ 858</u>	<u>\$ 426</u>
Liabilities and Fund Balances		
Liabilities		
Accounts and contracts payable	\$ 178	\$ -
Fund balances		
Restricted for food service	<u>680</u>	<u>426</u>
Total liabilities and fund balances	<u>\$ 858</u>	<u>\$ 426</u>

CYBER VILLAGE ACADEMY

Food Service Special Revenue Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual  
 Years Ended June 30, 2014  
 (With Comparative Actual Amounts for the Year Ended June 30, 2013)

	2014			2013
	Final Budget	Actual	Over (Under) Budget	Actual
Revenue				
Federal sources	\$ 1,500	\$ 1,054	\$ (446)	\$ 1,520
Local sources				
Other – primarily milk sales	–	298	298	365
Total revenue	<u>1,500</u>	<u>1,352</u>	<u>(148)</u>	<u>1,885</u>
Expenditures				
Current				
Supplies and materials	<u>1,500</u>	<u>1,098</u>	<u>(402)</u>	<u>1,617</u>
Net change in fund balances	<u>\$ –</u>	<u>254</u>	<u>\$ 254</u>	<u>268</u>
Fund balances				
Beginning of year		<u>426</u>		<u>158</u>
End of year		<u>\$ 680</u>		<u>\$ 426</u>

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OTHER REQUIRED REPORTS

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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 and Management of  
Cyber Village Academy  
St. Paul, Minnesota

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, major fund, and the aggregate remaining fund information of Cyber Village Academy (the Academy) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 3, 2014.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the Academy'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 the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Academy'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.

(continued)

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Academy'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 Academy'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 Academy's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

*Malloy, Montague, Karnowski, Radosevich & Co., P. A.*

Minneapolis, Minnesota

October 3, 2014



PRINCIPALS

Thomas M. Montague, CPA  
Thomas A. Karnowski, CPA  
Paul A. Radosevich, CPA  
William J. Lauer, CPA  
James H. Eichten, CPA  
Aaron J. Nielsen, CPA  
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE

To the Board and Management of  
Cyber Village Academy  
St. Paul, Minnesota

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, major fund, and the aggregate remaining fund information of Cyber Village Academy (the Academy) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 3, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the Office of the State Auditor pursuant to Minnesota Statute § 6.65, contains two categories of compliance to be tested in audits of charter schools: uniform financial accounting and reporting standards and charter schools. Our audit included both of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Academy failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2014-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Academy's noncompliance with the above referenced provisions.

The Academy's response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The Academy's response was not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

*Malloy, Montague, Karnowski, Radosevich & Co., P.A.*

Minneapolis, Minnesota  
October 3, 2014

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CYBER VILLAGE ACADEMY

Schedule of Findings and Questioned Costs  
June 30, 2014

**FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT**

**2014-001 UNTIMELY PAYMENT OF INVOICES**

**Criteria** – Minnesota Statute § 471.425, Subd. 2.

**Condition** – Minnesota Statutes require prompt payment of local government bills within a standard payment period of 35 days from the receipt of goods or services, or the invoice for goods or services, for governing boards that meet at least once a month.

**Questioned Costs** – Not applicable.

**Context** – We noted 1 disbursement out of 25 tested that was not paid within the statutory timeline.

**Cause** – This was an oversight by academy personnel.

**Effect** – Cyber Village Academy (the Academy) did not pay one of its bills in a timely manner based on statutory requirements.

**Recommendation** – We recommend that the Academy review the payment procedures and will properly pay all invoices to ensure that all bills are paid within the statutory time limit.

**Corrective Action Plan**

**Actions Planned** – The District will review its payment procedures and will properly pay all invoices within the 35-day time limit in the future.

**Official Responsible** – The Academy’s Finance Director.

**Planned Completion Date** – June 30, 2015.

**Disagreement With or Explanation of Finding** – The Academy has no disagreement with the finding.

**Plan to Monitor** – The Academy’s Finance Director will review its procedures for paying invoices with academy employees responsible for processing disbursements, and will improve these procedures to ensure that all bills are paid within the statutory time limit.

