

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**JUNE 30, 2016**

**THE PAULO FREIRE  
CHARTER SCHOOL**

**PREPARED BY  
PAULO FREIRE CHARTER SCHOOL  
28 Burnet Street  
Newark, NJ 07102**

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

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## THE PAULO FREIRE CHARTER SCHOOL

28 Burnet Street Newark, NJ 07102

November 17, 2016

Board of Trustees  
The Paulo Freire Charter School  
County of Essex, New Jersey

Dear Board of Trustees:

The Comprehensive Annual Financial Report of the Paulo Freire Charter School (the “Charter School”) for the fiscal year ended June 30, 2016 is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Charter School. 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 fairly present the financial position and result of operations of the various funds and account groups of the Charter School. All disclosures necessary to enable the reader to gain an understanding of the Charter School’s financial activities have been included.

The Comprehensive Annual Financial Report is presented in four (4) sections: Introductory, Financial, Statistical and Single audit. The introductory section includes this transmittal letter, the organizational chart and a list of the Board of Trustee members. The financial section includes the basic financial statements and schedules, as well as the auditor’s report thereon. The statistical section includes selected financial information, presented on a multi-year basis. The Charter School is required to undergo an annual single audit in conformity with the provisions of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and New Jersey OMB’s Letter Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Information related to this single audit, including the auditors’ report on internal control and compliance with applicable *laws and regulations* and findings and recommendations are included in the single audit section of this report.

### 1) **REPORTING ENTITY AND ITS SERVICES**

The Paulo Freire Charter School is an independent reporting entity within the criteria adopted by the Government Standards Board (GASB) as established by GASB Statement No. 14. All funds and account groups of the Charter School are included in this report. The Charter School constitutes the reporting entity. The Charter School provides a full range of educational services appropriate to grades 9 and 10. These included regular and special education programs. As of June 30, 2016, our final head count was 273 students.

## 2) **MAJOR INITIATIVES**

The following are the major initiatives successfully implemented at the Paulo Freire Charter School for the 2016-17 school year:

1. Implementation of the 2016-2017 Probationary Remediation Plan
2. Teacher Summer Institute
3. Freire Summer Scholars Program

### 2015-2016 Probationary Remediation Plan.

During the 2015-2016 school year, the Paulo Freire Charter School's charter was renewed by the New Jersey Department of Education. However, as a contingency of the charter renewal, the school was placed on probation for one year. The school had to submit to the NJDOE and remediation plan to be implemented during the 2016-2017 to address the areas where the school failed to meet, or partially met, the state standards within the performance framework. The school developed a remediation plan, which has had a successful implementation, based around the following goals and objectives:

Goal 1: Establish a structured school community that is safe, respectful, and that fosters learning and student achievement.

Objective 1: Achieve End-of-Year Proficiency Rating on the School Adopted Student Culture Rubric

Objective 2: Provide professional development to teachers aimed at increasing teacher proficiency on the teacher and classroom-based standards of the Student Culture Rubric

Objective 3: Increase student proficiency and buy-in of the standards outlined on the Student Culture Rubric

Goal 2: Ensure that all members of the professional staff develop the skills, knowledge, and expertise necessary to effectively implement the school adopted curriculum with fidelity

Objective 1: Increase the quality of instruction and instructional alignment with targeted teacher professional development, coaching, collaboration, and supports.

Goal 3: Using a Growth to Proficiency Model (FY16-17), the Paulo Friere Charter School will demonstrate growth in student achievement on the PARCC Language Arts & Mathematics Assessments that will place the school on a trajectory to perform at or above district feeder school percentiles by FY20-21

Objective 1: Increase student outcomes on the PARCC assessment by aligning school developed assessments to the Common Core Standards

Objective 2: Increase student outcomes on the PARCC assessment by implementing a comprehensive school based intervention program

## 2) **MAJOR INITIATIVES - CONTINUED**

Goal 4: Hire and retain a cadre of highly effective and mission aligned educators

Objective 1: Increase retention of “irreplaceables” by improving hiring practices, focusing on instructional leadership, monitoring and improving staff culture, increasing pay and incentives, and enforcing rigorous expectations.

### Teacher Summer Institute

As a result of its remediation plan, the school revamped its Summer Institute for teachers. The Summer Institute was broken into a series of five (5) workshops spanning the course of 25 days. The professional development series consisted of workshops ranging from: “Using Data to Drive Instruction” “Intellectual Engagement Bootcamp” and “Classroom Culture Bootcamp.”

The Using Data to Drive Instruction workshops occurred the week of August 1-5, 2016. These workshops were lead by the administrative staff, with the assistance of additional outside consultants. In these workshops, educators learned how to properly analyze student assessment data at the standard and skill level, as well as how to develop effective action plans at addressing gaps illuminated in their analysis.

