
**WESTERN PENNSYLVANIA
CYBER CHARTER SCHOOL
MIDLAND, PENNSYLVANIA**

AUDIT REPORT

JUNE 30, 2001

WESTERN PENNSYLVANIA CYBER CHARTER SCHOOL

MIDLAND, PENNSYLVANIA

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Cottrill, Arbutina & Associates, P.C.
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Western Pennsylvania Cyber Charter School
173 7th Street
Midland, Pennsylvania 15059

We have audited the accompanying general purpose financial statements of the Western Pennsylvania Cyber Charter School as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Western Pennsylvania Cyber Charter School's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Western Pennsylvania Cyber Charter School as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 14, 2002 on our consideration of the Western Pennsylvania Cyber Charter School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

COTTRILL, ARBUTINA & ASSOCIATES, P.C.
Certified Public Accountants

New Brighton, PA 15066
March 14, 2002

WESTERN PENNSYLVANIA CYBER CHARTER SCHOOL

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 2001

	Governmental Fund Types	Account Groups	Totals (Memorandum Only)
	General	General Fixed Assets	
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 302,391	\$ 0	\$ 302,391
Investments	21,009	0	21,009
Taxes Receivable	0	0	0
Interfund Receivable	0	0	0
Intergovernmental Receivables	806,177	0	806,177
Related Party Receivables	0	0	0
Other Receivables	0	0	0
Prepaid Expenses	0	0	0
Inventories	0	0	0
Buildings and Building Improvements	0	280,640	280,640
Machinery and Equipment	0	0	0
Accumulated Depreciation	0	0	0
Amount to be Provided for Retirement of General Long-Term Debt	0	0	0
Amount to be Provided for Retirement of Lease Obligations	0	0	0
Amount to be Provided for Compensated Absences/Retirement Incentives	0	0	0
Total Assets	\$ 1,129,577	\$ 280,640	\$ 1,410,217

See Notes to Financial Statements.

WESTERN PENNSYLVANIA CYBER CHARTER SCHOOL
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

	<u>Governmental</u>		Totals (Memorandum Only)
	<u>Fund Types</u>	<u>Account Groups</u>	
	<u>General</u>	<u>General Fixed Assets</u>	
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Interfund Payable	\$ 0	\$ 0	\$ 0
Accounts Payable	56,864	0	56,864
Related Party Payable	300,023	0	300,023
Current Portion of Long-Term Debt	0	0	0
Accrued Salaries & Benefits	0	0	0
Payroll Deductions and Withholdings	2,117	0	2,117
Other Current Liabilities	0	0	0
Deferred Revenues	0	0	0
Bonds Payable	0	0	0
Leases Payable	0	0	0
Authority Lease Obligations	0	0	0
Accumulated Compensated Absences/ Retirement Incentives	0	0	0
Total Liabilities	<u>\$ 359,004</u>	<u>\$ 0</u>	<u>\$ 359,004</u>
<u>Fund Equity</u>			
Investment in General Fixed Assets	\$ 0	\$ 280,640	\$ 280,640
Unreserved Retained Earnings	0	0	0
Fund Balance, Unreserved-Designated	770,573	0	770,573
Fund Balance, Unreserved-Undesignated	0	0	0
Total Fund Equity	<u>\$ 770,573</u>	<u>\$ 280,640</u>	<u>\$ 1,051,213</u>
Total Liabilities and Fund Equity	<u>\$ 1,129,577</u>	<u>\$ 280,640</u>	<u>\$ 1,410,217</u>

See Notes to Financial Statements.

