

DISCOVERY CHARTER SCHOOL

***COMPREHENSIVE ANNUAL
FINANCIAL REPORT***

FISCAL YEAR ENDED JUNE 30, 2012

DISCOVERY CHARTER SCHOOL

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

***Comprehensive Annual Financial Report
For The Fiscal Year Ended June 30, 2012***

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
OF THE
DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**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 4, 2012

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, 2012. 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 five-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 2011-2012 fiscal year with an enrollment of 75 students, which is one more than 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>
2011-2012	75
2010-2011	74
2009-2010	74
2008-2009	75
2007-2008	75

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 2011-2012 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.

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

MAJOR ACCOMPLISHMENTS (CONTINUED):

Test Scores/Disciplinary Records/Attendance Records:

- The student average for both the NJASK tests for grades 4-8 exceeded the district average by 39% in Language Arts and 25% points above the district of residence (Newark) in Mathematics.
- In its eleven 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 over two hundred students.
- In the annual parental survey, 100% of the parents asked to choose 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.
- 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.

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.

INTERNAL ACCOUNTING CONTROLS (CONTINUED):

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, 2012.

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.

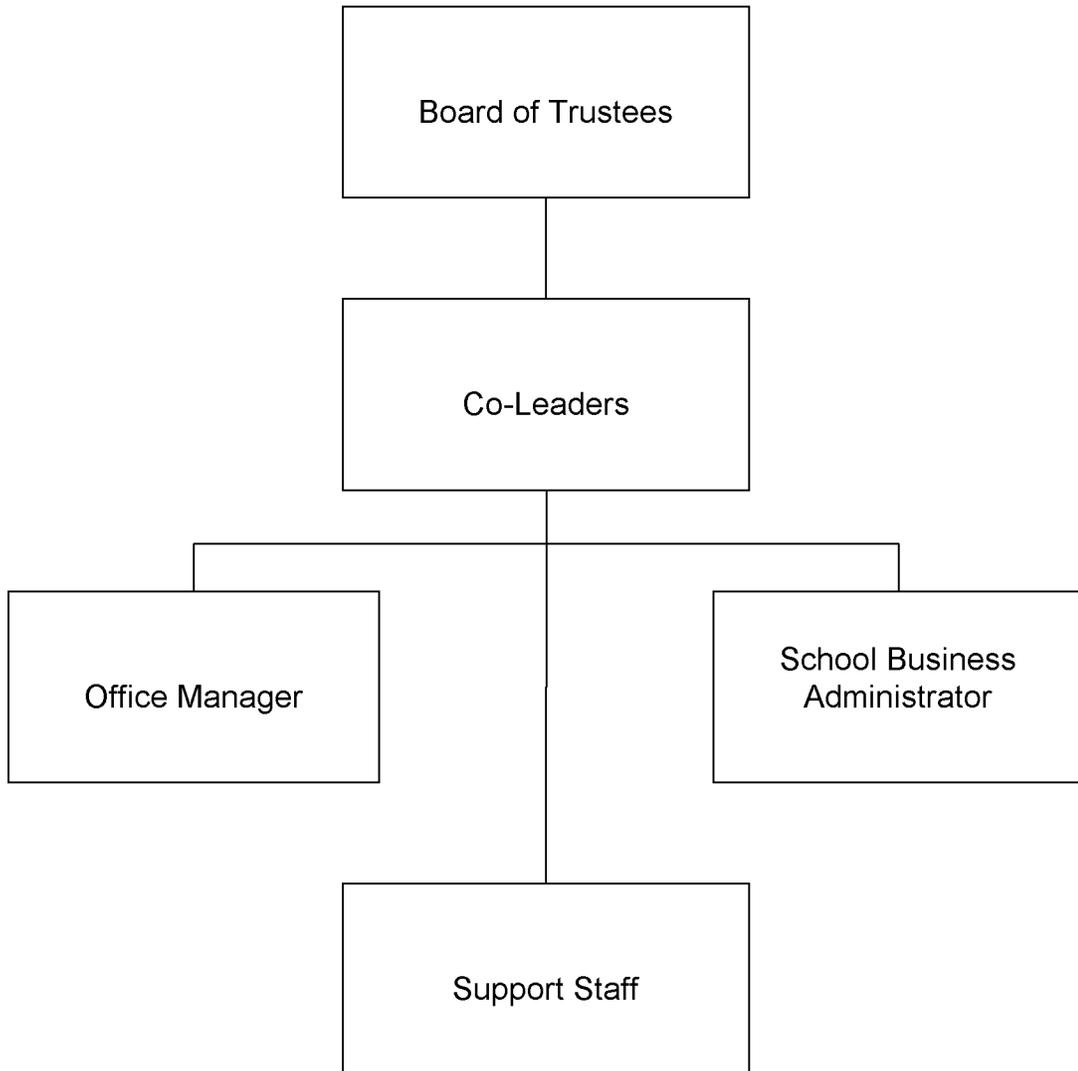
Respectfully submitted,

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, 2012**

Members of the Board of Trustees

Position

Paul Vance	President
Mary Muldrow	Trustee
Irene Hall	Co-Leader (Non-voting)
Barbara Weiland	Co-Leader (Non-voting)
Albert Barre	SBA (Non-Voting)
Cheryl A. O'Brien	Trustee
Zehra Nasar	Trustee
Shamethia Salaam	Trustee

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

CONSULTANTS AND ADVISORS

Audit Firm

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

Official Depository

TD Bank North
105-109 Mulberry Street
Newark, New Jersey 07102

FINANCIAL SECTION

BARRE & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

2204 Morris Avenue, Suite 206

Union, New Jersey 07083

(908) 686-3484

FAX – (908) 686-6055

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, each major fund and the remaining fund information of the Discovery Charter School (Charter School), in the County of Essex, State of New Jersey, as of and for the fiscal year ended June 30, 2012, 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 Charter School's 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 and Regulatory Compliance, 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 remaining fund information of the Discovery Charter School (Charter School), in the County of Essex, State of New Jersey, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof 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 4, 2012 on our consideration of the Charter School's 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. That 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 62, 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter School's basic financial statements. The accompanying introductory section, combining and individual nonmajor 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 nonmajor 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 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 4, 2012

REQUIRED SUPPLEMENTARY INFORMATION – PART I

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
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, 2012. 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 (2011-2012) and the prior year (2010-2011) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2012 are as follows:

- ❖ General revenues accounted for \$1,261,181 in revenues or 95% of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$66,445 or 5% percent of total revenues of \$1,327,626.
- ❖ The Charter School had \$1,337,408 in expenses; only \$66,445 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$1,261,181 were not adequate to provide for these programs.
- ❖ Among governmental funds, the General Fund had \$1,213,133 in revenues and \$1,201,863 in expenditures. The General Fund's fund balance increased \$11,270 over 2011. This increase was anticipated by the Board of Trustees.