Our “Intellectual Engagement Bootcamp” occurred the week of August 8-12, 2016. This bootcamp was lead by the administrative staff and academic coaches. In this bootcamp, educators learned how to design student centered lesson plans that guide students to mastery of content and standards. Topics discussed during the Intellectual Engagement Bootcamp included: Designing the Right Objective, Effective Lesson Planning, Pacing, Checking for Understanding, Golden Ratio, and Effective & Engaging Cooperative Learning.

The “Classroom Culture Bootcamp” occurred the week of August 15-19, 2016. This bootcamp was lead by the Dean of Students and Dean of School Culture, with the assistance of additional administrative staff. In this bootcamp, teachers learned effective strategies for managing and structuring their classroom. Topics discussed in the “Classroom Culture Bootcamp” included: Routines & Procedures, Narrate the Positive, Challenge/Build Momentum, Increase Teacher Radar, Strong Voice, Consistency of Language.

In addition to the Workshops and Bootcamps, the Institute also included a hand-on experiential learning component from August 22-26, 2016, where new teachers were coupled with returning teachers to teach in a summer enrichment program known as the Freire Summer Scholars Program. The program consisted of the teachers being video taped during instruction in the morning, and then participating “Critical Friends” sessions in the afternoon where they viewed their videos and received feedback and coaching on addressing key focus areas related to instruction and classroom management.

### Freire Summer Scholars Program

As part of the school’s remediation plan, the school has a focus this year to increase its PARCC scores. To do this, the school launched a Freire Summer Scholars program for scholars performing on the lowest 25% percentile on the PARCC examination.



## **2. MAJOR INITIATIVES - CONTINUED**

The school hosted the program from August 22-26, 2016. During the program, teachers provided remediation for students who needed it the most, as well as applied and practiced the information they learned in our Summer Institute in a low-stakes environment. The school's administration was able to record all teaching sessions, and the video was reviewed in the afternoon, and coaching and feedback was offered to teachers on pedagogy and praxis.

## **3. INTERNAL ACCOUNTING CONTROLS**

Administration of the Charter School is responsible for establishing and maintaining internal control structure designed to ensure 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 accounting principles generally accepted in the United States of America (GAAP). The internal control structure 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; and (2) the valuation of costs and benefits requires estimates and judgments by administration.

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 administration.

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.

## **4. 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 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 re-appropriations of fund balance in the subsequent year. There were amounts to be re-appropriated at June 30, 2016.

**5. ACCOUNTING SYSTEM AND REPORT**

The Charter School's accounting records reflect generally accepted accounting principles (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB). The accounting system of the Charter School is organized on the basis of funds and account groups. These funds are explained in "Notes to the Basic Financial Statements."

**6. DEBT ADMINISTRATION**

At June 30, 2016, the Charter School had no outstanding debt.

**7. CASH MANAGEMENT**

The investment policy of the Charter School is guided in large part by state statute as detailed in "Notes to the Basic Financial Statements." The Charter School has an investment depositories protected from loss under the provisions of the Governments Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental 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.

**8. RISK MANAGEMENT**

The Board 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, fidelity bonds and worker's compensation (see J-20).

**9. OTHER INFORMATION**

**Independent Audit**

State statute requires an annual audit by independent certified public accountants or registered municipal accountants. The Charter School appointed the accounting firm of Galleros Koh LLP. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the related New Jersey OMB's Circular Letter 15-08.

The auditor's report on the basic financial statements, combining and individual fund statements, and schedules are included in the financial section of this report. The auditor's reports related specifically to the single audit are included in the single audit section of this report.

11) **ACKNOWLEDGMENTS**

I would like to express my appreciation to the Board of Trustees of the Paulo Freire Charter School for their concern in providing fiscal accountability of the Charter School and thereby contributing their full support to the development and maintenance of our financial operation.