WESTERN PENNSYLVANIA CYBER CHARTER SCHOOL
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2001

	<u>Governmental Fund Types</u>	Totals (Memorandum Only)
	<u>General</u>	<u>Only</u>
<u>REVENUES AND OTHER FINANCING USES</u>		
<u>Revenues</u>		
Local Sources	\$ 80	\$ 80
State Sources	417,930	417,930
Federal Sources	0	0
<u>Other Financing Sources</u>		
Bond Proceeds	0	0
Interfund Transfers	0	0
Refund of Prior Year's Expenditures	0	0
Operating Transfers from Other LEA's	<u>2,438,762</u>	<u>2,438,762</u>
Total Revenues & Other Financing Sources	<u>\$ 2,856,772</u>	<u>\$ 2,856,772</u>
<u>EXPENDITURES AND OTHER FINANCING USES</u>		
<u>Expenditures</u>		
Instruction	\$ 1,175,184	\$ 1,175,184
Support Services	605,361	605,361
Operation of Non-Instructional Services	0	0
Facilities Acquisition, Construction and Improvement Services	280,640	280,640
<u>Other Financing Uses</u>		
Debt Service	25,014	25,014
Fund Transfers	<u>0</u>	<u>0</u>
Total Expenditures and Other Financing Uses	<u>\$ 2,086,199</u>	<u>\$ 2,086,199</u>
Revenues and Other Financing Sources Over (Under) Expenditures	\$ 770,573	\$ 770,573
Fund Balances, July 1, 2000	<u>\$ 0</u>	<u>\$ 0</u>
Fund Balances, June 30, 2001	<u>\$ 770,573</u>	<u>\$ 770,573</u>

See Notes to Financial Statements.

WESTERN PENNSYLVANIA CYBER CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2001

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
<u>REVENUES AND OTHER FINANCING SOURCES</u>			
<u>Revenues</u>			
Local Sources	\$ 250,000	\$ 80	\$ (249,920)
State Sources	416,625	417,930	1,305
Federal Sources	0	0	0
<u>Other Financing Sources</u>			
Interfund Transfers	0	0	0
Refund of Prior Year's Expenditures	0	0	0
Operating Transfers from Other LEA's	<u>3,488,902</u>	<u>2,438,762</u>	<u>(1,050,140)</u>
Total Revenues & Other Financing Sources	<u>\$ 4,155,527</u>	<u>\$ 2,856,772</u>	<u>\$ (1,298,755)</u>
<u>EXPENDITURES AND OTHER FINANCING USES</u>			
<u>Expenditures</u>			
<u>Instruction</u>			
Regular Programs - Elementary/Secondary	\$ 1,590,675	\$ 1,159,664	\$ 431,011
Special Programs - Elementary/Secondary	118,000	0	118,000
Vocational Education Programs	20,000	0	20,000
Other Instructional Programs - Elementary/Secondary	0	0	0
Community/Junior College Education Programs	<u>24,000</u>	<u>15,520</u>	<u>8,480</u>
Total Instruction	<u>\$ 1,752,675</u>	<u>\$ 1,175,184</u>	<u>\$ 577,491</u>
<u>Support Services</u>			
Pupil Personnel	\$ 80,555	\$ 5,986	\$ 74,569
Instructional Staff	164,883	10,010	154,873
Administration	339,606	443,230	(103,624)
Pupil Health	21,098	200	20,898
Business	67,326	107,769	(40,443)
Operation and Maintenance of Plant Services	78,463	38,166	40,297
Student Transportation Services	2,000	0	2,000
Other Support Services	<u>5,000</u>	<u>0</u>	<u>5,000</u>
Total Support Services	<u>\$ 758,931</u>	<u>\$ 605,361</u>	<u>\$ 153,570</u>

See Notes to Financial Statements.

