

DISCOVERY CHARTER SCHOOL

***COMPREHENSIVE ANNUAL
FINANCIAL REPORT***

FISCAL YEAR ENDED JUNE 30, 2008

DISCOVERY CHARTER SCHOOL

***Discovery Charter School
Newark, New Jersey***

***Comprehensive Annual Financial Report
For The Fiscal Year Ended June 30, 2008***

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
OF THE
DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**Prepared by
Discovery Charter School
Finance Department**

And

Barre & Company, CPAs

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INTRODUCTORY SECTION

***DISCOVERY CHARTER SCHOOL
303-9 WASHINGTON STREET
NEWARK, NEW JERSEY 07102
973-623-0222***

October 23, 2008

Honorable President and
Members of the Board of Trustees
Discovery Charter School
County of Essex
Newark, New Jersey

Dear Board Members:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the Discovery Charter School (Charter School) for the fiscal year ended June 30, 2008. This CAFR includes the Charter School's Basic Financial Statement prepared in accordance with Governmental Accounting Standards Board Statement 34.

The Charter School has elected to adopt this new financial reporting model which we believe will provide all users of this document with much more useful financial and statistical information than ever before. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Board of Trustees (Board).

To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Charter School. This report will provide the taxpayers of the Discovery Charter School with comprehensive financial data in a format enabling them to gain an understanding of the Charter School's financial affairs.

The Comprehensive Annual Financial Report is presented in four sections as follows:

- The Introductory Section contains a table of contents, Letter of Transmittal, List of Principal Officials, and an Organizational Chart of the Charter School;
- The Financial Section begins with the Independent Auditors' Report and includes the Management's Discussion and Analysis, the Basic Financial Statements and Notes providing an overview of the Charter School's financial position and operating results, and other schedules providing detailed budgetary information;
- The Statistical Section includes selected economic and demographic information, financial trends, and the fiscal capacity of the Charter School, generally presented on a multi-year basis;

- The Single Audit Section — The Charter School is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget (OMB) Circular A-133, “*Audits of States, Local Governments and Non-Profit Organizations*”, and the New Jersey State Office of Management and Budget (OMB) Circular 04-04, “*Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*”. Information related to this single audit, including the independent auditor’s report on the internal control and compliance with applicable laws, regulations, contracts and grants, along with findings and questioned costs, are included in the single audit section of this report.

Charter School Organization

An elected seven-member Board of Trustees (the “Board”) serves as the policy maker for the Charter School. The Board adopts an annual budget and directly approves all expenditures which serve as the basis for control over and authorization for all expenditures of Charter School tax money.

The Co-leaders are the chief executive officers of the Charter School, responsible to the Board for total educational and support operations. The Business Administrator is the chief financial officer of the Charter School, responsible to the Board for maintaining all financial records, issuing warrants in payment of liabilities incurred by the Charter School, acting as custodian of all Charter School funds, and investing idle funds as permitted by New Jersey law.

1) REPORTING ENTITY AND ITS SERVICES: The Discovery Charter School is an independent reporting entity within the criteria adopted by the Government Auditing Standards Board (GASB) as established by GASB Statement No. 14. All funds and account groups of the school are included in this report. The Discovery Charter School Board of Trustees constitutes the Charter School’s reporting entity.

The Charter School provides a full range of services appropriate to grade levels 4 through 8. The Charter School completed the 2007-2008 fiscal year with an enrollment of 75 students, which is the same as the previous year’s enrollment. The following details the changes in the student enrollment of the Charter School over the last five years.

Average Daily Enrollment

<u>Fiscal Year</u>	<u>Student Enrollment</u>	<u>Percent Change</u>
2007-2008	75	0.00%
2006-2007	75	0.00%
2005-2006	75	0.00%
2004-2005	75	0.00%
2003-2004	75	0.00%

REPORTING ENTITY AND ITS SERVICES (CONTINUED):

The Discovery Charter School operates a comprehensive ten-month middle school (September-June). Students attend classes from 8:45 am to 4:15 pm, which is an hour and forty-five minutes longer than most public schools. There are 15 students in a class. All students wear uniforms. Parents are heavily involved in school activities and governance.

2) ENROLLMENT OUTLOOK: Discovery Charter School enrolled seventy-five students 4th to 8th grades, for the 2007-2008 school year. The school will enroll the same number of students next year.

3) MAJOR ACCOMPLISHMENTS:

Community/Philanthropy:

A huge part of the Discovery Charter School experience is showing students the importance of philanthropy in their community. Discovery Charter School has undertaken numerous community-minded pilot projects that have grown into highly successful and respected programs at the school such as:

- **Kids In Business ®:** A program that operates in nine other public schools. Has raised and donated over \$200,000 to charity over its nearly twenty year lifespan.
- **Bring Back the Kitchen Table ® Learning Center:** In 2007-2008 this program offered a library for parents and in-house courses.

Innovative Courses and Programs:

- **Alice Chipman Dewey Culinary Center for Children:** At the Alice Chipman Dewey Culinary School for Children the study of reading, writing, literature, science, history, mathematics, geography and nutrition are all incorporated into the study of foods and cooking. By anchoring these subjects to hands-on cooking lessons, students are motivated to learn them and they are more quickly understandable.
- **The Children's Center for Tinkering, Invention, and Engineering:** The engineering class, which involves a great deal of tinkering and inventing, using primarily LEGOs. No models or plans are given; the students rely on their initial drawings and own thoughts to bring their ideal machine to life. The children plan, evaluate options, try out their own ideas, learn from mistakes, effectively communicate their thoughts to others, and show patience and perseverance.

MAJOR ACCOMPLISHMENTS (CONTINUED):

- **The Children's Center for International Peace, Law, Justice, and Public Health:** This program utilizes famous court cases and professors from the Rutgers's Law School to teach students about the history of our judicial system and the justices and injustice's that make up the American landscape.

Test Scores/Disciplinary Records/Attendance Records:

- The student average for both the NJ ASK tests for grades 4-8 exceeded the district average by over fifteen percent during the 2007-08 year.
- In its nine years, Discovery Charter School has been one of the most sought-after learning institutions in Essex County. Over the last three years, the waiting list for Discovery has been two hundred students.
- In the annual parental survey, 100% of the parents asked chose the highest grade possible for Discovery Charter School when questioned about the quality of their child's education.
- At Discovery Charter School, the scores of economically disadvantaged students were nearly equal to non-economically disadvantaged students on a variety of state tests.
- Discovery Charter School had zero expulsions compared to the New Jersey State average of 83. There were also just two suspensions during the 2007-08 year.
- Teacher attendance was 98.2% , a full two percentage points over the state average.
- Discovery Charter School averaged 7 hours of instructional time a day. This was a full two hours more than the New Jersey State average despite a considerably lower cost per student.

4) INTERNAL ACCOUNTING CONTROLS: Management of the Charter School is responsible for establishing and maintaining an internal control designed to ensure that the assets of the Charter School are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). Internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that:

- (1) the cost of a control should not exceed the benefits likely to be derived;
- (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal and state financial assistance, the Charter School is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. Internal control is also subject to periodic evaluation by the Charter School's management.

INTERNAL ACCOUNTING CONTROLS (CONTINUED):

As part of the Charter School's single audit described earlier, tests are made to determine the adequacy of internal controls, including that portion related to federal and state financial assistance programs, as well as to determine that the Charter School has complied with applicable laws and regulations.

5) BUDGETARY CONTROLS: In addition to internal accounting controls, the Charter School maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the voters of the municipality. Annual appropriated budgets are adopted for the general fund and the special revenue fund. The final budget amount, as amended for the fiscal year, is reflected in the financial section.

An encumbrance accounting system is used to record outstanding purchase commitments on a line item basis. Open encumbrances at year-end are either canceled or are included as reappropriations of fund balance in the subsequent year. Those amounts to be reappropriated are reported as reservations of fund balance at June 30, 2008.

6) CASH MANAGEMENT: The investment policy of the Charter School is guided in large part by state statute as detailed in "Notes to Basic Financial Statement" Note 2. The Charter School had adopted a cash management plan which requires it to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Government Units from a loss of funds on deposit with a failed banking institution in New Jersey. The law requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

7) RISK MANAGEMENT: The Charter School carries various forms of insurance, including but not limited to general liability, automobile liability and comprehensive collision, hazard and theft insurance on property and contents.

8) OTHER INFORMATION:

Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Barre & Company, Certified Public Accountants, was selected by the Board of Trustees. In addition to meeting the requirements set forth in State statutes, the audit also was designed to meet the requirements of the Single Audit Act of 1984 and the Single Audit Act Amendment of 1996 and the related OMB Circular A-133, "*Audits of State, Local Governments and Non-Profit Organization*" and State Treasury Circular Letter 04-04 OMB, "*Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid.*" The auditors' report on the basic financial statements and specific required supplemental information is included in the financial section of this report. The auditors' reports, related specifically to the single audit, are included in the single audit section of this report.

9) **ACKNOWLEDGEMENTS:** We would like to express our appreciation to the members of the Discovery Charter School Board of Trustees for their concern in providing fiscal accountability to the citizens and taxpayers of the Charter School and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our staff.