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(CONTINUED)**

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.

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 2012?" 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.

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(CONTINUED)**

Statement of Net Assets and Statements of Activities (Continued)

In the *Statement of Net Assets* and the *Statement of Activities*, the Charter School is divided into two 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.
- ❖ Business-Type Activity — This service is 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.

Reporting the Charter School's Most Significant Funds

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 transactions. 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.

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(CONTINUED)**

Reporting the Charter School's Most Significant Funds (Continued)

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 Charter School-wide and fund financial statements. The notes to the financial statements can be found starting on page 39 of this report.

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 \$218,126 for 2012 and \$227,908 for 2011.

Governmental Activities

The Charter School's total revenues were \$1,285,222 for the year ended June 30, 2012 and \$1,150,442 for 2011. Federal, state, and local grants and state aid accounted for 85% for 2012 and 86% for 2011 of revenues which includes \$58,464 for 2012 and \$37,107 for 2011 of state reimbursed TPAF pension and social security contributions.

The total cost of all program and services was \$1,273,952 for 2012 and \$1,254,449 for 2011. Instruction comprises 45% for 2012 and 54% for 2011 of Charter School expenses.

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(CONTINUED)**

The Charter School as a Whole (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 \$21,052 for 2012 and revenues exceeded expenses by \$705 for 2011.
- ❖ Charges for services represent \$563 for 2012 and \$984 for 2011 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 \$41,837 for 2012 and \$35,531 for 2011.

Governmental Activities

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, 2012
UNAUDITED
(CONTINUED)**

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 \$1,285,222 for 2012 and \$1,150,442 for 2011 and expenditures were \$1,273,952 for 2012 and \$1,254,449 for 2011. The net change in fund balance for the year was an increase of \$11,270 for 2012 and a decrease of \$104,007 for 2011. The positive change is most significant in the General Fund.

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, 2012, and the amount and percentage of increases and decreases in relation to prior year revenues.

<u>Revenues</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase/ (Decrease) From 2011</u>	<u>Percent of Increase/ (Decrease)</u>
Local Sources	\$ 195,605	15.22%	\$ 38,278	24%
State Sources	1,017,528	79.17%	94,377	10%
Federal Sources	<u>72,089</u>	<u>5.61%</u>	<u>2,125</u>	3%
Total	<u>\$ 1,285,222</u>	<u>100.00%</u>	<u>\$ 134,780</u>	

Local, State and Federal Sources increased due to additional aid and grants funding.

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(CONTINUED)**

The Charter School's Funds (Continued)

The following schedule represents a summary of general fund and special revenue fund expenditures for the fiscal year ended June 30, 2012, and the percentage of increases and decreases in relation to prior year amounts.

Expenditures	Amount	Percent of Total	Increase/ (Decrease) From 2011	Percent of Increase/ (Decrease)
Instruction	\$ 494,266	38.8%	\$ (79,074)	-14%
Administration	568,716	44.6%	135,619	31%
Support Services	204,169	16.0%	(43,843)	-18%
Capital Outlay	6,801	0.5%	6,801	0%
Total	\$ 1,273,952	100.00%	\$ 19,503	

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.

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.

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(CONTINUED)**

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, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 48,420	\$ 146,113	\$ 194,533
Interfund Receivables	175,654		175,654
Receivables	80,941	12,030	92,971
Total Assets	305,015	158,143	463,158
LIABILITIES:			
Interfund Payable	72,089	148,239	220,328
Payable to State Government	11,717		11,717
Accounts Payable	12,694	293	12,987
Total Liabilities	96,500	148,532	245,032
NET ASSETS:			
Unrestricted	208,515	9,611	218,126
Total Net Assets	\$ 208,515	\$ 9,611	\$ 218,126

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, 2012

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	\$ 494,266	\$ 79,701	\$ -	\$ 24,045	\$ -	\$ (549,922)	\$ -	\$ (549,922)
Administration	427,074	61,941				(489,015)		(489,015)
Support Services	204,169					(204,169)		(204,169)
Capital Outlay	6,801					(6,801)		(6,801)
Total Governmental Activities	1,132,310	\$ 141,642	-	24,045	-	(1,249,907)	-	(1,249,907)
BUSINESS-TYPE ACTIVITIES:								
Food Service	63,456		563	41,837			(21,056)	(21,056)
Total Business-Type Activities	63,456		563	41,837		-	(21,056)	(21,056)
Total Primary Government	\$ 1,195,766		\$ 563	\$ 65,882	\$ -	\$ (1,249,907)	\$ (21,056)	\$ (1,270,963)
GENERAL REVENUES								
General Purposes					\$ 134,976	\$ -	\$ -	\$ 134,976
Federal and State Aid Not Restricted					1,065,572		4	1,065,572
Investment Earnings					107			111
Miscellaneous Income					60,522			60,522
Total General Revenues					1,261,177		4	1,261,181
Change in Net Assets					11,270		(21,052)	(9,782)
Net Assets - Beginning					197,245		30,663	227,908
Net Assets - Ending					\$ 208,515	\$ 9,611	\$ -	\$ 218,126

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, 2012

	General Fund	Special Revenue Fund	Total
ASSETS:			
Cash and Cash Equivalents	\$ 48,420	\$ -	\$ 48,420
Interfund Receivables	175,654		175,654
Receivables From State Government	8,852	72,089	80,941
Total Assets	\$ 232,926	\$ 72,089	\$ 305,015
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Interfund Payables	\$ -	\$ 72,089	\$ 72,089
Payable to State Government	11,717		11,717
Accounts Payable	12,694		12,694
Total Liabilities	24,411	72,089	96,500
Fund Balances:			
Unreserved:			
General Fund	208,515		208,515
Total Fund Balances	208,515	-	208,515
Total Liabilities and Fund Balances	\$ 232,926	\$ 72,089	
Amounts reported for <i>governmental activities</i> in the statement of net assets (A-1) which are different.			-
Net Assets of Governmental Activities			\$ 305,015

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, 2012

	General Fund	Special Revenue Fund	Total
REVENUES:			
Local Sources:			
Local Tax Levy	\$ 134,976	\$ -	\$ 134,976
Interest on Investments	107		107
Miscellaneous	60,522		60,522
Total Local Sources	195,605	-	195,605
State Sources	1,017,528		1,017,528
Federal Sources		72,089	72,089
Total Revenues	1,213,133	72,089	1,285,222
EXPENDITURES:			
Instruction	432,823	61,443	494,266
Administration	568,716		568,716
Support Services	193,523	10,646	204,169
Capital Outlay	6,801		6,801
Total Expenditures	1,201,863	72,089	1,273,952
NET CHANGE IN FUND BALANCES	11,270	-	11,270
FUND BALANCES, JULY 1	197,245	-	197,245
FUND BALANCES, JUNE 30	\$ 208,515	\$ -	\$ 208,515