WESTERN PENNSYLVANIA CYBER CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2001

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<u>Operation of Non-Instructional Services</u>			
Student Activities	\$ 78,324	\$ 0	\$ 78,324
Community Services	22,380	0	22,380
Total Operation of Non-Instructional Services	<u>\$ 100,704</u>	<u>0</u>	<u>\$ 100,704</u>
<u>Facilities Acquisition, Construction and Improvement Services</u>			
	<u>\$ 241,300</u>	<u>\$ 280,640</u>	<u>\$ (39,340)</u>
<u>OTHER FINANCING USES</u>			
Debt Service	\$ 627,398	\$ 25,014	\$ 602,384
Budgetary Reserve	674,519	0	674,519
Fund Transfers	0	0	0
Total Other Financing Uses	<u>\$ 1,301,917</u>	<u>\$ 25,014</u>	<u>\$ 1,276,903</u>
Total Expenditures and Other Financing Uses	<u>\$ 4,155,527</u>	<u>\$ 2,086,199</u>	<u>\$ 2,069,328</u>
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ 0	\$ 770,573	\$ 770,573
Fund Balance, July 1, 2000	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Fund Balance, June 30, 2001	<u>\$ 0</u>	<u>\$ 770,573</u>	<u>\$ 770,573</u>

See Notes to Financial Statements.

WESTERN PENNSYLVANIA CYBER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2001

NOTE 1 - REPORTING ENTITY

The Western Pennsylvania Cyber Charter School (WPCCS) was formed under the laws of the state of Pennsylvania to provide elementary and secondary education to students through a computer managed learning system designed to meet individual student's learning needs and styles.

Principles used in determining the scope of the reporting entity:

The reporting entity refers to the oversight unit (WPCCS) and all related component units, if any, combined in accordance with the following criteria:

Oversight responsibility
Scope of public service
Other financial relationships

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation - Fund Accounting

The School's accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Account groups are used to establish accounting control and accountability for the government's general fixed assets.

Transfers are recognized in the accounting period in which the interfund receivable and payable arise.

The "Totals Memorandum Only" column aggregates columnar statements by fund type and account group. It does not present consolidated financial information.

Fund categories and account groups used by the School are as follows:

- a. Governmental
- b. General Fixed Assets Account Group

WESTERN PENNSYLVANIA CYBER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Governmental Fund Types

General Fund - The General Fund is the general operating fund of the School and accounts for all revenues and expenditures of the School not encompassed within other funds. All revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures that are not paid through other funds are paid from the General Fund.

Account Groups

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School.

Basis of Accounting - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types and the agency fund. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the related fund liability is incurred, if measurable.

Revenues from local sources consist primarily of tuition from other Local Educational Agencies. Revenues received from the State of Pennsylvania are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

The General Fixed Assets groups of accounts are recorded at actual cost. Fixed assets are recorded as expenditures in the General Fund at the time of purchase. Such assets are to be capitalized at cost in the general fixed assets group of accounts.

Cash and Cash Equivalents - For purposes of the financial statements, all highly liquid investments with a maturity of the three months when purchased or less are considered to be cash equivalents.

WESTERN PENNSYLVANIA CYBER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Budgetary Data

The School passed an appropriated budget for the fiscal year ending June 30, 2001 with revenues totaling \$ 4,155,527 and expenditures totaling \$ 4,155,527. The budget was balanced.

The School is required by state law to adopt an annual budget for the General Fund. The budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles ("GAAP").

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- 1) Prior to June 1 of the preceding fiscal year, the School prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) A meeting of the School Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- 3) Prior to July 1, the budget is legally enacted through passage of a resolution by the School Board.
- 4) The budget for the general fund must be filed with the Office of the Department of Public Instruction within fifteen (15) days after the adoption of the budget.

Once the budget is approved, it can be amended at the Function and Fund level only by approval of a majority of the members of the School Board. Amendments are presented to the School Board at their regular meetings. Each amendment must have School Board approval. Such amendments are made before the fact, are reflected in the official minutes of the School Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the School Board. All budget appropriations lapse at year-end.

C. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Pennsylvania Law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

WESTERN PENNSYLVANIA CYBER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

The School's General Fund has an unreserved-undesignated fund balance of \$770,573 as of June 30, 2001. The unreserved-undesignated fund balance is appropriable for expenditure or not legally or otherwise segregated for a specific or tentative future use. Revenues exceeded expenditures by \$770,573 in the General Fund.