CYBER VILLAGE ACADEMY

Uniform Financial Accounting and Reporting Standards  
Compliance Table  
June 30, 2014

		Audit	UFARS	Audit – UFARS
<b>General Fund</b>				
Total revenue		\$ 1,797,145	\$ 1,797,144	\$ 1
Total expenditures		\$ 1,662,627	\$ 1,662,627	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ 23,536	\$ 23,536	\$ –
Restricted/reserve				
403	Staff development	\$ –	\$ –	\$ –
405	Deferred maintenance	\$ –	\$ –	\$ –
406	Health and safety	\$ –	\$ –	\$ –
407	Capital projects levy	\$ –	\$ –	\$ –
408	Cooperative revenue	\$ –	\$ –	\$ –
409	Alternative facilities program	\$ –	\$ –	\$ –
413	Projects funded by COP	\$ –	\$ –	\$ –
414	Operating debt	\$ –	\$ –	\$ –
416	Levy reduction	\$ –	\$ –	\$ –
417	Taconite building maintenance	\$ –	\$ –	\$ –
423	Certain teacher programs	\$ –	\$ –	\$ –
424	Operating capital	\$ –	\$ –	\$ –
426	\$25 taconite	\$ –	\$ –	\$ –
427	Disabled accessibility	\$ –	\$ –	\$ –
428	Learning and development	\$ –	\$ –	\$ –
434	Area learning center	\$ –	\$ –	\$ –
435	Contracted alternative programs	\$ –	\$ –	\$ –
436	State approved alternative program	\$ –	\$ –	\$ –
438	Gifted and talented	\$ –	\$ –	\$ –
441	Basic skills programs	\$ –	\$ –	\$ –
445	Career and technical programs	\$ –	\$ –	\$ –
448	Achievement and integration	\$ –	\$ –	\$ –
449	Safe schools levy	\$ –	\$ –	\$ –
450	Pre-kindergarten	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
453	Unfunded severance and retirement levy	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ –	\$ –	\$ –
Committed				
418	Committed for separation	\$ –	\$ –	\$ –
461	Committed fund balance	\$ –	\$ –	\$ –
Assigned				
462	Assigned fund balance	\$ –	\$ –	\$ –
Unassigned				
422	Unassigned fund balance	\$ 317,404	\$ 317,404	\$ –
<b>Food Service</b>				
Total revenue		\$ 1,352	\$ 1,352	\$ –
Total expenditures		\$ 1,098	\$ 1,097	\$ 1
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ 680	\$ 680	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
<b>Community Service</b>				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted/reserve				
426	\$25 taconite	\$ –	\$ –	\$ –
431	Community education	\$ –	\$ –	\$ –
432	ECFE	\$ –	\$ –	\$ –
444	School readiness	\$ –	\$ –	\$ –
447	Adult basic education	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
Restricted				
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –

CYBER VILLAGE ACADEMY

Uniform Financial Accounting and Reporting Standards  
 Compliance Table (continued)  
 June 30, 2014

	Audit	UFARS	Audit – UFARS
<b>Building Construction</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted/reserve			
407 Capital projects levy	\$ –	\$ –	\$ –
409 Alternative facility program	\$ –	\$ –	\$ –
413 Project funded by COP	\$ –	\$ –	\$ –
Restricted			
464 Restricted fund balance	\$ –	\$ –	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –
<b>Debt Service</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted/Reserve			
425 Bond refundings	\$ –	\$ –	\$ –
451 QZAB payments	\$ –	\$ –	\$ –
Restricted			
464 Restricted fund balance	\$ –	\$ –	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –
<b>Trust</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
<b>Internal Service</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
<b>OPEB Revocable Trust Fund</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
<b>OPEB Irrevocable Trust Fund</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
<b>OPEB Debt Service Fund</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted			
425 Bond refundings	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ –	\$ –	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –

Note: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

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