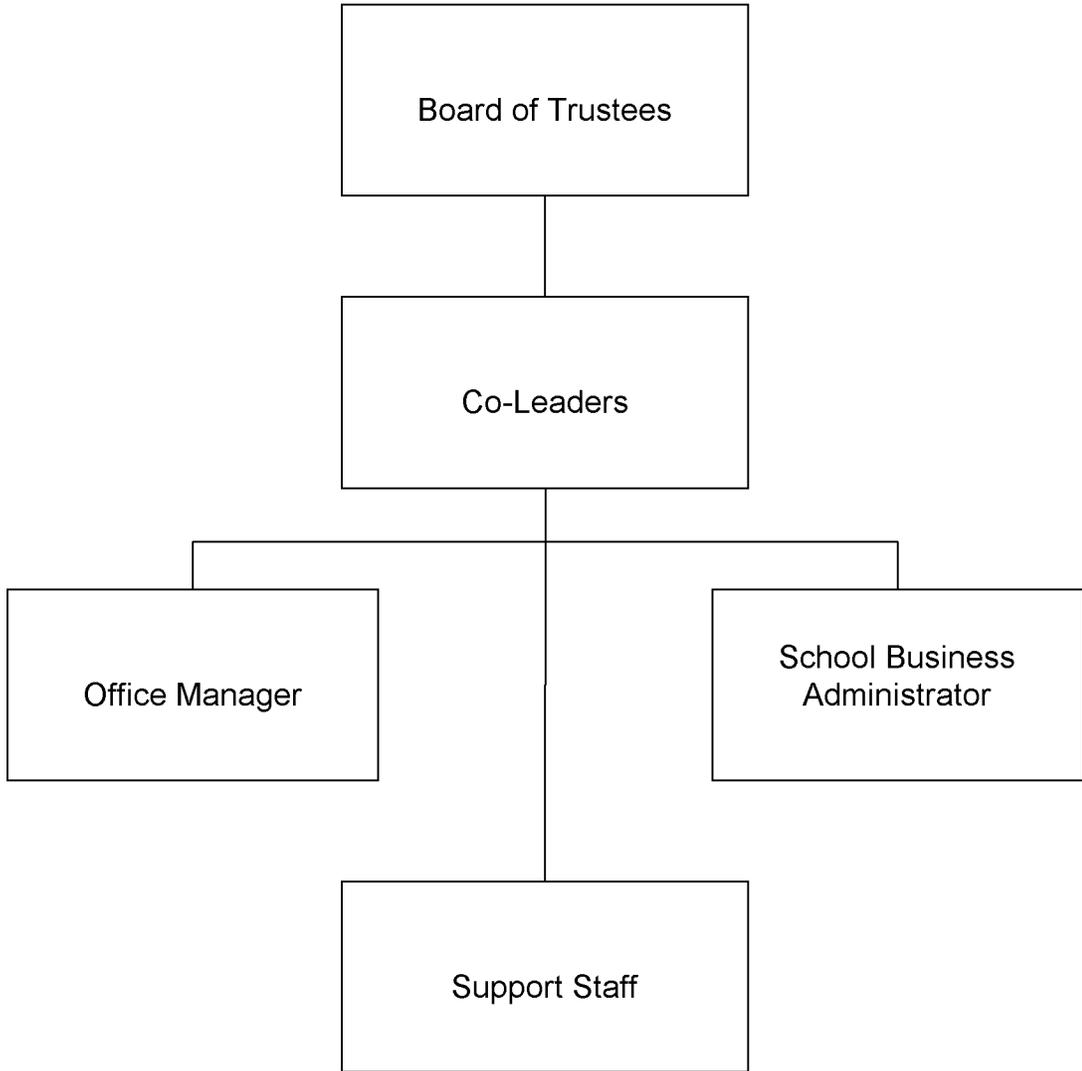
Respectfully submitted,

A handwritten signature in cursive script that reads "Irene Hall".

Irene Hall
Co-Leader

DISCOVERY CHARTER SCHOOL

Organizational Chart



**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**ROSTER OF OFFICIALS
June 30, 2008**

Members of the Board of Trustees

Position

Paul Vance	President
Jennifer Carillo-Perez, Esq.	Secretary
Kunle Ilori, CPA	Treasurer (Non-voting)
Egam Davis	Board Member
Tia Sudler	Board Member
Mary Muldrow	Parent Board Member
Stacy Grier	Parent Board Member
Irene Hall	Co-Leader (Non-voting)
Barbara Weiland	Co-Leader (Non-voting)
Karen Mitleer	SBA (Non-Voting)

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

CONSULTANTS AND ADVISORS

Audit Firm

Barre & Company
Certified Public Accountants
2204 Morris Avenue
Union, New Jersey 07083

Attorney

Jennifer Carillo-Perez, Esq.
Booker, Rabinowitz, Trenk, Lubetkin,
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100 Executive Drive
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Official Depository

Bank of America
University Heights Office
Newark, New Jersey 07102
&
Commerce Bank
259 Springdale Road
Cherry Hill, New Jersey, 08003

FINANCIAL SECTION

BARRE & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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(908) 686-3484

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Independent Auditor's Report

Honorable President
Members of the Board of Trustees
Discovery Charter School
County of Essex
Newark, New Jersey

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund and the aggregate remaining fund information of the Board of Trustees of the Discovery Charter School, in the County of Essex, State of New Jersey, as of and for the fiscal year ended June 30, 2008, which collectively comprise the Charter School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Discovery Charter School Board of Trustees' management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Discovery Charter School Board of Trustees, in the County of Essex, State of New Jersey, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, 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 October 23, 2008 on our consideration of the Discovery Charter School Board of Trustees internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of our audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Information starting on pages 15 and 58, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Discovery Charter School Board of Trustees basic financial statements. The accompanying introductory section, other supplementary information such as the combining and individual fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, financial schedules and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations; and New Jersey OMB's Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid respectively, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Richard M. Barre
Licensed Public School Accountant
No. CS-01181
Barre & Company, CPA's

October 23, 2008

REQUIRED SUPPLEMENTARY INFORMATION – PART I

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

The discussion and analysis of Discovery Charter School's financial performance provides an overall review of the Charter School's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the Charter School's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the Charter School's financial performance.

The Management's Discussion and Analysis (MD&A) is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 — *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* issued in June 1999. Certain comparative information between the current year (2007-2008) and the prior year (2006-2007) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2008 are as follows:

- ❖ General revenues accounted for \$943,348 in revenues or 96% of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$37,250 or 4% percent of total revenues of \$980,598.
- ❖ The Charter School had \$999,879 in expenses; only \$37,250 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$943,348 were not adequate to provide for these programs.
- ❖ Among governmental funds, the General Fund had \$848,438 in revenues and \$867,719 in expenditures. The General Fund's fund balance decreased \$19,281 over 2007. This decrease was anticipated by the Board of Trustees.

Using this Comprehensive Annual Financial Report (CAFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Discovery Charter School as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(CONTINUED)**

Using this Comprehensive Annual Financial Report (CAFR) (Continued)

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Charter School, presenting both an aggregate view of the Charter School's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Charter School's most significant funds with all other non-major funds presented in total in one column. In the case of Discovery Charter School, the General Fund is by far the most significant fund.

Reporting the Charter School as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Charter School to provide programs and activities, the view of the Charter School as a whole looks at all financial transactions and ask the question, "How did we do financially during 2008?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector businesses. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Charter School's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Charter School as a whole, the financial position of the Charter School have improved or diminished. The causes of this change may be the result of many factors, some financial and some not. Non-financial factors include the current laws in New Jersey restricting revenue growth, facility condition, required educational programs and other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, the Charter School is divided into two distinct kinds of activities:

- ❖ Governmental activities — All of the Charter School's programs and services are reported here including instruction, administration, support services, and capital outlay.

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(CONTINUED)**

Statement of Net Assets and Statements of Activities (Continued)

- ❖ Business-Type Activity — These services are provided on a charge for goods or services basis to recover all the expenses of the goods or services provided. The Food Service enterprise fund is reported as a business activity.

Fund Financial Statements

Fund financial reports provide detailed information about the Charter School's funds. The Charter School uses many funds to account for a multitude of financial transaction. The Charter School's governmental funds are the General Fund and Special Revenue Fund.

Governmental Funds

The Charter School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future years. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Charter School's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

Enterprise Fund

The enterprise fund uses the same basis of accounting as business-type activities; therefore, these statements are essentially the same.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found starting on page 38 of this report.

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(CONTINUED)**

The Charter School as a Whole

Recall that the *Statement of Net Assets* provides the perspective of the Charter School as a whole. Net assets may serve over time as a useful indicator of a government's financial position.

The Charter School's financial position is the product of several financial transactions including the net results of activities.

The Charter School's combined net assets were \$11,494 for 2008 and \$25,544 for 2007.

Governmental Activities

The Charter School's total revenues were \$980,598 for the year ended June 30, 2008 and \$1,165,753 for 2007, this includes \$23,155 for 2008 and \$21,326 for 2007 of state reimbursed TPAF social security contributions.

The total cost of all program and services was \$999,879 for 2008 and \$1,205,799 for 2007. Instruction comprises 49% for 2008 and 44% for 2007 of Charter School expenses.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services. Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and student, including extracurricular activities.

Administration includes expenses associated with administrative and financial supervision of the Charter School.

Support Services include the activities involved with assisting staff with the content and process of teaching to students, including curriculum and staff development and the costs associated with operating the facility.

Capital Outlay represents school equipment purchased under the \$2,000 threshold.

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(CONTINUED)**

Business-Type Activities

Revenues for the Charter School's business-type activity (food service program) were comprised of charges for services and federal and state reimbursements.

- ❖ Food Service expenses exceeded revenues by \$4,981 for 2008 and revenues exceeded expenses by \$3,214 for 2007.
- ❖ Charges for services represent \$712 for 2008 and \$2,845 for 2007 of revenue. This represents amounts paid by patrons for daily food.
- ❖ Federal and state reimbursements for meals, including payments for free and reduced lunches and breakfast were \$28,172 for 2008 and \$28,111 for 2007.

The Charter School's Funds

All governmental funds (i.e., general fund and special revenue fund presented in the fund-based statements) are accounted for using the modified accrual basis of accounting. Total revenues amounted to \$980,598 for 2008 and \$1,165,753 for 2007 and expenditures were \$999,879 for 2008 and \$1,205,799 for 2007. The net change in fund balance for the year 2008 and 2007 was most significant in the general fund, a decrease of \$19,281 and \$40,046, respectively.

As demonstrated by the various statements and schedules included in the financial section of this report, the Charter School continues to meet its responsibility for sound financial management. The following schedules present a summary of the revenues of the governmental funds for the fiscal year ended June 30, 2008, and the amount and percentage of increases and decreases in relation to prior year revenues.

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(CONTINUED)**

The Charter School's Funds (Continued)

Revenues	Amount	Percent of Total	Increase/ (Decrease) From 2007	Percent of Increase/ (Decrease)
Local Sources	\$ 250,956	25.59%	\$ 60,154	32%
State Sources	640,107	65.28%	1,896	0%
Federal Sources	89,535	9.13%	(247,205)	-73%
Total	\$ 980,598	100.00%	\$ (185,155)	

The following schedule represents a summary of general fund and special revenue fund expenditures for the fiscal year ended June 30, 2008, and the percentage of increases and decreases in relation to prior year amounts.

Expenditures	Amount	Percent of Total	Increase/ (Decrease) From 2007	Percent of Increase/ (Decrease)
Instruction	\$ 386,283	38.6%	\$ (68,632)	-15%
Administration	395,490	39.6%	102,281	35%
Support Services	215,106	21.5%	(242,569)	-53%
Capital Outlay	3,000	0.3%	3,000	0%
Total	\$ 999,879	100.00%	\$ (205,920)	

Changes in expenditures were the results of varying factors. Current expense increased due to salary increases, additional staff and students, and increased health benefits and utility costs.

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(CONTINUED)**

General Fund Budgeting Highlights

The Charter School's budget is prepared according to New Jersey law, and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

Over the course of the year, the Charter School revised the annual operating budget several times. Revisions in the budget were made to recognize revenues that were not anticipated and to prevent over-expenditures in specific line item accounts.

For the Future

The Discovery Charter School is in good financial condition presently. The Charter School is proud of its community support. A major concern is the continued enrollment growth of the Charter School with the increased reliance on federal and state funding.

In conclusion, the Discovery Charter School has committed itself to financial excellence for many years. In addition, the Charter School's system for financial planning, budgeting, and internal financial controls are well regarded. The Charter School plans to continue its sound fiscal management to meet the challenge of the future.

Contacting the Charter School's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Charter School's finances and to show the Charter School's accountability for the money it receives. If you have questions about this report or need additional information, contact Miss Irene Hall, Lead Person at Discovery Charter School, 303-9 Washington Street, Newark, New Jersey 07102.

BASIC FINANCIAL STATEMENTS

SECTION A – CHARTER SCHOOL-WIDE FINANCIAL STATEMENTS

The basic financial statements provide a financial overview of the Charter School's operation. These statements include the financial activities of the overall Charter School, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the Charter School.