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, 2012

Total net change in fund balances - governmental fund (from B-2)	\$ 11,270
	<hr/>
Change in net assets of governmental activities	<u>\$ 11,270</u>

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, 2012

Business-type Activities - Enterprise Fund	<u>Food Service</u>
ASSETS:	
Cash and Cash Equivalents	\$ 146,113
Intergovernmental Accounts Receivable:	
Federal	11,834
State	<u>196</u>
 Total Assets	 <u><u>\$ 158,143</u></u>
 LIABILITIES AND NET ASSETS:	
Liabilities:	
Interfund Accounts Payable	\$ 148,239
Accounts Payable	<u>293</u>
 Total Liabilities	 <u>148,532</u>
 Net Assets:	
Unrestricted	<u>9,611</u>
 Total Net Assets	 <u>9,611</u>
 Total Liabilities and Net Assets	 <u><u>\$ 158,143</u></u>

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, 2012

Business-type Activities - Enterprise Fund	<u>Food Service</u>
OPERATING REVENUES:	
Charges for Services:	
Daily Sales Reimbursable Program	\$ 563
Total Operating Revenues	<u>563</u>
OPERATING EXPENSES:	
Salaries	7,700
Other Purchased Services	27,120
Cost of Sales	28,284
Miscellaneous Expenses	<u>352</u>
Total Operating Expenses	<u>63,456</u>
OPERATING LOSS	<u>(62,893)</u>
NONOPERATING REVENUES:	
Interest Earned	4
State Source:	
State School Breakfast and Lunch Program	682
Federal Source:	
National School Breakfast and Lunch Program	<u>41,155</u>
Total Nonoperating Revenues	<u>41,841</u>
CHANGE IN NET ASSETS	(21,052)
TOTAL NET ASSETS, JULY 1	<u>30,663</u>
TOTAL NET ASSETS, JUNE 30	<u><u>\$ 9,611</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, 2012

Business-type Activities - Enterprise Fund	Food Service
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	\$ (49)
Cash Payments to Suppliers and Employees	102,599
Net Cash Provided By Operating Activities	102,550
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Cash Received From State And Federal Reimbursements	41,837
Net Cash Provided By Noncapital Financing Activities	41,837
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on Deposits and Investments	4
Net Cash Provided By Investing Activities	4
Net Increase In Cash And Cash Equivalents	144,391
Cash And Cash Equivalents, Beginning Of Year	1,722
Cash And Cash Equivalents, End Of Year	\$ 146,113
Reconciliation of Operating Loss to Net Cash Provided By Operating Activities:	
Operating Loss Used for Operating Activities	\$ (62,893)
Depreciation	
Change In Assets And Liabilities:	
Decrease In Due From Other Funds	17,523
Increase In Receivables From Other Governments	(612)
Increase In Interfund Payable	148,239
Increase In Accounts Payable	293
Net Cash Provided By Operating Activities	\$ 102,550

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, 2012

	Unemployment Compensation Trust	Agency Fund
	<u> </u>	<u> </u>
ASSETS:		
Cash and Cash Equivalents	\$ 7,127	\$ 23,986
Interfund Accounts Receivable		45,164
	<u> </u>	<u> </u>
Total Assets	<u>7,127</u>	<u>\$ 69,150</u>
LIABILITIES:		
Interfund Accounts Payable	490	\$ -
Accounts Payable	1,407	
Accrued Salaries and Benefits		59,000
Payroll Deductions and Withholdings		2,888
Due to Student Groups		7,262
	<u> </u>	<u> </u>
Total Liabilities	<u>1,897</u>	<u>\$ 69,150</u>
NET ASSETS:		
Reserved for Unemployment Claims	<u>5,230</u>	
Total Net Assets	<u>\$ 5,230</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 the Fiscal Year Ended June 30, 2012

	Unemployment Compensation Insurance
ADDITIONS:	
Interest	\$ 4
Contributions:	
Employee	1,164
Total Additions	1,168
DEDUCTIONS:	
Payment of Claims	7,580
Total Deductions	7,580
CHANGE IN NET ASSETS	(6,412)
NET ASSETS, JULY 1	11,642
NET ASSETS, JUNE 30	\$ 5,230

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, 2012

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, 2012

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.

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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 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.

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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 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.

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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.

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.

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting – Measurement Focus (Continued)

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.

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.

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets/Budgetary Control (Continued)

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)	\$ 72,089
Adjustments:	
Less Encumbrances at June 30, 2012	-
Plus Encumbrances at June 30, 2011	-
Total Revenues and Expenditures (GAAP Basis)	<u>\$ 72,089</u>

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.

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.

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Equity (Continued)

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, 2012

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, 2012

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.

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Equity (Continued)

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.

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".

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

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

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.

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.

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

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

Investments (Continued)

As of June 30, 2012, cash and cash equivalents and investments of the Charter School consisted of the following:

	<u>General Fund</u>	<u>Proprietary Fund</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Operating Account	<u>\$ 48,420</u>	<u>\$ 146,113</u>	<u>\$ 31,113</u>	<u>\$ 225,646</u>

The carrying amount of the Board's cash and cash equivalents at June 30, 2012 was \$225,646 and the bank balance was \$268,527. 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.

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, 2012, 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.

DISCOVERY CHARTER SCHOOL
Notes to the Financial Statements
June 30, 2012

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

Risk Category (Continued)

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, 2012, the Charter School had no funds on deposit with the New Jersey Cash Management Fund.

NOTE 3: RECEIVABLES

Receivables at June 30, 2012, 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	\$ 8,852	\$ 9,048
Federal Aid	72,089	83,923
Other	-	-
Gross Receivables	80,941	92,971
Less: Allowance for Uncollectibles	-	-
Total Receivables, Net	<u>\$ 80,941</u>	<u>\$ 92,971</u>

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

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, 2012:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 175,654	\$ -
Special Revenue Fund		72,089
Proprietary Fund		148,239
Fiduciary Fund	45,164	490
Total	<u>\$ 220,818</u>	<u>\$ 220,818</u>

NOTE 5: RENTAL LEASE

The school has been leasing space at 303-9 Washington Street, Newark, New Jersey under a lease agreement covering past six (6) years, commencing July 1, 2007 and ending June 30, 2012. Total lease payments for the year ended June 30, 2012 amounted to \$124,082. The School anticipates occupying new premises beginning with the 2013 school year. In view thereof, the school signed a one year lease with its existing landlord to remain at the same location for the 2012-2013 school year, commencing July 1, 2012 and ending June 30, 2013.

The future minimum rental payments are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2013	<u>\$ 136,125</u>
Total future minimum rental lease payments	<u>\$ 136,125</u>

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

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.

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.