NOTE 4 - CASH / INVESTMENTS

Pennsylvania statutes provide for investment of Governmental Funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

Deposits - At June 30, 2001 the deposits (cash and money market instruments) of the School can be categorized to indicate the level of the risk assumed. Category 1 includes bank balances insured by the FDIC. Category 2 includes bank balances collateralized with securities held by the pledging financial institution's trust department or agent in the School's name. Category 3 includes bank balances collateralized with securities held by the pledging financial institution or its trust department or agent, but not in the School's name. Pennsylvania statutes require banks to pledge collateral for School deposits in excess of \$100,000.

	Carrying Amount	Bank Balance	Category		
			1	2	3
General Fund: Cash	\$ 302,391	\$ 378,681	\$ 100,000		\$ 278,681

WESTERN PENNSYLVANIA CYBER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2001

NOTE 4 - CASH / INVESTMENTS - CONTINUED

Investments - The investments of the School at June 30, 2001, have been categorized to indicate the level of risk assumed by the School. Category 1 includes investments that are insured or registered and are held by the School's agent in the School's name. Category 2 includes uninsured and unregistered investments held by the financial institution's trust department or agent in the School's name. Category 3 includes uninsured and unregistered investments held by the financial institution's trust department or agent, but not in the School's name.

	Category			Carrying	Market
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
General Fund:					
Merrill Lynch		\$ 21,009		\$ 21,009	\$ 21,009

NOTE 5 - CHANGES IN GENERAL FIXED ASSETS

The following are the changes in the General Fixed Assets Group of Accounts:

	Balance @	Net	Balance @
	<u>06/30/00</u>	<u>Changes</u>	<u>06/30/01</u>
Technology & Equipment	\$ 0	\$ 280,640	\$ 280,640

NOTE 6 - DUE TO MIDLAND BOROUGH SCHOOL DISTRICT

Balances at June 30, 2001 consisted of the following payables:

	<u>Payables</u>
General Fund:	
Lease Principle	\$ 179,158
Lease Payments	79,384
Other Expenses	41,481
	\$ 300,023

WESTERN PENNSYLVANIA CYBER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2001

NOTE 7 - PENSION PLANS

Plan Description. The Western Pennsylvania Cyber Charter School contributes to the Public School Employees' Retirement System (PSERS); a cost sharing multiple employer defined benefit pension plan administered by the Public School Employees' Retirement System Board of Trustees under the authority of the Public School Employees' retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-8535). PSERS provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement System issues a publicly available comprehensive annual financial report that may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125. The report is also available in the publications section of the PSERS site on the Internet at www.pfers.state.pa.us.

Funding Policy. Active members who joined the system prior to July 22, 1983, are required to contribute 5.25% of their annual covered salary. Members joining the system on or after July 22, 1983 contribute at 6.25%. The Western Pennsylvania Cyber Charter School is required to contribute at an actuarially determined rate. The rates applied to annual covered payroll were 1.94% at June 30, 2001. The 1.94% at June 30, 2001 is comprised of a pension contribution rate of 1.64% for pension benefits and .30% for healthcare insurance premium assistance. The Western Pennsylvania Cyber Charter School's contribution to PSERS for the year ending June 30, 2001 was \$3861.58.

NOTE 8 - CONTINGENCIES

The School is potentially liable for any expenditures which may be disallowed pursuant to the terms of grant programs. Management is not aware of any material items of noncompliance, which would result in the disallowance of program expenditures.