DISCOVERY CHARTER SCHOOL
Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 33,049	\$ 6,648	\$ 39,697
Interfund Receivables	55,670	1,953	57,623
Receivables	57,074	2,494	59,568
Total Assets	145,793	11,095	156,888
LIABILITIES:			
Interfund Payable	44,120		44,120
Accounts Payable	100,397		100,397
Total Liabilities	144,517	-	144,517
NET ASSETS:			
Unrestricted	1,276	11,095	12,371
Total Net Assets	\$ 1,276	\$ 11,095	\$ 12,371

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

DISCOVERY CHARTER SCHOOL
 Statement of Activities
 For The Fiscal Year Ended June 30, 2008

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues			Net (Expense) Revenue and Changes In Net Assets		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES:								
Instruction	\$ 386,283	\$ 106,821	\$ -	\$ 37,250	\$ -	\$ (455,854)	\$ -	\$ (455,854)
Administration	218,073	67,817				(285,890)		(285,890)
Support Services	212,762	5,123				(217,885)		(217,885)
Capital Outlay	3,000					(3,000)		(3,000)
Total Governmental Activities	820,118	\$ 179,761	-	37,250	-	(962,629)	-	(962,629)
BUSINESS-TYPE ACTIVITIES:								
Food Service	23,903		712	28,172		-	4,981	4,981
Total Business-Type Activities	23,903		712	28,172	-	-	4,981	4,981
Total Primary Government	\$ 844,021		\$ 712	\$ 65,422	\$ -	\$ (962,629)	\$ 4,981	\$ (957,648)
GENERAL REVENUES								
General Purposes						\$ 173,295	\$ -	\$ 173,295
Federal and State Aid Not Restricted						692,392		692,392
Miscellaneous Income						78,538	250	78,788
Total General Revenues						944,225	250	944,475
Change in Net Assets						(18,404)	5,231	(13,173)
Net Assets - Beginning						19,680	5,864	25,544
Net Assets - Ending						\$ 1,276	\$ 11,095	\$ 12,371

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

SECTION B – FUND FINANCIAL STATEMENTS

The Individual Fund statements and schedules present more detailed information for the individual fund in a format that segregates information by fund type.

GOVERNMENTAL FUNDS

DISCOVERY CHARTER SCHOOL
 Governmental Funds
 Combining Balance Sheet
 June 30, 2008

	General Fund	Special Revenue Fund	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS:			
Cash and Cash Equivalents	\$ 10,791	\$ 22,258	\$ 33,049
Interfund Receivables	52,506	3,164	55,670
Receivables From State Government	7,936	14,699	22,635
Other Receivables	27,400		27,400
Tax Levy Receivable	7,039		7,039
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 105,672</u>	<u>\$ 40,121</u>	<u>\$ 145,793</u>
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Current Liabilities:			
Interfund Payables	\$ 3,999	\$ 40,121	\$ 44,120
Accounts Payable	100,397	-	100,397
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>104,396</u>	<u>40,121</u>	<u>144,517</u>
Fund Balances:			
Reserved For:			
General Fund	1,276		1,276
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,276</u>	<u>-</u>	<u>1,276</u>
Total Liabilities and Fund Balances	<u>\$ 105,672</u>	<u>\$ 40,121</u>	
Amounts reported for <i>governmental activities</i> in the statement of net assets (A-1) which are different.			<u>-</u>
Net Assets of Governmental Activities			<u>\$ 145,793</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

DISCOVERY CHARTER SCHOOL
 Governmental Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 For the Fiscal Year Ended June 30, 2008

	General Fund	Special Revenue Fund	Total
REVENUES:			
Local Sources:			
Local Tax Levy	\$ 173,295	\$ -	\$ 173,295
Miscellaneous	35,913	42,625	78,538
Total Local Sources	209,208	42,625	251,833
State Sources	640,107		640,107
Federal Sources		89,535	89,535
Total Revenues	849,315	132,160	981,475
EXPENDITURES:			
Instruction	305,104	81,179	386,283
Administration	395,490		395,490
Support Services	164,125	50,981	215,106
Capital Outlay	3,000		3,000
Total Expenditures	867,719	132,160	999,879
NET CHANGE IN FUND BALANCES	(18,404)	-	(18,404)
FUND BALANCES, JULY 1	19,680	-	19,680
FUND BALANCES, JUNE 30	\$ 1,276	\$ -	\$ 1,276

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

DISCOVERY CHARTER SCHOOL
 Reconciliation of the Statement of Revenues, Expenditures
 And Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 For the Fiscal Year Ended June 30, 2008

Total net change in fund balances - governmental fund (from B-2)	\$ (18,404)
Amounts reported for governmental activities in the statement of activities (A-2) are different.	-
Change in net assets of governmental activities	\$ (18,404)

The accompanying Notes to Basic Financial Statements are integral part of this statement.

PROPRIETARY FUNDS

DISCOVERY CHARTER SCHOOL
 Proprietary Fund
 Statement of Net Assets
 June 30, 2008

Business-type Activities - Enterprise Fund	Food Service
ASSETS:	
Cash and Cash Equivalents	\$ 6,648
Receivables:	
Due From Other Funds	1,953
Intergovernmental Accounts Receivable:	
Federal	2,379
State	115
Total Assets	\$ 11,095
 NET ASSETS:	
Unrestricted	11,095
Total Net Assets	\$ 11,095

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

DISCOVERY CHARTER SCHOOL
 Proprietary Fund
 Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets
 For the Fiscal Year Ended June 30, 2008

Business-type Activities - Enterprise Fund	<u>Food Service</u>
OPERATING REVENUES:	
Charges for Services:	
Daily Sales Reimbursable Program	\$ 712
Miscellaneous Revenue	<u>250</u>
Total Operating Revenues	<u>962</u>
OPERATING EXPENSES:	
Salaries	7,000
Supplies and Materials	2,149
Cost of Sales	8,691
Miscellaneous Expenses	<u>6,063</u>
Total Operating Expenses	<u>23,903</u>
OPERATING LOSS	<u>(22,941)</u>
NONOPERATING REVENUES:	
State Source:	
State School Breakfast and Lunch Program	1,249
Federal Source:	
Nutrition Reimbursements	<u>26,923</u>
Total Nonoperating Revenues	<u>28,172</u>
CHANGE IN NET ASSETS	5,231
TOTAL NET ASSETS, JULY 1	<u>5,864</u>
TOTAL NET ASSETS, JUNE 30	<u><u>\$ 11,095</u></u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

DISCOVERY CHARTER SCHOOL
Proprietary Fund
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

Business-type Activities - Enterprise Fund	<u>Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	\$ 900
Cash Payments to Suppliers and Employees	<u>(24,448)</u>
Net Cash Used In Operating Activities	<u>(23,548)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Cash Received From State And Federal Reimbursements	<u>28,172</u>
Net Cash Provided By Noncapital Financing Activities	<u>28,172</u>
Net Increase In Cash And Cash Equivalents	4,624
Cash And Cash Equivalents, Beginning Of Year	<u>2,024</u>
Cash And Cash Equivalents, End Of Year	<u><u>\$ 6,648</u></u>
 Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss Used for Operating Activities	\$ (22,941)
Change In Assets And Liabilities:	
Increase In Due From Other Funds	(106)
Decrease In Receivables From Other Governments	44
Decrease In Accounts Payable	<u>(545)</u>
Net Cash Used In Operating Activities	<u><u>\$ (23,548)</u></u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

FIDUCIARY FUNDS

DISCOVERY CHARTER SCHOOL
 Fiduciary Funds
 Statement of Fiduciary Net Assets
 June 30, 2008

	Unemployment Compensation Trust	Agency Fund
	<u> </u>	<u> </u>
ASSETS:		
Cash and Cash Equivalents	\$ 5,482	\$ 13,170
Total Assets	<u>5,482</u>	<u>\$ 13,170</u>
LIABILITIES:		
Interfund Accounts Payable	\$ 4,729	\$ 8,774
Accounts Payable	2,517	
Due to Student Groups		<u>4,396</u>
Total Liabilities	<u>7,246</u>	<u>\$ 13,170</u>
NET ASSETS (DEFICIT):		
Reserved for Unemployment Claims	<u>(1,764)</u>	
Total Net Assets (DEFICIT)	<u>\$ (1,764)</u>	

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

DISCOVERY CHARTER SCHOOL
 Fiduciary Funds
 Statement of Changes in Fiduciary Net Assets
 For Fiscal Year Ended June 30, 2008

	<u>Unemployment Compensation Trust</u>
ADDITIONS:	
Contributions	<u>\$ 1,097</u>
Total Additions	<u>1,097</u>
DEDUCTIONS:	
Payment of Claims	<u>254</u>
Total Deductions	<u>254</u>
CHANGE IN NET ASSETS	843
NET ASSETS (DEFICIT)- BEGINNING OF THE YEAR	<u>(2,607)</u>
NET ASSETS (DEFICIT) - END OF THE YEAR	<u><u>\$ (1,764)</u></u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Discovery Charter School have been prepared in conformity with generally accepted accounting principles generally (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body responsible for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Charter School are described below.

A. Reporting Entity

The Charter School is a non-profit corporation organized under the laws of the State of New Jersey, established in 1997 and opened in Fall 1999 to operate and maintained a public school under a charter granted by the State of New Jersey. The Charter School consists of eleven members and must comply with the Charter School Program Act of 1995 and regulations promulgated thereunder.

The primary criterion for including activities within the Charter School's reporting entity are set forth in Statement No. 14 of the Governmental Accounting Standards Board entitled "The Financial Reporting Entity" (GASB 14) as codified in Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards*. Under GASB Statement No. 14, the financial reporting entity is determined by the degree of oversight responsibility maintained by the Charter School. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds and account groups of the Charter School over which it exercises operating control. The operations of the Discovery Charter School include a Grade 4 through 8 school located in the City of Newark. There are no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore, the Charter School is not includable in any other reporting entity on the basis of such criteria.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

The Charter School's basic financial statements consist of Charter School-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Charter School-wide Statements: The statement of net assets and the statement of activities display information about the Charter School as a whole. These statements include the financial activities of the overall Charter School, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activity of the Charter School. Governmental activities generally are financed through intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of net assets presents the financial condition of the governmental and business-type activity of the Charter School at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for the business-type activity of the Charter School and for each function of the Charter School's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the Charter School.

Fund Financial Statements: During the fiscal year, the Charter School segregates transactions related to certain Charter School functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The fund financial statements provide information about the Charter School's funds, including its fiduciary funds. Separate statements for each fund category — *governmental, proprietary, and fiduciary* — are presented. The New Jersey Department of Education (NJDOE) has elected to require New Jersey Charter Schools to treat each governmental fund as a major fund in accordance with the option noted in GASB No. 34, paragraph 76. The NJDOE believes that the presentation

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

of all funds as major is important for public interest and to promote consistency among Charter School financial reporting models.

The Charter School reports the following *governmental* funds:

General Fund: The general fund is the general operating fund of the Charter School and is used to account for all expendable financial resources except those required to be accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or non-instructional equipment which are classified in the capital outlay subfund.