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

NOTE 6: PENSION PLANS (CONTINUED)

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 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 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. From fiscal year 1997 to fiscal year 2003, State and local government employers were not required to make contributions to the pension funds. The use of surplus pension assets replaced the annual payments that would otherwise have been made by employers. Subsequent law, P.L.2003, c.108, led to the resumption of contributions, on a phased-in approach. In 2009, employer contributions to PERS were further amended by P.L.2009, c.19.

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

NOTE 6: PENSION PLANS (CONTINUED)

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.

Three-Year Trend Information for PERS

<u>Year Funding</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/12	\$7,574	100%	\$7,574
06/30/11	None	100%	None
06/30/10	\$14,007	100%	\$14,007

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

<u>Year Funding</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/12	\$31,406	100%	None
06/30/11	\$17,207	100%	None
06/30/10	\$15,018	100%	None

During the year ended June 30, 2012, the State of New Jersey contributed \$31,406 to the TPAF for normal cost pension contributions and post-retirement medical benefits on behalf of the Charter School. Also, in accordance with N.J.S.A. 18A:66-66 the State of New Jersey reimbursed the Charter School \$27,058 during the year ended June 30, 2012 for the employer's share of social security contributions for TPAF members, as calculated on their base salaries. These amounts have been included in the basic financial statements, and the combining and individual fund statements and schedules as a revenue and expenditure in accordance with GABS No. 24.

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

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. P.L. 2007, c.103 amended the law to eliminate the funding of post-retirement medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired State employees and retired educational employees. As of June 30, 2011, there were 93,323 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.

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 \$144 million toward Chapter 126 benefits for 15,709 eligible retired members in fiscal year 2011.

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.

DISCOVERY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2012

NOTE 8: RISK MANAGEMENT

New Jersey Unemployment Compensation Insurance

The charter school has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method." Under this plan, the charter school is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The charter school is billed quarterly for amounts due to the State. The table is summary of charter school contributions, employee contributions, reimbursements to the State for benefits paid and the ending balance of the charter school's expendable trust fund for the current year and last three years:

<u>Fiscal Year</u>	<u>Charter School Contributions</u>	<u>Employee Contributions</u>	<u>Interest Income</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2011-2012	\$ -	\$ 1,164	\$ 4	\$ 7,580	\$ 5,230
2010-2011	32,115	1,553	12	35,992	11,642
2009-2010	-	1,438	19	-	9,640
2008-2009	7,000	1,133	3	-	6,372

NOTE 9: FUND BALANCE

General Fund

Of the \$208,515 General Fund's fund balance at June 30, 2012, \$208,515 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, 2012

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
REVENUES:					
Local Levy Budget:					
"Local Levy" Local Share-Charter School Aid	\$ 127,343	\$ 7,633	\$ 134,976	\$ 134,976	\$ -
Total Local Levy Budget	127,343	7,633	134,976	134,976	-
Categorical Aid:					
"Local Levy" State Share-Charter School Aid	796,305	107,633	903,938	903,938	-
Special Education	31,142	(7,097)	24,045	24,045	-
Security Aid	29,731	1,350	31,081	31,081	-
Total Categorical Aid	857,178	101,886	959,064	959,064	-
Revenues From Other Sources:					
Interest Income	-	-	-	107	107
Donations and Contributions	35,000	-	35,000	56,841	21,841
Miscellaneous Revenue	-	-	-	3,681	3,681
On-Behalf TPAF Pension Contributions (Non-Budgeted)	-	-	-	31,406	31,406
Reimbursed TPAF Social Security Contributions (Non-Budgeted)	-	-	-	27,058	27,058
Total Revenues From Other Sources	35,000	-	35,000	119,093	84,093
Total Revenues	1,019,521	109,519	1,129,040	1,213,133	84,093
EXPENDITURES:					
Instruction:					
Salaries of Teachers	230,000	15,200	245,200	245,180	20
Other Salaries for Instruction	80,000	8,700	88,700	88,650	50
Purchased Prof/Tech Services	32,500	-	32,500	31,749	751
Other Purchased Services	26,000	-	26,000	25,588	412
General Supplies	8,500	-	8,500	6,439	2,061
Textbooks	22,500	-	22,500	21,545	955
Miscellaneous	15,000	-	15,000	13,672	1,328
Total Instruction	414,500	23,900	438,400	432,823	5,577
Administration:					
Salaries - General Administration	173,500	10,000	183,500	182,760	740
Salaries of Secretarial/Clerical Assistants	76,500	500	77,000	76,683	317
Total Benefits Cost	79,000	15,900	94,900	83,178	11,722
Purchases Prof/Tech Services	54,000	11,000	65,000	64,010	990
Other Purchased Services	42,500	-	42,500	40,657	1,843
Communications/Telephone	26,000	2,500	28,500	25,163	3,337
Supplies and Materials	35,000	-	35,000	34,179	821
Miscellaneous Expenses	3,500	150	3,650	3,622	28
Total Administration	490,000	40,050	530,050	510,252	19,798

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, 2012

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual Favorable (Unfavorable)
(Continued from Prior Page)					
Support Services:					
Rental of Land and Buildings	\$ 122,845	\$ 1,300	\$ 124,145	\$ 124,082	\$ 63
Transportation-Other Than To/From School	12,500	-	12,500	12,193	307
Insurance for Property, Liability and Fidelity	26,500	-	26,500	18,369	8,131
Supplies and Materials	15,000	-	15,000	14,898	102
Energy Costs (Heat and Electricity)	21,000	-	21,000	18,510	2,490
Miscellaneous Expenses	5,500	-	5,500	5,471	29
Total Support Services	203,345	1,300	204,645	193,523	11,122
Capital Outlay:					
Instructional Equipment	3,000	4,000	7,000	6,801	199
Total Capital Outlay	3,000	4,000	7,000	6,801	199
On-Behalf TPAF Pension Contributions (Non-Budgeted)	-	-	-	31,406	(31,406)
Reimbursed TPAF Social Security Contributions (Non-Budgeted)	-	-	-	27,058	(27,058)
Total Expenditures	1,110,845	69,250	1,180,095	1,201,863	(21,768)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(91,324)	40,269	(51,055)	11,270	62,325
FUND BALANCE, JULY 1	197,245	-	197,245	197,245	-
FUND BALANCE, JUNE 30	\$ 105,921	\$ 40,269	\$ 146,190	\$ 208,515	\$ 62,325
Recapitulation of Excess (Deficiency) of Revenues Over (Under) Expenditures					
Budgeted Fund Balance	\$ 105,921	\$ 40,269	\$ 146,190	\$ 208,515	\$ 62,325
Total	\$ 105,921	\$ 40,269	\$ 146,190	\$ 208,515	\$ 62,325