The Western Pennsylvania Cyber Charter School is involved in litigation concerning payments from Pennsylvania School Districts to cyber charter schools. The Western Pennsylvania Cyber Charter School is defending its position as a legitimate charter school under Pennsylvania law.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Chief Administrative Officer and Vice-President of the Board of the Western Pennsylvania Cyber Charter School is also the Superintendent of the Midland Borough School District. The following financial transactions took place between the Midland Borough School District and the Western Pennsylvania Cyber Charter School during the course of the year:

- The Midland Borough School District entered into a municipal lease agreement with Sky Bank Leasing for the sum of \$257,800 to be paid back over a lease term of 36 months. According to the lease, the proceeds would be used to purchase Home Computer Workstations for students of the Western Pennsylvania Cyber Charter School. During the course of the year, the Midland

WESTERN PENNSYLVANIA CYBER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

YEAR ENDING JUNE 30, 2001

NOTE 9 – RELATED PARTY TRANSACTIONS - CONTINUED

Borough made eleven payments of \$7,938 on the lease. Also during the course of the year the Western Pennsylvania Cyber Charter School reimbursed the Midland Borough School District for one lease payment of \$7,938. A Related Party Payable of \$ 258,542 due to the Midland Borough School District is shown in the Combined Balance Sheet. This amount represents the ten payments made during the year on the lease, and the outstanding principal balance of \$179,158 on the lease as of June 30, 2001.

- A one-time payment of \$25,000 was made from the Western Pennsylvania Cyber Charter School to the Midland Borough School District. The payment was for use of the Midland Borough School District Building by the Western Pennsylvania Cyber Charter School. This payment is shown as Operation and Maintenance of Plant Services-Support Services in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance.
- A one-time payment of \$25,000 was made from the Western Pennsylvania Cyber Charter School to the Midland Borough School District. The payment was for use of the Midland Borough School District Equipment by the Western Pennsylvania Cyber Charter School. This payment is shown as Business-Support Services in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance.
- The Western Pennsylvania Cyber Charter School has agreed to pay the Midland Borough School District \$25,000 per year for the services of the Midland Borough School District Superintendent. This payment is shown as Support Services-Administration in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance.
- The Western Pennsylvania Cyber Charter School has entered into a lease agreement with the Midland Borough School District for the leasing of a building owned by the Midland Borough School District. According to the lease agreement, the Western Pennsylvania Cyber Charter School will pay the Midland Borough School District \$5,000 per month for use of the building. Because this agreement was not approved until June of 2001, no transactions took place during the current fiscal year.
- During the course of the year, the Midland Borough School District paid several bills on behalf of the Western Pennsylvania Cyber Charter School. The total of the bills paid by the Midland Borough School District amounted to \$44,591. The majority of the bills were payments for consultants used by the Western Pennsylvania Cyber Charter School. During the course of the year, the Western Pennsylvania Cyber Charter School paid the Midland Borough School District for \$3,111 of these bills. A Related Party Payable in the amount of \$41,480 due to the Midland Borough School District is shown in the Combined Balance Sheet.

OTHER FINANCIAL INFORMATION

Due to the limited staff, we realize segregation of the above duties is not practical, if not impossible. Based on this internal control situation, the responsibility of management is greatly increased because the Board must rely on their knowledge of the everyday operations to discover any material changes in the school's financial position. All material changes (i.e., monthly financial reports) should be thoroughly investigated to the Management and Board's satisfaction.

RELATED PARTY TRANSACTIONS

During the audit, it was noted that the school engaged in a large amount of related party transactions with the Midland Borough School District. Those transactions were considered to be related party transactions because the CAO of the Western Pennsylvania Cyber Charter School is also the Superintendent of Midland Borough School District. These transactions were:

- The Midland Borough School District entered into a municipal lease agreement with Sky Bank Leasing for the sum of \$257,800 to be paid back over a lease term of 36 months. According to the lease, the proceeds would be used to purchase Home Computer Workstations for students of the Western Pennsylvania Cyber Charter School. During the course of the year, the Midland Borough made eleven payments of \$7,938 on the lease. Also during the course of the year the Western Pennsylvania Cyber Charter School reimbursed the Midland Borough School District for one lease payment of \$7,938.
- A one-time payment of \$25,000 was made from the Western Pennsylvania Cyber Charter School to the Midland Borough School District. The payment was for use of the Midland Borough School District Building by the Western Pennsylvania Cyber Charter School.
- A one-time payment of \$25,000 was made from the Western Pennsylvania Cyber Charter School to the Midland Borough School District. The payment was for use of the Midland Borough School District Equipment by the Western Pennsylvania Cyber Charter School.
- The Western Pennsylvania Cyber Charter School has agreed to pay the Midland Borough School District \$25,000 per year for the services of the Midland Borough School District Superintendent.
- The Western Pennsylvania Cyber Charter School has entered into a lease agreement with the Midland Borough School District for the leasing of a building owned by the Midland Borough School District. According to the lease agreement, the Western Pennsylvania Cyber Charter School will pay the Midland Borough School District \$5,000 per month for use of the building. Because this agreement was not approved until June of 2001, no transactions took place during the current fiscal year.
- During the course of the year, the Midland Borough School District paid several bills on behalf of the Western Pennsylvania Cyber Charter School. The total of the bills paid by the Midland Borough School District amounted to \$44,591. The majority of the bills were payments for consultants used by the Western Pennsylvania Cyber Charter School. During the course of the year, the Western Pennsylvania Cyber Charter School paid the Midland Borough School District for \$3,111 of these bills.

We strongly recommend that the school consider making it a policy to prohibit related party transactions. We make this recommendation because it becomes difficult to show that related party transactions are consummated on terms equivalent to those that prevail in "arm's-length" transactions.

GASB 34

Governmental Accounting Standards No. 34 establishes financial reporting standards for state and local governments, including school districts. It establishes that the basic financial statements and required supplemental information (RSI) for general-purpose governments should consist of:

Management's discussion and analysis (MD&A). MD&A should introduce the basic financial statements and provide an analytical overview of the government's financial activity.

Government-wide financial statements using the economic resources measurement focus, which will include all capital assets, depreciation and outstanding debt.

Required supplementary information (RSI) to include whether resources were obtained and used in accordance with the legally adopted budget (i.e. original budget before transfers).

This statement will require changes in reporting, general ledger accounting, and significant research to accomplish the conversion. The project should begin as soon as possible to assure compliance by the appropriate due dates.

SUMMARY

The preceding comments and recommendations are submitted to assist you in your efforts for the continued improvements and development of procedures and controls. Our comments are not intended to be critical of individual persons, but rather constructive suggestions to assist you in these efforts. We wish to take this opportunity to express our appreciation to the administrators and staff of the Western Pennsylvania Cyber Charter School for their cooperation extended during the course of the audit. We shall be pleased to discuss this memorandum and to furnish any additional information that you may require.

COTTRILL, ARBUTINA & ASSOCIATES, P.C.

Certified Public Accountants



New Brighton, PA 15066

March 14, 2002

WESTERN PENNSYLVANIA CYBER CHARTER SCHOOL

LIST OF REPORT DISTRIBUTION

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Midland, PA 15059

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Cottrill, Arbutina & Associates, P.C.
1475 Third Avenue
New Brighton, PA 15066



Cottrill, Arbutina & Associates, P.C.
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Western Pennsylvania Cyber Charter School
173 7th Street
Midland, Pennsylvania 15059

We have audited the general purpose financial statements of the Western Pennsylvania Cyber Charter School as of and for the year ended June 30, 2001 and have issued our report thereon dated March 14, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Western Pennsylvania 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

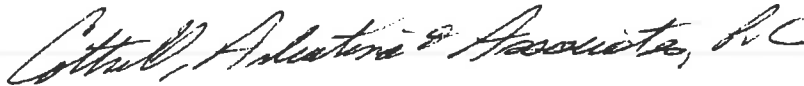
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Western Pennsylvania Cyber Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

COTTRILL, ARBUTINA & ASSOCIATES, P.C.

Certified Public Accountants

A handwritten signature in cursive script that reads "Cottrill, Arbutina & Associates, P.C.".

New Brighton, PA 15066

March 14, 2002