As required by the New Jersey State Department of Education, the Charter School includes budgeted capital outlay in this fund. Accounting principles generally accepted in the United States of America as they pertain to governmental entities state that general fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues. Resources for budgeted capital outlay purposes are normally derived from State of New Jersey Aid and appropriated fund balance. Expenditures are those that result in the acquisition of or additions to fixed assets for land, existing buildings, improvements of grounds, construction of buildings, additions to or remodeling of buildings and the purchase of built-in equipment. These resources can be transferred from and to Current Expense by School Board resolution.

Special Revenue Fund: The special revenue fund is used to account for the proceeds of specific revenue from State and Federal Government, (other than major capital projects, debt service or the enterprise funds) and local appropriations that are legally restricted to expenditures for specified purposes.

Proprietary Fund Types: These funds account for operations that are organized to be self-supporting through user charges and are similar to those often found in private business enterprises.

The Charter School reports the following *proprietary* fund:

Enterprise Fund: The enterprise fund accounts for all revenues and expenses pertaining to the Charter School's Food Service operations. These funds are utilized to account for operations that are financed and operated in a manner similar to private business

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

enterprises. The stated intent is that the cost (i.e. expenses including depreciation and indirect costs) of providing goods or services to the students on a continuing basis are financed or recovered primarily through user charges.

Fiduciary Funds: The funds are used to account for assets held by the Charter School on behalf of others.

The Charter School reports the following *fiduciary* funds:

Agency Funds: The agency funds are used to account for assets held by the Charter School on behalf of outside parties, including other governments, or on behalf of other funds within the Charter School. The agency funds included are as follows:

Payroll and Student Activities Funds: These are agency funds used to account for the assets that the Charter School holds on behalf of others as their agent. Agency funds are custodial in nature and do not involve measurement of results of operations.

Unemployment Insurance Trust Fund: An expendable trust fund used to account for deductions from employees' salaries which are utilized to pay unemployment compensation claims as they arise.

C. Basis of Accounting – Measurement Focus

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Charter School-wide, Proprietary, and Fiduciary Fund Financial Statements: The Charter School-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting while the enterprise fund and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures. The Charter School is entitled to receive monies under the established payment schedule and the unpaid amount is considered to be an "accounts receivable". Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting – Measurement Focus (Continued)

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. “Measurable” means the amount of the transactions 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. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

All governmental and business-type activities and enterprise funds of the Charter School follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

D. Budgets/Budgetary Control

Annual appropriated budgets are prepared in the spring of each year for the general and special revenue funds. They are submitted to the county office. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A.2(m)1. All budget amendments and transfers must be approved by School Board resolution.

All budget amounts presented in the accompanying supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year).

Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets/Budgetary Control (Continued)

Formal budgetary integration into the accounting system is employed as a management control device during the fiscal year. For governmental funds, there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles (GAAP) with the exception of the special revenue fund as noted below. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

The accounting records of the special revenue fund are maintained on the grant accounting budgetary basis. The grant accounting budgetary basis differs from GAAP in that the grant accounting budgetary basis recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not. Sufficient supplemental records are maintained to allow for the presentation of GAAP basis financial reports.

The following presents a reconciliation of the special revenue funds from the budgetary basis of accounting to the GAAP basis of accounting:

Total Revenues & Expenditures (Budgetary Basis)		\$ 132,160
Adjustments:		
Less Encumbrances at June 30, 2008		-
Plus Encumbrances at June 30, 2007		-
Total Revenues and Expenditures (GAAP Basis)		\$ 132,160

E. Encumbrances Accounting

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve a portion of the applicable appropriation. Open encumbrances in governmental funds other than the special revenues fund are reported as reservations of fund balances at fiscal yearend as they do not constitute expenditures or liabilities but rather commitments related to unperformed contracts for goods and services.

Open encumbrances in the special revenue fund for which the Charter School has received advances are reflected in the balance sheet as deferred revenues at fiscal year end.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrances Accounting (Continued)

The encumbered appropriation authority carries over into the next fiscal year. An entry will be made at the beginning of the next fiscal year to increase the appropriation reflected in the certified budget by the outstanding encumbrance amount as of the current fiscal year end.

F. Assets, Liabilities, and Equity

Interfund Transactions:

Transfers between governmental and business-type activities on the Charter School-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as Interfund Transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in the enterprise fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Inventories:

Inventory purchases, other than those recorded in the enterprise fund, are recorded as expenditures during the year of purchase. Enterprise fund inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method.

Prepaid Expenses:

Prepaid expenses which benefit future periods, other than those recorded in the enterprise fund, are recorded as an expenditure in the year of purchase.

Capital Assets:

The Charter School has established a formal system of accounting for its capital assets. Purchased or constructed capital assets are reported at cost. Donated capital assets are valued at their estimated fair market value on the date received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Equity (Continued)

The Charter School does not possess any infrastructure. The capitalization threshold used by Charter Schools in the State of New Jersey is \$2,000.

All reported capital assets except for land and construction in progress are depreciated. Depreciation is computed using the straight-line method under the half-year convention over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
School Buildings	50
Building Improvements	20
Electrical/Plumbing	30
Office & computer equipment	5-10

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlement received before the eligibility requirements are met are also recorded as deferred revenue.

Accrued Liabilities and Long-term Obligations:

All payables, accrued liabilities, and long-term obligations are reported on the Charter School-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

Net Assets:

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Equity (Continued)

there are limitations imposed on their use either through restrictions adopted by the Charter School or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Charter School's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Balance Reserves:

The Charter School reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion which is available for appropriation in future periods. A fund balance reserve has been established for encumbrances in accordance with N.J.S.A. 18:F7.

Revenues — Exchange and Nonexchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Charter School, available means within sixty days of the fiscal year end.

Nonexchange transactions, in which the Charter School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Charter School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Charter School on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Equity (Continued)

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, interest, and tuition.

Operating Revenues and Expenses:

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Charter School, these revenues are sales in the Enterprise Fund. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

Allocation of Indirect Expenses:

The Charter School reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Indirect expenses are allocated to functions but are reported separately in the Statement of Activities. Employee benefits, including the employer's share of social security, workers compensation, and medical and dental benefits, were allocated based on salaries of that program. Depreciation expense, where practicable, is specifically identified by function and is included in the indirect expense column of the Statement of Activities. Depreciation expense that could not be attributed to a specific function is considered an indirect expense and is reported separately on the Statement of Activities. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Extraordinary and Special Items:

Extraordinary items are transactions or events that are unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. Neither of these types of transactions occurred during the fiscal year.

Management 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 revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Equity (Continued)

Accrued Salaries and Wages:

Certain Charter School employees who provide services to the Charter School over the ten-month academic year have the option to have their salaries evenly disbursed during the entire twelve-month year. New Jersey statutes require that these earned but undisbursed amounts be retained in a separate bank account.

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents includes petty amounts in deposits, money market accounts and short-term investments with original maturities of three months or less.

Investments are stated at cost, or amortized cost, which approximates market. The amortized cost method involves valuing a security at its cost on the date of purchase and thereafter assuming a constant amortization to maturity of any discount or premium. The Board classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

GASB Statement No. 3 requires disclosure of the level of custodial credit risk assumed by the Board in its cash, cash equivalents and investments. Category 1 includes deposits/investments held by the Board's custodial bank trust department or agent in the Board's name. Category 2 includes uninsured and unregistered deposits/investments held by the Board's custodial bank trust department or agent in the Board's name. Category 3 includes uninsured or unregistered deposits/investments held by a broker or dealer, or held by the Board's custodial bank trust department or agent but not in the Board's name. These categories are not broad representations that deposits or investments are "safe" or "unsafe".

Deposits

New Jersey statutes require that Charter Schools deposit public funds in public depositories located in New Jersey which are insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. Charter Schools are also permitted to deposit public funds in the State of New Jersey Cash Management Fund.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows:

The market value of the collateral must equal at least five percent of the average daily balance of collected public funds on deposit.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank of New York, the Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Investments

New Jersey statutes permit the Board to purchase the following types of securities:

- a. Bonds or other obligations of the United States or obligations guaranteed by the United States.
- b. Bonds of any Federal Intermediate Credit Bank, Federal Home Loan Bank, Federal National Mortgage Agency or of any United States Bank for Cooperatives which have a maturity date not greater than twelve months from the date of purchase
- c. Bonds or other obligations of the Charter School.

As of June 30, 2008, cash and cash equivalents and investments of the Charter School consisted of the following:

	General Fund	Special Revenue	Proprietary Fund	Fiduciary Funds	Total
Operating Account	\$ 10,791	\$ 22,258	\$ 6,648	\$ 18,652	\$ 58,349

The carrying amount of the Board's cash and cash equivalents at June 30, 2008 was \$58,349 and the bank balance was \$156,363. All bank balances were covered by federal depository insurance and/or covered by a collateral pool maintained by the banks as required by New Jersey statutes.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Risk Category

All bank deposits, as of the balance sheet date, are entirely insured or collateralized by a collateral pool maintained by public depositories as required by the Governmental Unit Deposit Protection Act. In general, bank deposits are classified as to credit risk by three categories described below:

Category 1 — Insured or collateralized with securities held by the Board or by its agent in the Board's name.

Category 2 — Collateralized with securities held by the pledging public depository's trust department or agent in the Board's name.

Category 3 — Uncollateralized, including any deposits that are collateralized with securities held by the pledging public depository, or by its trust department or agent, but not in the Board's name.

As of June 30, 2008, the Charter School had funds on deposit in checking accounts. These funds constitute deposits with financial institutions" as defined by GASB Statement No. 3 and are classified as Category 1, both at year-end and throughout the year.

New Jersey Cash Management Fund

All investments in the Fund are governed by the regulations of the Investment Council, which prescribe specific standards designed to insure the quality of investments and to minimize the risks related to investments. In all the years of the Division of Investment's existence, the Division has never suffered a default of principal or interest on any short-term security held by it due to the bankruptcy of a securities issuer; nevertheless, the possibility always exists, and for this reason a reserve is being accumulated as additional protection for the "Other-than-State" participants. In addition to the Council regulations, the Division sets further standards for specific investments and monitors the credit of all eligible securities issuers on a regular basis.

As of June 30, 2008, the Charter School had no funds on deposit with the New Jersey Cash Management Fund.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 3: RECEIVABLES

Receivables at June 30, 2008, consisted of accounts, intergovernmental, grants, and miscellaneous.

All receivables are considered collectible in full. A summary of the principal items of intergovernmental receivables follows:

	Governmental Fund Financial Statements	Governmental Wide Financial Statements
State Aid	\$ 14,975	\$ 15,090
Federal Aid	14,699	17,078
Other	-	-
Gross Receivables	<u>29,674</u>	<u>32,168</u>
Less: Allowance for Uncollectibles	-	-
Total Receivables, Net	<u><u>\$ 29,674</u></u>	<u><u>\$ 32,168</u></u>

NOTE 4: INTERFUND TRANSFERS AND BALANCES

Transfers between funds are used to repay expenses paid by another fund.