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, 2012

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
REVENUE SOURCES:					
Federal	\$ 72,089	\$ -	\$ 72,089	\$ 72,089	\$ -
Total Revenues	72,089	-	72,089	72,089	-
EXPENDITURES:					
Instruction:					
Salaries	51,879	-	51,879	51,879	-
Purchased Prof/Tech Services	5,148	-	5,148	5,148	-
General Supplies	4,416	-	4,416	4,416	-
Total Instruction	61,443	-	61,443	61,443	-
Support Services:					
Personal Services - Employee Benefits	10,646	-	10,646	10,646	-
Total Support Services	10,646	-	10,646	10,646	-
Total Expenditures	72,089	-	72,089	72,089	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

DISCOVERY CHARTER SCHOOL
 Required Supplementary Information
 Budgetary Comparison Schedule
 Note to RSI
 Fiscal Year Ended June 30, 2012

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

	General Fund	Special Revenue Fund
Sources/Inflows of Resources		
Actual amounts (budgetary) "revenues" from the budgetary comparison schedules	[C-1] \$ 1,213,133	[C-2] \$ 72,089
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>1,213,133</u>	[B-2] \$ <u>72,089</u>
Uses/Outflows of resources		
Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	[C-1] \$ 1,201,863	[C-2] 72,089
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>1,201,863</u>	[B-2] \$ <u>72,089</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, 2012

	NCLB Title I	I.D.E.A. Part B	NCLB Title II	Grand Total
REVENUE SOURCES:				
Federal	\$ 53,800	\$ 13,740	\$ 4,549	\$ 72,089
Total Revenues	53,800	13,740	4,549	72,089
EXPENDITURES:				
Instruction:				
Salaries	43,477	8,402	-	51,879
Purchased Prof/Tech Services	1,357	-	3,791	5,148
General Supplies	-	3,658	758	4,416
Total Instruction	44,834	12,060	4,549	61,443
Support Services:				
Personal Services - Employee Benefits	8,966	1,680	-	10,646
Total Support Services	8,966	1,680	-	10,646
Total Expenditures	53,800	13,740	4,549	72,089
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 utilized 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, 2012

	Trust	Agency			Total Agency Fund
	Unemployment Compensation Insurance	Payroll Agency	Net Payroll	Student Activities	
ASSETS:					
Cash and Cash Equivalents	\$ 7,127	\$ 1,950	\$ 14,774	\$ 7,262	\$ 23,986
Interfund Accounts Receivable		938	44,226		45,164
Total Assets	<u>7,127</u>	<u>\$ 2,888</u>	<u>\$ 59,000</u>	<u>\$ 7,262</u>	<u>\$ 69,150</u>
LIABILITIES:					
Interfund Accounts Payable	490	\$ -	\$ -	\$ -	\$ -
Accounts Payable	1,407				
Accrued Salaries and Benefits			59,000		59,000
Payroll Deductions and Withholdings		2,888			2,888
Due to Student Groups				7,262	7,262
Total Liabilities	<u>1,897</u>	<u>\$ 2,888</u>	<u>\$ 59,000</u>	<u>\$ 7,262</u>	<u>\$ 69,150</u>
NET ASSETS:					
Reserved for Unemployment Claims	<u>5,230</u>				
Total Net Assets	<u>\$ 5,230</u>				

DISCOVERY CHARTER SCHOOL
 Fiduciary Funds
 Combining Statement of Changes in Fiduciary Net Assets
 Trust Funds
 For the Fiscal Year Ended June 30, 2012

	<u>Unemployment Compensation Insurance</u>
ADDITIONS:	
Interest	\$ 4
Contributions:	
Employee	<u>1,164</u>
Total Additions	<u>1,168</u>
DEDUCTIONS:	
Payment of Claims	<u>7,580</u>
Total Deductions	<u>7,580</u>
CHANGE IN NET ASSETS	(6,412)
NET ASSETS, JULY 1	<u>11,642</u>
NET ASSETS, JUNE 30	<u><u>\$ 5,230</u></u>

Discovery Charter School
 Fiduciary Funds
 Student Activity Agency Fund
 Schedule of Receipts and Disbursements
 For the Fiscal Year Ended June 30, 2012

	<u>Balance July 1, 2011</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Balance June 30, 2012</u>
Kid's in Business	<u>\$ 11,438</u>	<u>\$ 1,460</u>	<u>\$ 5,636</u>	<u>\$ 7,262</u>
Total	<u><u>\$ 11,438</u></u>	<u><u>\$ 1,460</u></u>	<u><u>\$ 5,636</u></u>	<u><u>\$ 7,262</u></u>

Discovery Charter School
 Fiduciary Funds
 Payroll Agency Fund
 Schedule of Receipts and Disbursements
 For the Fiscal Year Ended June 30, 2012

	Balance July 1, 2011	Receipts	Disbursements	Balance June 30, 2012
ASSETS:				
Cash and Cash Equivalents	\$ 12,767	\$ 207,805	\$ 218,622	\$ 1,950
Interfund Accounts Receivable	-	9,393	8,455	938
Total Assets	\$ 12,767	\$ 217,198	\$ 227,077	\$ 2,888
LIABILITIES:				
Interfund Accounts Payable	\$ 10,266	-	\$ 10,266	-
Payroll Deductions and Withholdings	2,501	217,198	216,811	2,888
Total Liabilities	\$ 12,767	\$ 217,198	\$ 227,077	\$ 2,888

STATISTICAL SECTION (UNAUDITED)

Discovery Charter School has been in operation for thirteen (13) years. GASB requires that ten years of statistical data be presented. The following information is presented utilizing information available. Each year thereafter, an additional year's data will be included until ten years of data is presented.

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 Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year Ending June 30,								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Governmental Activities									
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,276	\$ -	\$ 31,550
Unrestricted	208,515	197,245	301,252	282,853	399	19,680	54,450	107,349	35,237
Total Governmental Activities Net Assets	<u>\$ 208,515</u>	<u>\$ 197,245</u>	<u>\$ 301,252</u>	<u>\$ 282,853</u>	<u>\$ 399</u>	<u>\$ 19,680</u>	<u>\$ 59,726</u>	<u>\$ 107,349</u>	<u>\$ 66,787</u>
Business-Type Activities									
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	9,611	30,663	29,959	19,334	11,095	5,864	7,898	5,133	2,248
Total Business-Type Activities Net Assets	<u>\$ 9,611</u>	<u>\$ 30,663</u>	<u>\$ 29,959</u>	<u>\$ 19,334</u>	<u>\$ 11,095</u>	<u>\$ 5,864</u>	<u>\$ 7,898</u>	<u>\$ 5,133</u>	<u>\$ 2,248</u>
Charter School-wide									
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,276	\$ -	\$ 31,550
Unrestricted	218,126	227,908	331,211	302,187	11,494	25,544	62,348	112,482	37,485
Total Charter School-wide Net Assets	<u>\$ 218,126</u>	<u>\$ 227,908</u>	<u>\$ 331,211</u>	<u>\$ 302,187</u>	<u>\$ 11,494</u>	<u>\$ 25,544</u>	<u>\$ 67,624</u>	<u>\$ 112,482</u>	<u>\$ 69,035</u>