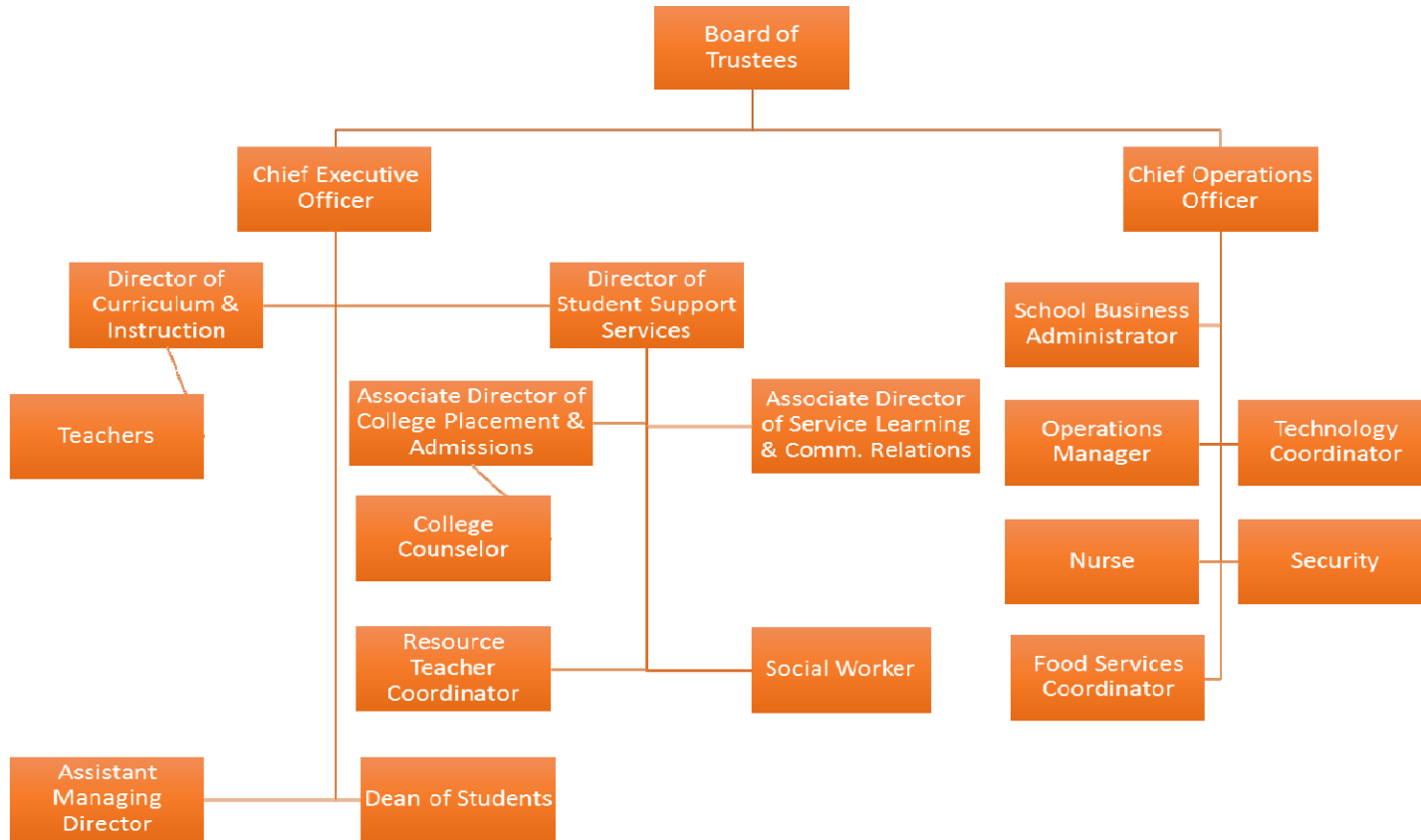
Respectfully submitted

A handwritten signature in black ink, appearing to read 'Gil Berrios', with a long horizontal flourish extending to the right.

Gil Berrios  
School Business Administrator

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**ORGANIZATIONAL CHART**



**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**ROSTER OF OFFICIALS**

**JUNE 30, 2016**

**Board of Trustees**

Lena Taylor, President.....	August 19, 2018
Terence Murray, Vice President.....	August 19, 2018
Nena Hamm, Trustee.....	August 19, 2018
Imani Laners, Trustee .....	August 19, 2018
Mario Lewis, Trustee.....	August 19, 2018
Liza Woodard, Trustee.....	August 19, 2018

**Other Officials**

- Tauheedah Baker-Jones, Chief Academic Officer/EDA
- Demond Jones, Chief Operations Officer/EDO
- Gail Long, School Business Administrator/Board Secretary until 6/30/16
- Gil Berrios, School Business Administrator/Board Secretary beginning 7/1/2016

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**CONSULTANTS AND ADVISORS**

**Independent Auditors**

Galleros Koh LLP  
115 Davis Station Road  
Cream Ridge, NJ 08514

**Attorneys**

Lauren M. Craig, Esq.  
Pickett & Craig, Esqs.  
80 Main Street, Ste. 430  
West Orange, NJ 07740

**Official Depository**

City National Bank  
900 Broad Street  
Newark, NJ 07102

# **FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

The Honorable President and  
Members of the Board of Trustees  
Paulo Freire Charter School  
Essex County, New Jersey

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Paulo Freire Charter School (the Charter School), in the County of Essex, State of New Jersey, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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



## **INDEPENDENT AUDITORS' REPORT - CONTINUED**

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Paulo Freire Charter School, in the County of Essex, State of New Jersey as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 17 through 24 and Budgetary Comparison Information on pages 54 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary and Other Information*

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Charter School's basic financial statements. The accompanying introductory section and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such other information has 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 combining and individual fund financial statements are also presented for purposes of additional analysis and are not a required part of the basic financial statements.