The following interfund balances remained on the fund financial statements at June 30, 2008:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 52,506	\$ 3,999
Special Revenue Fund	3,164	40,121
Proprietary Fund	1,953	
Fiduciary Fund		<u>13,503</u>
Total	<u><u>\$ 57,623</u></u>	<u><u>\$ 57,623</u></u>

NOTE 5: RENTAL LEASE

The school is currently leasing space at 303-9 Washington Street, Newark, New Jersey under a lease agreement for five (5) years commencing July 1, 2007 and ending June 30, 2011. Total lease payments for the year ended June 30, 2008 amounted to \$85,804.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 5: RENTAL LEASE (CONTINUED)

The future minimum rental payments are as follows:

<u>July 1,</u>	<u>Amount</u>
2008	96,938
2009	105,188
2010	113,438
2011	121,688

NOTE 6: PENSION PLANS

Description of Plans

All required employees of the Charter School are covered by either the Public Employees' Retirement System or the Teachers' Pension and Annuity Fund which have been established by state statute and are administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of both systems will be assumed by the State of New Jersey should the Systems terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System and the Teachers' Pension and Annuity Fund. These reports may be obtained by writing to the Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey, 08625.

Teachers' Pension and Annuity Fund (TPAF)

The Teachers' Pension and Annuity Fund was established as of January 1, 1955, under the provisions of N.J.S.A. 18A:66 to provide retirement benefits, death, disability and medical benefits to certain qualified members. The Teachers' Pension and Annuity Fund is considered a cost-sharing multiple-employer plan with a special funding situation, as under current statute, all employer contributions are made by the State of New Jersey on behalf of the Charter School and the system's other related noncontributing employers. Membership is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, and employees of the Department of Education who have titles that are unclassified, professional and certified.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 6: PENSION PLANS (CONTINUED)

Public Employees' Retirement System (PERS)

The Public Employees' Retirement System was established as of January 1, 1955 under the provisions of N.J.S.A. 43:1 5A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district or public agency, provided the employee is not required to be a member of another State-administered retirement system or other state or local jurisdiction.

Vesting and Benefit Provisions

The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A and 43.3B, and N.J.S.A. 18A:66 for TPAF. All benefits vest after eight to ten years of service, except for medical benefits that vest after 25 years of

Vesting and Benefit Provisions (Continued)

service. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/60 of the final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. The TPAF and PERS provides for specified medical benefits for members who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for two percent of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Significant Legislation

Legislation enacted during the year ended June 30, 1997 (Chapter 115, P.L. 1997) changed the asset valuation method from market related value to full-market value. This legislation also contained a provision to reduce the employee contribution rate by 1/2 of one percent to 4.5 percent for

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 6: PENSION PLANS (CONTINUED)

calendar years 1998 and 1999, and to allow for a reduction in the employee's rate after calendar year 1999, providing excess valuation assets are available. The legislation also provided that the Charter Schools' normal contributions to the Fund may be reduced based on the revaluation of assets.

Contribution Requirements

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A. 18:66 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. TPAF and PERS provide for employee contributions of five percent of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in both TPAF and PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums. Under current statute the Charter School is a noncontributing employer of TPAF.

Contribution Requirements (Continued)

Three-Year Trend Information for PERS

Year Funding	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/05	None	100%	None
6/30/04	None	100%	None
6/30/03	None	100%	None

Three-Year Trend Information for TPAF (Paid on-behalf of the District)

Year Funding	Annual Pension Cost (APC)	of APC Contributed	Net Pension Obligation
6/30/05	None	100%	None
6/30/04	None	100%	None
6/30/03	None	100%	None

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 7: POST-RETIREMENT BENEFITS

Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required Teachers' Pensions and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS), respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. As of June 30, 2007, there were 75,860 retirees eligible for post-retirement medical benefits. The cost of these benefits is funded through contributions by the State in accordance with Chapter 62, P.L. 1994. Funding of post-retirement medical premiums changed from a prefunding basis to a pay-as-you-go basis beginning in fiscal year 1994 with an additional contribution beginning in fiscal year 1996 to maintain a medical reserve of one half of 1% of the active State payroll.

The State made post-retirement (PRM) contributions of \$592.7 million for TPAF and \$224.3 million for PERS in fiscal year 2007.

The State is also responsible for the cost attributable to Chapter 126, P.L. 1992, which provides free health benefits to members of PERS, and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid \$110.3 million toward Chapter 126 benefits for 11,747 eligible retired members in fiscal year 2007.

NOTE 8: RISK MANAGEMENT

The charter school is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Property and Liability Insurance

The charter school maintains commercial insurance coverage for property, liability, student accident and surety bonds. A complete schedule of insurance coverage can be found in the Statistical Section of this Comprehensive Annual Financial Report.

NOTE 9: FUND BALANCE APPROPRIATED

General Fund

Of the \$1,276 General Fund balance in the fund financial statements at June 30, 2008, \$1,276 is unreserved and undesignated.

REQUIRED SUPPLEMENTARY INFORMATION – PART II

SECTION C – BUDGETARY COMPARISON SCHEDULES

DISCOVERY CHARTER SCHOOL
General Fund
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2008

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
REVENUES:					
Local Levy Budget:					
"Local Levy" Local Share-Charter School Aid	\$ 173,295	\$ -	\$ 173,295	\$ 173,295	\$ -
Total Local Levy Budget	173,295	-	173,295	173,295	-
Categorical Aid:					
"Local Levy" State Share-Charter School Aid	424,275		424,275	424,275	-
Special Education	37,250		37,250	37,250	-
Targeted At Risk Aid	28,150		28,150	28,150	-
Non-Public Aid	50,640		50,640	52,955	2,315
T & E Gap Aid	39,375		39,375	39,375	
Technology Aid	3,000		3,000	3,000	
Demonstrably Effective Program Aid	34,262		34,262	31,947	(2,315)
Total Categorical Aid	616,952	-	616,952	616,952	-
Revenues From Other Sources:					
Donations and Contributions	100,000		100,000	2,400	(97,600)
Miscellaneous Revenue				33,513	33,513
Reimbursed TPAF Social Security Contributions (Non-Budgeted)				23,155	23,155
Total Revenues From Other Sources	100,000	-	100,000	59,068	(40,932)
Total Revenues	890,247	-	890,247	849,315	(40,932)
EXPENDITURES:					
Instruction:					
Salaries of Teachers	205,500	43,708	249,208	247,069	2,139
Other Salaries for Instruction	145,300	(124,914)	20,386	7,082	13,304
Purchased Prof/Tech Services	20,000		20,000	7,750	12,250
Other Purchased Services	13,000		13,000	7,140	5,860
General Supplies	12,000		12,000	1,688	10,312
Textbooks	8,000		8,000	6,556	1,444
Miscellaneous	1,000	26,819	27,819	27,819	-
Total Instruction	404,800	(54,387)	350,413	305,104	45,309
Administration:					
Salaries - General Administration	148,300		148,300	132,351	15,949
Salaries of Secretarial/Clerical Assistants	29,000		29,000	29,000	-
Total Benefits Cost	126,900	41,169	168,069	156,606	11,463
Purchases Prof/Tech Services	6,500	2,740	9,240	8,340	900
Other Purchased Services	40,200	(4,873)	35,327	30,311	5,016
Communications/Telephone	9,650	17,620	27,270	15,744	11,526
Supplies and Materials	8,100	2,546	10,646		10,646
Miscellaneous Expenses		2,327	2,327	2,327	-
Total Administration	368,650	61,529	430,179	374,679	55,500

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original, and final.

DISCOVERY CHARTER SCHOOL
General Fund
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2008

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
(Continued from Prior Page)					
Support Services:					
Salaries	\$ 23,000	\$ -	\$ 23,000	\$ 12,188	\$ 10,812
Purchased Prof/Tech Services	14,800	19,677	34,477	34,477	-
Rental of Land and Buildings	88,692		88,692	85,804	2,888
Other Purchased Services	8,625		8,625	2,148	6,477
Transportation-Other Than To/From School	3,000		3,000	2,475	525
Insurance for Property, Liability and Fidelity	20,500		20,500	15,656	4,844
Supplies and Materials	5,000		5,000	5,000	-
Energy Costs (Heat and Electricity)	20,500		20,500	1,633	18,867
Miscellaneous Expenses	13,500		13,500	2,400	11,100
Total Support Services	197,617	19,677	217,294	161,781	55,513
Capital Outlay:					
Non-Instructional Equipment	3,000		3,000	3,000	-
Total Capital Outlay	3,000	-	3,000	3,000	-
On-Behalf TPAF Pension Contributions (Non-Budgeted)					
Reimbursed TPAF Social Security Contributions (Non-Budgeted)				23,155	(23,155)
Total Expenditures	974,067	26,819	1,000,886	867,719	133,167
Excess (Deficiency) of Revenues Over (Under) Expenditures	(83,820)	(26,819)	(110,639)	(18,404)	92,235
FUND BALANCE, JULY 1	19,680	-	19,680	19,680	-
FUND BALANCE, JUNE 30	\$ (64,140)	\$ (26,819)	\$ (90,959)	\$ 1,276	\$ 92,235
Recapitulation of Excess (Deficiency) of Revenues Over (Under) Expenditures					
Budgeted Fund Balance	\$ (64,140)	\$ (26,819)	\$ (90,959)	\$ 1,276	\$ 92,235
Total	\$ (64,140)	\$ (26,819)	\$ (90,959)	\$ 1,276	\$ 92,235

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original, and final.

DISCOVERY CHARTER SCHOOL
Special Revenue Fund
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2008

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
REVENUE SOURCES:					
Local	\$ 42,625	\$ -	\$ 42,625	\$ 42,625	\$ -
Federal	89,535		89,535	89,535	-
Total Revenues	<u>132,160</u>	<u>-</u>	<u>132,160</u>	<u>132,160</u>	<u>-</u>
EXPENDITURES:					
Instruction:					
Salaries of Teachers	37,474		37,474	37,474	-
General Supplies	1,080		1,080	1,080	-
Other Objects	42,625		42,625	42,625	-
Total Instruction	<u>81,179</u>	<u>-</u>	<u>81,179</u>	<u>81,179</u>	<u>-</u>
Support Services:					
Salaries	5,189		5,189	5,189	-
Personal Services - Employee Benefits	9,514		9,514	9,514	-
Purchased Prof/Ed Services	22,833		22,833	22,833	-
Purchased Professional Services	13,325		13,325	13,325	-
Total Support Services	<u>50,981</u>	<u>-</u>	<u>50,981</u>	<u>50,981</u>	<u>-</u>
Total Expenditures	<u>132,160</u>	<u>-</u>	<u>132,160</u>	<u>132,160</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

DISCOVERY CHARTER SCHOOL
 Required Supplementary Information
 Budgetary Comparison Schedule
 Note to RSI
 Fiscal Year Ended June 30, 2008

**Note A - Explanation of Differences between Budgetary Inflows and Outflows and
 GAAP Revenues and Expenditures**

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Sources/Inflows of Resources		
Actual amounts (budgetary) "revenues" from the budgetary comparison schedules	[C-1] \$ 848,438	[C-2] \$ 132,160
Difference - Budget to GAAP		
Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized	_____	_____ -
Total revenues as reports on the statement of revenues, expenditures and changes in fund balance - governmental funds.	[B-2] \$ <u>848,438</u>	[B-2] \$ <u>132,160</u>
Uses/Outflows of resources		
Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	[C-1] \$ 867,719	[C-2] 132,160
Differences - Budget to GAAP:		
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial accounting purposes.	_____	_____ -
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	[B-2] \$ <u>867,719</u>	[B-2] \$ <u>132,160</u>

OTHER SUPPLEMENTARY INFORMATION

**SECTION E – SPECIAL REVENUE FUND
DETAIL STATEMENT**

The Special Revenue Fund is used to account for the proceeds of specific sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes.