DISCOVERY CHARTER SCHOOL

Changes in Net Assets
Last Nine Fiscal Years
(accrual basis of accounting)

	Fiscal Year Ending June 30,								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Expenses									
Governmental Activities:									
Instruction	\$ 573,967	\$ 679,155	\$ 555,155	\$ 502,757	\$ 493,104	\$ 530,706	\$ 552,595	\$ 461,064	\$ 430,623
Administration	489,015	325,262	362,295	206,803	285,890	221,573	179,483	136,032	122,068
Support Services	204,169	250,032	325,280	200,968	217,885	453,520	654,337	523,917	231,977
Capital Outlay	6,801	-	-	3,000	3,000	-	6,903	16,898	27,656
Total Governmental Activities Expenses	1,273,952	1,254,449	1,242,730	913,528	999,879	1,205,799	1,393,318	1,137,911	812,324
Business-Type Activities:									
Food Service	63,456	35,826	21,638	20,734	23,903	34,170	23,405	21,417	26,413
Total Business-Type Activities Expenses	63,456	35,826	21,638	20,734	23,903	34,170	23,405	21,417	26,413
Total Charter School Expenses	\$ 1,337,408	\$ 1,290,275	\$ 1,264,368	\$ 934,262	\$ 1,023,782	\$ 1,239,969	\$ 1,416,723	\$ 1,159,328	\$ 838,737
Program Revenues									
Governmental Activities:									
Charges for Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 580
Operating Grants and Contributions	24,045	25,480	19,626	25,666	37,250	53,080	70,512	66,355	54,044
Capital Grants and Contributions	-	-	-	-	-	-	-	-	-
Total Governmental Activities Revenues	24,045	25,480	19,626	25,666	37,250	53,080	70,512	66,355	54,624
Business-Type Activities:									
Charges for Services	563	984	1,438	1,296	712	2,845	2,267	3,128	5,473
Operating Grants and Contributions	41,837	35,531	30,797	27,657	28,172	28,111	22,093	21,174	21,938
Capital Grants and Contributions	-	-	-	-	-	-	-	-	-
Total Business-Type Activities Revenues	42,400	36,515	32,235	28,953	28,884	30,956	24,360	24,302	27,411
Total Charter School Program Revenues	\$ 66,445	\$ 61,995	\$ 51,861	\$ 54,619	\$ 66,134	\$ 84,036	\$ 94,872	\$ 90,657	\$ 82,035
Net (Expense)/Revenue									
Governmental Activities	\$ (1,249,907)	\$ (1,228,969)	\$ (1,223,104)	\$ (887,862)	\$ (962,629)	\$ (1,152,719)	\$ (1,322,806)	\$ (1,071,556)	\$ (757,700)
Business-Type Activities	(21,056)	689	10,597	8,219	4,981	(3,214)	955	2,885	998
Total Charter School-wide Net Expense	\$ (1,270,963)	\$ (1,228,280)	\$ (1,212,507)	\$ (879,643)	\$ (957,648)	\$ (1,155,933)	\$ (1,321,851)	\$ (1,068,671)	\$ (756,702)
General Revenues and Other Changes in Net Assets									
Governmental Activities:									
General Purposes	\$ 134,976	\$ 126,580	\$ 99,750	\$ 139,469	\$ 173,295	\$ 135,258	\$ 128,120	\$ 117,882	\$ 128,386
Federal and State Aid Not Restricted	1,065,572	967,635	1,054,859	993,575	692,392	921,871	1,137,779	986,874	654,386
Investment Earnings	107	-	-	-	-	-	-	-	-
Miscellaneous Income	60,522	30,747	86,894	36,395	77,661	55,544	9,284	7,362	9,896
Total Governmental Activities	1,261,177	1,124,962	1,241,503	1,169,439	943,348	1,112,673	1,275,183	1,112,118	792,668
Business-Type Activities:									
Investment Earnings	4	16	29	20	-	-	-	-	-
Miscellaneous Income	-	-	-	-	250	1,180	1,810	-	-
Total Business-Type Activities	4	16	29	20	250	1,180	1,810	-	-
Total Charter School-wide	\$ 1,261,181	\$ 1,124,978	\$ 1,241,532	\$ 1,169,459	\$ 943,598	\$ 1,113,853	\$ 1,276,993	\$ 1,112,118	\$ 792,668
Change in Net Assets									
Governmental Activities	\$ 11,270	\$ (104,007)	\$ 18,399	\$ 281,577	\$ (19,281)	\$ (40,046)	\$ (47,623)	\$ 40,562	\$ 34,968
Business-Type Activities	(21,052)	705	10,626	8,239	5,231	(2,034)	2,765	2,885	998
Total Charter School	\$ (9,782)	\$ (103,302)	\$ 29,025	\$ 289,816	\$ (14,050)	\$ (42,080)	\$ (44,858)	\$ 43,447	\$ 35,966

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

	Fiscal Year Ending June 30,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
General Fund										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,276	\$ -	\$ 31,550	\$ 2,474
Unreserved	208,515	197,245	301,252	282,853	399	19,680	54,450	107,349	35,237	29,345
Total General Fund	<u>\$ 208,515</u>	<u>\$ 197,245</u>	<u>\$ 301,252</u>	<u>\$ 282,853</u>	<u>\$ 399</u>	<u>\$ 19,680</u>	<u>\$ 59,726</u>	<u>\$ 107,349</u>	<u>\$ 66,787</u>	<u>\$ 31,819</u>

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

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues:										
Local Sources:										
Local Tax Levy	\$ 134,976	\$ 126,580	\$ 99,750	\$ 139,469	\$ 173,295	\$ 135,258	\$ 128,120	\$ 117,882	\$ 128,386	\$ 145,219
Interest In Investments	107	-	-	-	-	-	-	-	-	-
Miscellaneous	60,522	30,747	86,894	36,395	77,661	55,544	20,284	9,872	10,476	2,214
State Sources	1,017,528	923,151	927,161	940,761	640,107	638,211	640,560	618,941	580,634	562,677
Federal Sources	72,089	69,964	147,324	78,480	89,535	336,740	556,731	431,778	127,796	62,062
Total Revenues	1,285,222	1,150,442	1,261,129	1,195,105	980,598	1,165,753	1,345,695	1,178,473	847,292	772,172
Expenditures:										
Instruction	494,266	573,340	496,200	433,472	386,283	454,915	462,806	380,385	360,480	464,182
Administration	568,716	433,097	429,254	279,359	397,834	299,131	265,616	225,720	204,252	206,031
Support Services	204,169	248,012	317,276	197,697	212,762	451,753	657,993	514,908	219,936	124,207
Capital Outlay	6,801	-	-	3,000	3,000	-	6,903	16,898	27,656	17,325
Total Expenditures	1,273,952	1,254,449	1,242,730	913,528	999,879	1,205,799	1,393,318	1,137,911	812,324	811,745
Net Change in Fund Balance	\$ 11,270	\$ (104,007)	\$ 18,399	\$ 281,577	\$ (19,281)	\$ (40,046)	\$ (47,623)	\$ 40,562	\$ 34,968	\$ (39,573)