DISCOVERY CHARTER SCHOOL

Special Revenue Fund

Combining Schedule of Program Revenues and Expenditures - Budgetary Basis
For the Fiscal Year Ended June 30, 2008

	Private Grants	NCLB Title I	I.D.E.A. Part B	NCLB Title V	NCLB Title II	NCLB Title IV	American History Grant	Grand Total
REVENUE SOURCES:								
Local	\$ 42,625	-	-	-	-	-	-	\$ 42,625
Federal		\$ 32,716	\$ 14,699	\$ 218	\$ 6,606	\$ 774	\$ 34,522	\$ 89,535
Total Revenues	42,625	32,716	14,699	218	6,606	774	34,522	132,160
EXPENDITURES:								
Instruction:								
Salaries of Teachers		24,000	12,699	160		615		37,474
General Supplies		1,080						1,080
Other Objects	42,625							42,625
Total Instruction	42,625	25,080	12,699	160	-	615	-	81,179
Support Services:								
Salaries					5,189			5,189
Personal Services - Employee Benefits		6,000	2,000	58	1,297	159		9,514
Purchased Prof/Ed Services		1,636					21,197	22,833
Purchased Professional Services							13,325	13,325
Total Support Services	-	7,636	2,000	58	6,606	159	34,522	50,981
Total Expenditures	42,625	32,716	14,699	218	6,606	774	34,522	132,160
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**SECTION G – PROPRIETARY FUND
DETAIL STATEMENTS**

Proprietary Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the district’s board is that the costs of providing goods or services be financed through user charges.

Food Services Fund – The fund provides for the operation of food services in all schools within the school district.

THIS SECTION HAS ALREADY BEEN INCLUDED IN STATEMENTS B-4, B-5, AND B-6.

**SECTION H – FIDUCIARY FUNDS
DETAIL STATEMENTS**

Fiduciary Funds are used to account for funds received by the school district for a specific purpose.

Unemployment Insurance Compensation Trust Fund – this expendable trust fund is used to account for deductions from employees’ salaries which are utilize to pay unemployment compensation claims as they arise.

Agency Funds are used to account for assets held by the school as an agent for individuals, private organizations, other governments and/or other funds.

Student Activity Fund – This agency fund is used to account for student funds held at the schools.

Payroll Fund – this agency fund is used to account for payroll transactions of the school district.

DISCOVERY CHARTER SCHOOL
 Fiduciary Funds
 Combining Statement of Fiduciary Net Assets
 As of June 30, 2008

	Trust	Agency			Total Agency Fund
	Unemployment Compensation Insurance	Payroll Agency	Net Payroll	Student Activities	
ASSETS:					
Cash and Cash Equivalents	\$ 5,482	\$ 7,774	\$ 1,000	\$ 4,396	\$ 13,170
Total Assets	<u>5,482</u>	<u>\$ 7,774</u>	<u>\$ 1,000</u>	<u>\$ 4,396</u>	<u>\$ 13,170</u>
LIABILITIES:					
Interfund Accounts Payable	4,729	\$ 7,774	\$ 1,000	\$ -	\$ 8,774
Accounts Payable	2,517				-
Due to Student Groups				4,396	4,396
Total Liabilities	<u>7,246</u>	<u>\$ 7,774</u>	<u>\$ 1,000</u>	<u>\$ 4,396</u>	<u>\$ 13,170</u>
NET ASSETS (DEFICIT):					
Reserved for Unemployment Claims	<u>(1,764)</u>				
Total Net Assets (Deficit)	<u>\$ (1,764)</u>				

Discovery Charter School
 Fiduciary Funds
 Statement of Changes in Fiduciary Net Assets
 Trust Fund
 For the Fiscal Year Ended June 30, 2008

	Unemployment Compensation Insurance
ADDITIONS:	
Contributions	\$ 1,097
Total Additions	1,097
DEDUCTIONS:	
Payment of Claims	254
Total Deductions	254
CHANGE IN NET ASSETS	843
NET ASSETS - BEGINNING OF THE YEAR	(2,607)
NET ASSETS - END OF THE YEAR	\$ (1,764)

Discovery Charter School
Fiduciary Funds
Student Activity Agency Fund
Schedule of Receipts and Disbursements
For the Fiscal Year Ended June 30, 2008

	<u>Balance</u> <u>July 1, 2007</u>	<u>Cash</u> <u>Receipts</u>	<u>Cash</u> <u>Disbursements</u>	<u>Balance</u> <u>June 30, 2008</u>
Kid's in Business	<u>\$ 9,189</u>	<u>\$ 13,046</u>	<u>\$ 17,839</u>	<u>\$ 4,396</u>
Total	<u><u>\$ 9,189</u></u>	<u><u>\$ 13,046</u></u>	<u><u>\$ 17,839</u></u>	<u><u>\$ 4,396</u></u>

Discovery Charter School
Fiduciary Funds
Payroll Agency Fund
Schedule of Receipts and Disbursements
For the Fiscal Year Ended June 30, 2008

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
ASSETS:				
Cash and Cash Equivalents	\$ -	\$ 217,208	209,434	\$ 7,774
Interfund Accounts Receivable	1,009	-	1,009	-
Total Assets	\$ 1,009	\$ 217,208	\$ 210,443	\$ 7,774
LIABILITIES:				
Cash Overdraft	\$ 1,009	\$ -	1,009	-
Interfund Accounts Payable	-	7,774	-	7,774
Payroll Deductions and Withholdings	-	209,434	209,434	-
Total Liabilities	\$ 1,009	\$ 217,208	\$ 210,443	\$ 7,774

STATISTICAL SECTION (UNAUDITED)

Discovery Charter School has been in operation for nine (9) years. GASB requires that ten years of statistical data be presented. State law usually grants charters for less than ten years. Therefore, only statistical data for nine (9) years is available and has been presented. Each year thereafter, an additional year's data will be included until ten years.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the charter school's financial performance and well being have changes over time.

Revenue Capacity (Not Applicable to Charter School)

These schedules contain information to help the reader assess the district's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the charter school's current levels of outstanding debt and the charter school's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the charter school's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the charter school's financial report relates to the services the charter school provides and the activities it performs.

Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports (CAFR) for the relevant year. The district implemented GASB Statement 34 in the fiscal year ending June 30, 2004; schedules presenting charter school-wide information include information beginning in that year.*

FINANCIAL TRENDS

DISCOVERY CHARTER SCHOOL
 Net Assets by Component
 Last Five Fiscal Years
(accrual basis of accounting)

	Fiscal Year Ending June 30,				
	2008	2007	2006	2005	2004
Governmental Activities					
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	5,276	-	31,550
Unrestricted	1,276	19,680	54,450	107,349	35,237
Total Governmental Activities Net Assets	\$ 1,276	\$ 19,680	\$ 59,726	\$ 107,349	\$ 66,787
Business-Type Activities					
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-
Unrestricted	11,095	5,864	7,898	5,133	2,248
Total Business-Type Activities Net Assets	\$ 11,095	\$ 5,864	\$ 7,898	\$ 5,133	\$ 2,248
Charter School-wide					
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	5,276	-	31,550
Unrestricted	12,371	25,544	62,348	112,482	37,485
Total Charter School-wide Net Assets	\$ 12,371	\$ 25,544	\$ 67,624	\$ 112,482	\$ 69,035

DISCOVERY CHARTER SCHOOL
Changes in Net Assets
Last Five Fiscal Years
(accrual basis of accounting)

	Fiscal Year Ending June 30,				
	2008	2007	2006	2005	2004
Expenses					
Governmental Activities:					
Instruction	\$ 493,104	\$ 530,706	\$ 552,595	\$ 461,064	\$ 430,623
Administration	285,890	221,573	179,483	136,032	122,068
Support Services	217,885	453,520	654,337	523,917	231,977
Capital Outlay	3,000	-	6,903	16,898	27,656
Total Governmental Activities Expenses	<u>999,879</u>	<u>1,205,799</u>	<u>1,393,318</u>	<u>1,137,911</u>	<u>812,324</u>
Business-Type Activities:					
Food Service	23,903	34,170	23,405	21,417	26,413
Total Business-Type Activities Expenses	<u>23,903</u>	<u>34,170</u>	<u>23,405</u>	<u>21,417</u>	<u>26,413</u>
Total Charter School Expenses	<u>\$ 1,023,782</u>	<u>\$ 1,239,969</u>	<u>\$ 1,416,723</u>	<u>\$ 1,159,328</u>	<u>\$ 838,737</u>
Program Revenues					
Governmental Activities:					
Charges for Services	\$ -	\$ -	\$ -	\$ -	\$ 580
Operating Grants and Contributions	37,250	53,080	70,512	66,355	54,044
Capital Grants and Contributions	-	-	-	-	-
Total Governmental Activities Expenses	<u>37,250</u>	<u>53,080</u>	<u>70,512</u>	<u>66,355</u>	<u>54,624</u>
Business-Type Activities:					
Charges for Services	712	2,845	2,267	3,128	5,473
Operating Grants and Contributions	28,172	28,111	22,093	21,174	21,938
Capital Grants and Contributions	-	-	-	-	-
Total Business-Type Activities Expenses	<u>28,884</u>	<u>30,956</u>	<u>24,360</u>	<u>24,302</u>	<u>27,411</u>
Total Charter School Program Revenues	<u>\$ 66,134</u>	<u>\$ 84,036</u>	<u>\$ 94,872</u>	<u>\$ 90,657</u>	<u>\$ 82,035</u>
Net (Expense)/Revenue					
Governmental Activities	\$ (962,629)	\$ (1,152,719)	\$ (1,322,806)	\$ (1,071,556)	\$ (757,700)
Business-Type Activities	4,981	(3,214)	955	2,885	998
Total Charter School-wide Net Expense	<u>\$ (957,648)</u>	<u>\$ (1,155,933)</u>	<u>\$ (1,321,851)</u>	<u>\$ (1,068,671)</u>	<u>\$ (756,702)</u>
General Revenues and Other Changes in Net Assets					
Governmental Activities:					
General Purposes	\$ 173,295	\$ 135,258	\$ 128,120	\$ 117,882	\$ 128,386
Federal and State Aid Not Restricted	692,392	921,871	1,137,779	986,874	654,386
Miscellaneous Income	77,661	55,544	9,284	7,362	9,896
Total Governmental Activities	<u>943,348</u>	<u>1,112,673</u>	<u>1,275,183</u>	<u>1,112,118</u>	<u>792,668</u>
Business-Type Activities:					
Miscellaneous Income	250	1,180	1,810	-	-
Total Business-Type Activities	<u>250</u>	<u>1,180</u>	<u>1,810</u>	<u>-</u>	<u>-</u>
Total Charter School-wide	<u>\$ 943,598</u>	<u>\$ 1,113,853</u>	<u>\$ 1,276,993</u>	<u>\$ 1,112,118</u>	<u>\$ 792,668</u>
Change in Net Assets					
Governmental Activities	\$ (19,281)	\$ (40,046)	\$ (47,623)	\$ 40,562	\$ 34,968
Business-Type Activities	5,231	(2,034)	2,765	2,885	998
Total Charter School	<u>\$ (14,050)</u>	<u>\$ (42,080)</u>	<u>\$ (44,858)</u>	<u>\$ 43,447</u>	<u>\$ 35,966</u>

DISCOVERY CHARTER SCHOOL
 Fund Balances - Governmental Funds
 Last Nine Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year Ending June 30,								
	2008	2007	2006	2005	2004	2003	2002	2001	2000
General Fund									
Reserved	\$ -	\$ -	\$ 5,276	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	1,276	19,680	54,450	107,349	66,787	31,819	71,392	69,311	1,382
Total General Fund	\$ 1,276	\$ 19,680	\$ 59,726	\$ 107,349	\$ 66,787	\$ 31,819	\$ 71,392	\$ 69,311	\$ 1,382
All Other Governmental Funds									
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved:									
Special Revenue Fund	-	-	-	-	-	-	-	-	-
Total All Other Governmental Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

DISCOVERY CHARTER SCHOOL
 Changes in Fund Balances - Governmental Funds
 Last Nine Fiscal Years
(modified accrual basis of accounting)

Fiscal Year Ending June 30,	2008	2007	2006	2005	2004	2003	2002	2001	2000
Revenues:									
Local Sources:									
Local Tax Levy	\$ 173,295	\$ 135,258	\$ 128,120	\$ 117,882	\$ 128,386	\$ 145,219	\$ 184,093	\$ 90,891	\$ 66,579
Miscellaneous	77,661	55,544	20,284	9,872	10,476	2,214	76,234	1,927	6,664
Intermediate Sources	-	-	-	-	-	-	2,500	-	52,200
State Sources	640,107	638,211	640,560	618,941	580,634	562,677	448,933	395,262	185,701
Federal Sources	89,535	336,740	556,731	431,778	127,796	62,062	40,844	39,572	14,807
Total Revenues	980,598	1,165,753	1,345,695	1,178,473	847,292	772,172	752,604	527,652	325,951
Expenditures:									
Instruction	386,283	454,915	462,806	380,385	360,480	464,182	437,460	218,842	118,973
Administration	395,490	293,209	262,269	225,720	204,252	206,031	189,122	143,659	102,094
Support Services	215,106	457,675	661,340	514,908	219,936	124,207	96,518	96,708	51,302
Capital Outlay	3,000	-	6,903	16,898	27,656	17,325	27,423	514	52,200
Total Expenditures	999,879	1,205,799	1,393,318	1,137,911	812,324	811,745	750,523	459,723	324,569
Net Change in Fund Balance	\$ (19,281)	\$ (40,046)	\$ (47,623)	\$ 40,562	\$ 34,968	\$ (39,573)	\$ 2,081	\$ 67,929	\$ 1,382

Source: Charter School records

DISCOVERY CHARTER SCHOOL
 General Fund - Other Local Revenue by Source
 Last Nine Fiscal Years
(modified accrual basis of accounting)

Fiscal Year Ending June 30,	Donations and Contributions	Miscellaneous Revenue	Annual Total
2008	\$ 2,400	\$ 32,636	\$ 35,036
2007	600	1,944	2,544
2006	-	9,284	9,284
2005	-	7,362	7,362
2004	580	9,896	10,476
2003	-	2,214	2,214
2002	-	76,234	76,234
2001	1,732	195	1,927
2000	6,595	69	6,664

Source: Charter School records

OPERATING INFORMATION

DISCOVERY CHARTER SCHOOL
 Full-Time Equivalent Charter School Employees by Function
 Last Nine Fiscal Years

Function	2008	2007	2006	2005	2004	2003	2002	2001	2000
Instruction	15	11	11	11	11	9	9	9	N/A
Administrative	3	2	2	1	1	1	1	1	N/A
Support Services	1	1	1	1	1	1	1	1	N/A
Food Service	0	1	1	1	1	1	1	1	N/A
Total	19	15	15	14	14	12	12	12	-

Source: Charter School Personnel Records

DISCOVERY CHARTER SCHOOL
Operating Statistics
Last Nine Fiscal Years

Fiscal Year	Enrollment	Operating Expenditures ^a	Cost Per Pupil	Percentage Change	Teaching Staff ^b	Pupil/Teacher Ratio			Average Daily Enrollment (ADE) ^c	Average Daily Attendance (ADA) ^c	Percent Change in Average Daily Enrollment	Student Attendance Percentage
						Elementary	Middle School	Senior High School				
2008	75	\$ 996,879	\$ 13,292	-17.33%	11		N/A	75	72	0.00%	96.00%	
2007	75	1,205,799	16,077	-13.03%	11		N/A	75	72	0.00%	96.00%	
2006	75	1,386,415	18,486	23.68%	11		N/A	75	72	0.00%	96.00%	
2005	75	1,121,013	14,947	42.86%	11		N/A	75	72	0.00%	96.00%	
2004	75	784,668	10,462	-1.23%	9		N/A	75	72	0.00%	96.00%	
2003	75	794,420	10,592	-12.11%	9		N/A	75	72	20.00%	96.00%	
2002	60	723,100	12,052	-21.27%	9		N/A	60	56	50.00%	93.33%	
2001	30	459,209	15,307	0.00%	6		N/A	30	29	100.00%	96.67%	
2000		272,369	-	0.00%						0.00%	0.00%	

Sources: Charter School records

Note: Enrollment based on annual October Charter School count.

- a Operating expenditures equal total expenditures less debt service and capital outlay.
- b Teaching staff includes only full-time equivalents of certified staff.
- c Average daily enrollment and average daily attendance are obtained from School Register Summary (SRS).

DISCOVERY CHARTER SCHOOL
 School Building Information
 Last Nine Fiscal Years

	2008	2007	2006	2005	2004	2003	2002	2001	2000
Square Feet	8,250	8,250	8,250	8,250	8,250	8,250	8,250	8,250	N/A
Capacity (students)	75	75	75	75	75	75	75	75	N/A
Enrollment	75	75	75	75	75	75	75	60	N/A

Charter School Building

Middle School

Square Feet

Capacity (students)

Enrollment

Number of Schools at June 30, 2008

Middle School = 1

Source: Charter School Facilities Office

Note: Increases in square footage and capacity are the result of and additions.

Enrollment is based on the annual October Charter School count.

DISCOVERY CHARTER SCHOOL

Insurance Schedule

June 30, 2008

<u>COVERAGE</u>	<u>LIMITS</u>	<u>SUMMARY</u>
Package P832 09/03/06-07 \$3,884		
<u>Property</u>	\$125,000 \$100,000,000 \$135,000	Building and Contents - All Risk w/ \$1,000 Deductible Boiler & Machinery w/ \$1,000 Deductible Electronic Data Processing w/ \$1,000 Deductible
<u>Crime</u>	\$50,000 \$10,000 \$10,000 \$50,000 \$85,000 \$85,000	Blanket Faithful Performance w/ \$500 Deductible Money & Securities w/ \$1,000 Deductible Money Order/Counterfeit w/ \$500 Deductible Depositors' Forgery w/ \$500 Deductible Board Secretary w/ \$500 Deductible Treasurer w/ \$500 Deductible
<u>General Liability</u>	\$1,000,000 \$1,000,000 \$3,000,000 \$1,000,000 \$1,000,000 \$1,000 \$10,000	Single Limit for Bodily Injury and Property Damage Products/Completed Operations Aggregate Annual Aggregate for Child Molestation/Sexual Abuse Each Occurrence for Personal Injury/Advertising Injury Each Claim for Employee Benefits Liability Premise Medical Payments Per Person w/ \$100 Deductible Premise Medical Payments Per Accident
<u>Automobile Liability</u>	\$1,000,000	Hired and Non-Owned
Student Accident 6731151 09/03/06-07 \$576	\$5,000,000	Gold Plan
School Leaders E&O E832 09/03/06-07 \$2,800	\$1,000,000 \$100,000 \$300,000	Coverage A Each Loss w/ \$5,000 Deductible Coverage B Each Loss w/ \$5,000 Deductible Coverage B Annual Aggregate
Umbrella U832 09/03/06-07 \$313	\$1,000,000	Per Occurrence w/ \$10,000 SIR
Workers' Compensation W832 09/03/06-07 \$7,168 (Based on \$450,000 Prof and \$12,000 Non-Prof) W832 09/03/05-06 W/C Audit \$654	\$2,000,000 \$2,000,000 \$2,000,000	Each Accident Each Employee Policy Limit
Supplemental Indemnity 6477-57-74 09/03/06-07 \$500	Statutory	7-Day Waiting Period

Source: Charter School's Records

SINGLE AUDIT SECTION

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**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**

Honorable President and
Members of the Board of Trustees
Discovery Charter School
County of Essex
Newark, New Jersey

We have audited the financial statements of the Board of Trustees of Discovery Charter School, in the County of Essex, State of New Jersey, as of and for the fiscal year ended June 30, 2008, and have issued our report thereon dated October 23, 2008. 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; and audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Discovery Charter School Board of Trustees internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Discovery Charter School Board of Trustees internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Discovery Charter School Board of Trustees internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in

accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Discovery Charter School Board of Trustees' 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* and audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey.

This report is intended solely for the information and use of the audit committee, management, Discovery Charter School Board of Trustees, the New Jersey State Department of Education and other federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.



Richard M. Barre
Licensed Public School Accountant
No. CS-01181
Barre & Company, CPA's

October 23, 2008

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND
NEW JERSEY OMB CIRCULAR 04-04**

Honorable President and
Members of the Board of Trustees
Discovery Charter School
County of Essex
Newark, New Jersey

Compliance

We have audited the compliance of the Board of Trustees of Discovery Charter School, in the County of Essex, State of New Jersey, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *New Jersey State Aid/Grant Compliance Supplement* that are applicable to each of its major federal and state programs for the year ended June 30, 2008. Discovery Charter School Board of Trustees major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the Discovery Charter School Board of Trustees management. Our responsibility is to express an opinion on Discovery Charter School Board of Trustees compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey; OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*; and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards, OMB Circular A-133 and New Jersey OMB's Circular 04-04, require that we plan and perform the audit to obtain reasonable assurance about whether

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noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining,

on a test basis, evidence about Discovery Charter School Board of Trustees compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Discovery Charter School Board of Trustees compliance with those requirements.

In our opinion, the Board of Trustees of Discovery Charter School, in the County of Essex, State of New Jersey, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the fiscal year ended June 30, 2008.