Source: Charter School records

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

Fiscal Year Ending June 30,	Donations and Contributions	Miscellaneous Revenue	Annual Total
2012	\$ 56,841	\$ 3,681	\$ 60,522
2011	-	388	388
2010	-	31,681	31,681
2009	35,405	990	36,395
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

Source: Charter School records

OPERATING INFORMATION

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

Function	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Instruction	15	15	15	11	11	11	11	9	9	9
Administrative	2	1	3	2	1	1	1	1	1	1
Support Services	1	1	1	1	1	1	1	1	1	1
Food Service	0	0	0	1	1	1	1	1	1	1
Total	18	17	19	15	14	14	14	12	12	12

Source: Charter School Personnel Records

DISCOVERY CHARTER SCHOOL
Operating Statistics
Last Ten Fiscal Years

Fiscal Year	Enrollment	Operating Expenditures ^a	Cost Per Pupil	Percentage Change	Teaching Staff ^b	Pupil/Teacher Ratio	Average Daily		Percent Change in Average Daily Enrollment	Student Attendance Percentage
							Enrollment (ADE) ^c	Attendance (ADA) ^c		
2012	75	\$ 1,267,151	\$ 16,895	-0.33%	15	5:1	75	72	1.33%	96.00%
2011	74	1,254,449	16,952	2.31%	15	5:1	74	72	0.00%	97.30%
2010	75	1,242,730	16,570	36.48%	15	5:1	74	72	-1.35%	97.30%
2009	75	910,528	12,140	-8.66%	11	7:1	75	72	0.00%	96.00%
2008	75	996,879	13,292	-17.33%	11	7:1	75	72	0.00%	96.00%
2007	75	1,205,799	16,077	-13.03%	11	7:1	75	72	0.00%	96.00%
2006	75	1,386,415	18,486	23.68%	9	8:1	75	72	0.00%	96.00%
2005	75	1,121,013	14,947	14.29%	9	8:1	75	72	20.00%	96.00%
2004	60	784,668	13,078	-50.61%	9	7:1	60	56	50.00%	93.33%
2003	30	794,420	26,481	0.00%	6	5:1	30	29	0.00%	96.67%

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 Ten Fiscal Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Charter School Building										
<u>Middle School</u>										
Square Feet	8,250	8,250	8,250	8,250	8,250	8,250	8,250	8,250	8,250	8,250
Capacity (students)	75	75	75	75	75	75	75	75	75	75
Enrollment	75	75	75	75	75	75	75	75	75	75

Number of Schools at June 30, 2012
 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, 2012

<u>COVERAGE</u>	<u>LIMITS</u>	<u>SUMMARY</u>
Package P832 09/03/11-12 \$5,594	Covered Location	303-309 Washington Street, Newark, NJ 07102
<u>Property</u>	\$150,000 \$100,000,000 \$150,000	Contents - All Risk w/ \$1,000 Deductible Boiler & Machinery w/ \$5,000 Deductible Electronic Data Processing w/ \$1,000 Deductible
<u>Crime</u>	\$50,000 \$50,000 \$10,000 \$10,000	Blanket Faithful Performance w/ \$500 Deductible Forgery & Alternation w/ \$500 Deductible Money & Securities w/ \$500 Deductible Money Order/Counterfeit w/ \$500 Deductible
	\$109,000 \$109,000	Board Treasurer w/ \$1,000 Deductible Board Secretary/BA w/ \$1,000 Deductible
<u>General Liability</u>	\$5,000,000 \$5,000,000 \$5,000,000 \$5,000,000 \$5,000,000 \$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 Accident
<u>Automobile Liability</u>	\$5,000,000	Hired and Non-Owned Automobile Liability
<u>Student Accident</u>	\$5,000,000	Gold Plan
<u>School Leaders E&O</u> P832 09/03/11-12 \$2,920	\$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
<u>Workers' Compensation</u> P832 09/03/11-12 \$7,178 (Based on \$471,000 Prof and \$12,700 Non-Prof 0.9086 MOD)	\$1,000,000 \$1,000,000 \$1,000,000	Each Accident Each Employee Policy Limit
<u>Supplemental Indemnity</u> 64775774 09/03/11-12 \$500	Statutory	7-Day Waiting Period

Source: Charter School's Records

SINGLE AUDIT SECTION

BARRE & COMPANY
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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 Discovery Charter School (Charter School), in the County of Essex, State of New Jersey, as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated October 4, 2012. 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 and Regulatory Compliance, Department of Education, State of New Jersey.

Internal Control over Financial Reporting

Management of the Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by the Division of Finance and Regulatory Compliance, Department of Education, State of New Jersey.

This report is intended solely for the information and use of management, the audit committee, 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 4, 2012

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH 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 Discovery Charter School (Charter School), in the County of Essex, State of New Jersey, with the types of compliance requirements described in the *New Jersey State Aid/Grant Compliance Supplement* that could have a direct and material effect on each of the Charter School's major state programs for the fiscal year ended June 30, 2012. The Charter School's major 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 state programs is the responsibility of the Charter School's management. Our responsibility is to express an opinion on the Charter School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements as prescribed by the Division of Finance and Regulatory Compliance, Department of Education, State of New Jersey; and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. This standard, New Jersey OMB's Circular 04-04, requires that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a state program occurred.

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

In our opinion, the Discovery Charter School (Charter School), in the County of Essex, State of New Jersey, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the fiscal year ended June 30, 2012.

Internal Control Over Compliance

The management of the Charter School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the Charter School's internal control over compliance with requirements that could have a direct and material effect on a major federal or state program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with New Jersey OMB's Circular 04-04, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control over compliance.

A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. The Charter School's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Charter School's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the audit committee, the Discovery Charter School Board of Trustees, the New Jersey State Department of Education, and 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.

A handwritten signature in black ink, appearing to read 'R. Barre', with a stylized flourish at the end.