Internal Control over Compliance

The management of the Board of Trustees of the Discovery Charter School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered Discovery Charter School Board Trustees internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Discovery Charter School Board of Trustees internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal or state program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all

deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. Discovery Charter School Board of Trustees responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Discovery Charter School Board of Trustees response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, the Discovery Charter School Board of Trustees, the New Jersey State Department of Education, and other federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Richard M. Barre
Licensed Public School Accountant
No. CS-01181
Barre & Company, CPA's

October 23, 2008

DISCOVERY CHARTER SCHOOL
Schedule of Expenditures of Federal Awards
For The Fiscal Year Ended June 30, 2008

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Grant or State Project Number	Program or Award Amount	Grant Period		Balance at June 30, 2007	Carryover/ (Walkover) Amount	Cash Received	Budgetary Expenditures	Adjustments	Repayment Of Prior Years' Balances	Balance at June 30, 2008	
				From	To							Accounts Receivable	Deferred Revenue
U.S. Department of Education													
Passed-through State Department of Education													
Special Revenue Fund:													
Title I - Carryover	84.010	IASA4830-08	\$ 32,716	9/1/07	8/31/08	\$ -	-	\$ 32,716	\$ (32,716)	-	-	\$ -	\$ -
Title I - Carryover	84.010	IASA4830-07	45,569	9/1/06	8/31/07	2,481	-	-	(2,481)	-	-	-	-
I.D.E.A. Part B, Basic	84.027	F14830-08	14,699	9/1/07	8/31/08	2,613	-	-	(14,699)	-	-	-	-
I.D.E.A. Part B, Basic - Carryover	84.027	F14830-07	13,273	9/1/06	8/31/07	2,613	-	-	(2,613)	-	-	(14,699)	-
American History Grant	84.151		51,523	9/1/07	8/31/08	2,844	-	34,522	(34,522)	-	-	-	-
American History Grant - Carryover	84.151		724,196	9/1/06	8/31/07	2,844	-	-	(2,844)	-	-	-	-
Title V NCLB	84.298		218	9/1/07	8/31/08	218	-	218	(218)	-	-	-	-
Title V NCLB - Carryover	84.298		228	9/1/06	8/31/07	228	-	-	(228)	-	-	-	-
Title II NCLB	84.168	IASA4830-08	6,606	9/1/07	8/31/08	2,382	-	6,606	(6,606)	-	-	-	-
Title II NCLB - Carryover	84.168	IASA4830-07	6,634	9/1/06	8/31/07	2,382	-	-	(2,382)	-	-	-	-
Dissemination 3 - Carryover	84.938C		61,603	9/1/06	8/31/07	3,231	-	-	(3,231)	-	-	-	-
Title IV	84.186	IASA4830-08	774	9/1/07	8/31/08	774	-	774	(774)	-	-	-	-
Title IV - Carryover	84.186	IASA4830-07	873	9/1/06	8/31/07	873	-	-	(873)	-	-	-	-
Total Special Revenue Fund						14,652	-	74,836	(104,187)	-	-	(14,699)	-
U.S. Department of Agriculture													
Passed-through State Department of Education													
Enterprise Fund:													
School Breakfast Program	10.553	N/A	3,106	7/1/07	6/30/08	(268)	-	2,904	(3,598)	-	-	(694)	-
School Breakfast Program	10.553	N/A	2,582	7/1/06	6/30/07	(268)	-	268	-	-	-	-	-
National School Lunch Program	10.555	N/A	23,716	7/1/07	6/30/08	(2,155)	-	21,639	(23,324)	-	-	(1,685)	-
National School Lunch Program	10.555	N/A	18,596	7/1/06	6/30/07	(2,155)	-	2,155	-	-	-	-	-
Total U.S. Department of Agriculture						(2,423)	-	25,966	(26,922)	-	-	(2,379)	-
Total Federal Financial Assistance						12,229	-	101,802	(131,109)	-	-	(17,078)	\$ -

The accompanying Notes to Schedules of Expenditures of Awards and Financial Assistance are an integral part of this schedule.

DISCOVERY CHARTER SCHOOL
Schedule of Expenditures of State Financial Assistance
For The Fiscal Year Ended June, 30, 2008

State Grantor/Program Title	Grant Number	Program or Award Amount	Grant Period		Balance at June 30, 2007			Balance at June 30, 2008			MEMO				
			From	To	Deferred Revenue (Accounts Receivable)	Due to Grantor	Carryover/ (Walkover) Amount	Cash Received	Budgetary Expenditures	(Accounts Receivable)		Deferred Revenue	Due to Grantor	Budgetary Receivable	Cumulative Total Expenditures
State Department of Education															
General Fund:															
"Local Levy" Local Share - Charter School Aid		\$ 173,295	7/1/07	6/30/08	\$ -	\$ -	\$ -	\$ 173,295	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 173,295
"Local Levy" Local Share - Charter School Aid		424,275	7/1/06	6/30/07	(1,149)	-	1,149	(424,275)	-	-	-	-	-	-	(1,149)
"Local Levy" State Share - Charter School Aid		52,955	7/1/07	6/30/08			424,275	(424,275)							424,275
Transportation Aid	08-495-034-5120-014	37,250	7/1/07	6/30/08			52,955	(52,955)							52,955
Special Education Aid	08-495-034-5120-011	39,375	7/1/07	6/30/08			37,250	(37,250)							37,250
T&E Gap Aid		3,000	7/1/07	6/30/08			39,375	(39,375)							39,375
Technology Aid		31,947	7/1/07	6/30/08			3,000	(3,000)							3,000
Demonstrably Effective Program Aid	08-495-034-5120-002	23,155	7/1/07	6/30/08			31,947	(31,947)							31,947
Reimbursed TPAF Social Security Contributions	08-100-034-5095-002	21,326	7/1/07	6/30/08			15,219	(15,219)							15,219
Reimbursed TPAF Social Security Contributions	07-100-034-5095-002		7/1/06	6/30/07	(2,780)		2,780	(23,155)	(7,936)						23,155
Total General Fund					(3,929)	-	780,096	(784,103)	(7,936)	-	-	-	-	7,936	784,103
State Department of Agriculture															
Enterprise Fund:															
State School Breakfast Program	08-100-010-3350-021	214	7/1/07	6/30/08			201	(245)	(44)					13	245
State School Breakfast Program	07-100-010-3350-021	1,075	7/1/07	6/30/08	(19)		19								
State School Lunch Program	08-100-010-3350-023	939	7/1/06	6/30/07	(96)		933	(1,004)	(71)					142	1,004
State School Lunch Program	07-100-010-3350-023		7/1/06	6/30/07	(115)		1,249	(1,249)	(115)					155	1,249
Total Enterprise Fund					(4,044)	-	\$ 781,345	\$ (785,352)	(8,051)	-	-	-	-	8,091	785,352

The accompanying Notes to Schedules of Expenditures of Awards and Financial Assistance are an integral part of this schedule.

DISCOVERY CHARTER SCHOOL
Notes to the Schedules of Expenditures
of Awards and Financial Assistance
June 30, 2008

NOTE 1. GENERAL

The accompanying schedules of expenditures of awards and state financial assistance include federal and state activity of the Board of Trustees, Discovery Charter School. The board of trustees is defined in Note 1 to the Charter School's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal awards and state financial assistance passed through other government agencies is included on the schedule of expenditures of federal awards and state financial assistance.

NOTE 2. BASIS OF ACCOUNTING

The accompanying schedules of expenditures of awards and financial assistance are presented using the budgetary basis of accounting with the exception of programs recorded in the food service fund, which are presented using the accrual basis of accounting. These bases of accounting are described in Note 1 to the Charter School's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The basic financial statements present the general fund and special revenue fund on a GAAP basis. Budgetary comparison statements or schedules (RSI) are presented for the general fund and special revenue fund to demonstrate finance-related legal compliance in which certain revenue is permitted by law or grant agreement to be recognized in the audit year, whereas for GAAP reporting, revenue is not recognized until the subsequent year or expenditures have been made.

The general fund is presented in the accompanying schedules on the modified accrual basis. The special revenue fund is presented in the accompanying schedules on the grant accounting budgetary basis, which recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not.

**DISCOVERY CHARTER SCHOOL
Notes to the Schedules of Expenditures
of Awards and Financial Assistance
June 30, 2008**

**NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS
(CONTINUED)**

The net adjustment to reconcile from the budgetary basis to GAAP basis is none for the general fund and \$0 for the special revenue fund. See *Note 1* (the Notes to Required Supplementary Information) for a reconciliation of the budgetary basis to the modified accrual basis of accounting for the general and special revenue fund. Awards and financial assistance revenues are reported in the Charter School's basic financial statements on a GAAP basis as follows:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
General Fund	\$ -	\$ 640,107	\$ 640,107
Special Revenue Fund	89,535	-	89,535
Food Service Fund	26,923	1,249	28,172
Total Awards & Financial Assistance	<u>\$ 116,458</u>	<u>\$ 641,356</u>	<u>\$ 757,814</u>

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

NOTE 5. FEDERAL AND STATE LOANS OUTSTANDING

Discovery Charter School has no loan balances outstanding at June 30, 2008.

NOTE 6. OTHER

Revenues and expenditures reported under the Food Distribution Program represent current year value received and current year distributions respectively. The amount reported as TPAF Pension Contributions represents the amount paid by the state on behalf of the Charter School for the year ended June 30, 2008. TPAF Social Security Contributions represents the amount reimbursed by the state for the employer's share of social security contributions for TPAF members for the year ended June 30, 2008.

DISCOVERY CHARTER SCHOOL
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2008

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors’ report issued on financial statements Unqualified

Internal control over financial reporting:

1) Material weakness(es) identified? _____ Yes X No

2) Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to basic financial statements noted? _____ Yes X No

Federal Awards Section (Not Applicable)

Internal control over major programs:

1) Material weakness(es) identified? _____ Yes _____ No

2) Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes _____ None Reported

Type of auditors’ report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? _____ Yes _____ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
_____	_____
_____	_____
_____	_____
_____	_____

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes _____ No

DISCOVERY CHARTER SCHOOL
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2008

Section I – Summary of Auditor’s Results (Continued)

State Awards Section

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

Type of auditors’ report issued on compliance for major programs Unqualified

Internal control over major programs:

1) Material weakness(es) identified? Yes X No

2) Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None Reported

Any audit findings disclosed that are required to be reported in accordance with NJOMB Circular Letter 04-04? Yes X No

Identification of major state programs:

GMIS Number(s)	Name of State Program
08-495-034-5120-022	Local Levy – State Share

DISCOVERY CHARTER SCHOOL
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2008

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*.

Finding

There were no matters reported.

DISCOVERY CHARTER SCHOOL
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2008

***Section III – Federal Awards and State Financial Assistance
Findings and Questioned Costs***

This section identifies audit findings required to be reported by section .510(a) of Circular A-133 and NJOMB Circular Letter 04-04.

FEDERAL AWARDS

Findings

There were no matters reported.

STATE AWARDS

Findings

There were no matters reported.

DISCOVERY CHARTER SCHOOL
Summary Schedule of Prior Year Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2008

STATUS OF PRIOR-YEAR FINDINGS

There were no matters reported.