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

October 4, 2012

DISCOVERY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE, 30, 2012

Federal CFDA Number	Grant or State Project Number	Program or Award Amount	Grant Period From To	Balance at June 30, 2011	Carryover/ (Walkover) Amount	Cash Received	Budgetary Expenditures	Adjustments	Repayment Of Prior Years' Balances	Balance at June 30, 2012		
										Accounts Receivable	Deferred Revenue	
U.S. Department of Education												
Passed-through State Department of Education												
Special Revenue Fund:												
	Title I Part A NCLB	\$ 56,585	9/1/11	\$ -	\$ -	\$ -	\$ (53,800)	\$ -	\$ -	\$ (53,800)	\$ -	
84.010	NCLB 2011	57,705	9/1/11	(54,920)	-	54,920	(13,740)	-	-	(13,740)	-	
84.027	IDEA 2011	13,740	9/1/11	(9,760)	-	9,760	(4,549)	-	-	(4,549)	-	
84.027	ID.E.A. Part B. Basic	9,760	9/1/10	(5,179)	-	5,179	-	-	-	-	-	
84.387A	NCLB 2012	4,550	9/1/11	(105)	-	105	-	-	-	-	-	
84.387A	Title II Part A NCLB - Carryover	5,179	9/1/10	-	-	-	-	-	-	-	-	
84.318	NCLB 2011	106	9/1/10	(69,964)	-	69,964	(72,089)	-	-	(72,089)	-	
	Title II Part D NCLB - Carryover											
	Total Special Revenue Fund											
U.S. Department of Agriculture												
Passed-through State Department of Education												
Enterprise Fund:												
10.553	N/A	7,736	7/1/11	(2,302)	-	5,473	(7,736)	-	-	(2,263)	-	
10.553	School Breakfast Program	6,381	7/1/10	(6,936)	-	2,302	(33,419)	-	-	(9,571)	-	
10.555	N/A	33,419	7/1/11	-	-	23,848	-	-	-	-	-	
10.555	National School Lunch Program	28,581	7/1/10	(11,238)	-	8,936	(41,155)	-	-	(11,834)	-	
	National School Lunch Program											
	Total Enterprise Fund											
	Sub-Total Federal Financial Awards			\$ (81,202)	\$ -	\$ 110,523	\$ (113,244)	\$ -	\$ -	\$ (83,923)	\$ -	

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, 2012

State Grantor/Program Title	Grant Number	Program or Award Amount	Grant Period		Balance at June 30, 2011		Carryover/(Walkover) Amount	Cash Received	Budgetary Expenditures	Adjustments/Repayment of Prior Year's Balance	Balance at June 30, 2012		MEMO	
			From	To	Deferred Revenue (Accounts Receivable)	Due to Grantor					(Accounts Receivable)	Deferred Revenue/Interfund Payable		Due to Grantor
State Department of Education														
General Fund:														
"Local Levy" State Share - Charter School Aid	12-495-034-5120-071	\$ 903,938	7/1/11	6/30/12	\$ -	\$ -	\$ 903,938	\$ (903,938)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 903,938
Special Education Aid	12-495-034-5120-089	24,045	7/1/11	6/30/12	-	-	24,045	(24,045)	-	-	-	-	-	24,045
Security Aid	12-495-034-5120-084	31,081	7/1/11	6/30/12	-	-	31,081	(31,081)	-	-	-	-	-	31,081
On-Behalf TPAF Post-Retirement/Medical Contributions	12-495-034-5095-001	20,974	7/1/11	6/30/12	-	-	20,974	(20,974)	-	-	-	-	-	20,974
On-Behalf TPAF Pension Contributions	12-495-034-5095-006	10,432	7/1/11	6/30/12	-	-	10,432	(10,432)	-	-	-	-	-	10,432
Reimbursed TPAF Social Security Contributions	12-495-034-5095-002	27,058	7/1/11	6/30/12	(1,528)	-	18,206	(27,058)	(8,852)	-	-	-	8,852	27,058
Reimbursed TPAF Social Security Contributions	11-495-034-5095-002	19,900	7/1/10	6/30/11	-	-	1,528	-	-	-	-	-	-	-
Total General Fund					(1,528)	-	1,010,204	(1,017,528)	(8,852)	-	-	-	8,852	1,017,528
State Department of Agriculture														
Enterprise Fund:														
State School Lunch Program	12-100-010-3350-023	682	7/1/11	6/30/12	(180)	-	486	(682)	(196)	-	-	-	196	682
State School Lunch Program	11-100-010-3350-023	569	7/1/10	6/30/11	-	-	180	-	-	-	-	-	-	-
Total Enterprise Fund					(180)	-	666	(682)	(196)	-	-	-	196	682
Total State Financial Assistance					(1,708)	-	\$ 1,010,870	\$ (1,018,210)	\$ (9,048)	\$ -	\$ -	\$ -	\$ 9,048	\$ 1,018,210

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, 2012

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, 2012

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 none 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:

	Federal	State	Total
General Fund	\$ -	\$ 1,017,528	\$ 1,017,528
Special Revenue Fund	72,089	-	72,089
Food Service Fund	41,155	682	41,837
Total Awards & Financial Assistance	\$ 113,244	\$ 1,018,210	\$ 1,131,454

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, 2012.

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, 2012. 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, 2012.

DISCOVERY CHARTER SCHOOL
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors’ report issued on financial statements		<u>Unqualified</u>
Internal control over financial reporting:		
1) Material weakness(es) identified?	_____ Yes	<u> X </u> No
2) Reportable condition(s) identified that are not considered to be material weaknesses?	_____ Yes	None Reported <u> X </u>
Noncompliance material to basic financial statements noted?	_____ Yes	<u> X </u> No

State Awards Section

Dollar threshold used to distinguish between Type A and Type B programs:		\$300,000
Auditee qualified as low-risk auditee?	<u> X </u> Yes	_____ No
Internal control over major programs:		
1) Material weakness(es) identified?	_____ Yes	<u> X </u> No
2) Reportable condition(s) identified that are not considered to be material weaknesses?	_____ Yes	None Reported <u> X </u>
Type of auditors’ report issued on compliance for major programs		<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with NJOMB Circular Letter 04-04?	_____ Yes	<u> X </u> No

Identification of major state programs:

GMIS Number(s)	Name of State Program
<u>12-495-034-5120-071</u>	<u>Local Levy – State Share – Charter School Aid</u>
_____	_____
_____	_____
_____	_____

DISCOVERY CHARTER SCHOOL
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* requires reporting in a Circular A-133 audit. See paragraph 13.15 and 13.35.

Finding

There were no matters reported.

DISCOVERY CHARTER SCHOOL
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012

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

This section identifies audit findings required to be reported by NJOMB Circular Letter 04-04.

STATE AWARDS

Findings

There were no matters reported.

DISCOVERY CHARTER SCHOOL
Summary Schedule of Prior Year Audit Findings
And Questioned Costs As Prepared by Management
For the Fiscal Year Ended June 30, 2012

STATUS OF PRIOR-YEAR FINDINGS

This section identifies the status of prior-year findings related to the basic financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards*, USOMB Circular A-133 (.315(a)(b)) and NJOMB's Circular 04-04.

FINDINGS:

There were no matters reported.