The accompanying schedules of expenditures of federal awards and state financial assistance (Schedules) are also presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) , and New Jersey OMB's Letter Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* respectively, and are not also a required part of the basic financial statements.

## INDEPENDENT AUDITORS' REPORT - CONTINUED

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2016 on our consideration of the Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Charter School's internal control over financial reporting and compliance.

  
\_\_\_\_\_  
Leonora Galleros, CPA  
Licensed Public School Accountant  
No. 20CS002239400

Galleros Koh LLP

November 17, 2016

**REQUIRED SUPPLEMENTARY INFORMATION**

**PART I**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management's Discussion and Analysis (MD&A) provides an analysis of the Charter School's overall financial position and results of operations.

**Introduction**

This section of the Paulo Freire Charter School's (the "Charter School") annual financial report presents our discussion and analysis of the Charter School's financial performance and provides an overview of the Charter School's financial activities for the fiscal year ended June 30, 2016. It should be read in conjunction with the transmittal letter at the front of this report and the Charter School's financial statements, which follow this section.

The Management's Discussion and Analysis (MD&A) is an element of the reporting Model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*, issued June 1999; GASB Statement No. 37, *Basic Financial Statement – and Management's Discussion and Analysis- for State and Local Governments: Omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued in June 2001, and; in GASB Statement No 38, *Certain Financial Statement Note Disclosures*, issued in 2001.

**Financial Highlights**

Key Financial highlights for the fiscal year 2016 are as follows:

- In total, net position increased by \$282,300. Net position of governmental activities increased by \$368,059. Net position of business-type activities, which represent food service, decreased by \$85,759 from fiscal year 2016.
- General revenues accounted for \$4.5 million in revenue or 89% of total revenues of \$5 million. Program specific revenues, in the form of charges for services, grants, and contributions accounted for \$0.5 million or 11% of total revenues.
- The Charter School had \$4.7 million in expenses related to governmental activities; \$0.5 million of these expenses were offset by operating grants and contributions. General revenues (primarily Local, Federal and State Aid) of \$4.5 million were adequate to provide for the balance of these programs.
- The General Fund reported fund balances at June 30, 2016, of \$910,415, of which, \$174,688 is assigned.

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**Basic Financial Statements**

This annual report consists of a series of basic financial statements, required supplementary information, other supplementary information and notes to those statements and information.

The report is organized so the reader can understand the Paulo Freire Charter School as a financial whole, or as an entire operating entity. The first two basic financial Statements, the Statement of Net Position and the statement of activities, are governmental- wide financial statements and provide overall information about the activities of the entire Charter School, presenting both an aggregate view of the Charter School's finances and a long-term view of those finances.

**Fund Financial Statements**

The remaining basic financial statements are fund financial statements that focus on the individual parts of the government, reporting the Charter School's operation in more detail than the government-wide statements. The fund financial statements also look at the Charter School's most significant funds with all other non-major funds presented in total in a single column. For the Paulo Freire Charter School, the General Fund is the most significant fund.

The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.

Proprietary fund statements offer short and long-term financial information about the activities; the government operates like a business, such as food service.

Fiduciary fund statements provide information about financial relationship in which the Charter School acts solely as a trustee or agent for the benefits of other, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of Required Supplementary Information that further explains and supports the information in the financial statements.

**Statement of Net Position and Statements of Activities**

While this report contains the 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 asks the question, "how did we do financially during fiscal year 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all the Charter School's assets and liabilities using the accrual basis of accounting similar to the accounting system used by most private sector companies. These bases of accounting takes into account all of the current year's revenues and expenses regardless of when cash was received or paid.

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**Statement of Net Position and Statements of Activities**

These two statements report the Charter School's net position and changes in those net positions. This change in net position is important because it identifies whether the financial position of the Charter School has improved or diminished for the Charter School as a whole. This change is the result of many factors some financial, some not. Financial factors represent increases in federal and state funding that resulted from the increase in enrollment noted for the fiscal year ended June 30, 2016. These factors are presented in our discussions on the Charter School as a whole. Non-financial factors include the property tax base of the School District where the Charter School is located, current educational funding laws in New Jersey, facilities conditions, required educational programs, and other factors. In the Statements of Net Position and the Statements of Activities, the Charter School is divided into two distinct kinds of activities:

**Governmental Activities** – Most of the Charter School's programs and services are reported here including instructional, extracurricular activities, curriculum, staff development, special education and other support services, operation and maintenance of plant, pupil transportation, health services and general administration.

**Business-Type Activity** – Services are provided on a charge for goods or services or reimbursement basis to recover the expenses of the goods or services provided. The Food Service enterprise fund is reported as a business activity.

**Reporting the School Charter School's Most Significant Funds**

**Fund Financial Statements**

Fund financial reports provide detailed information about the Charter School's major funds, not the Charter School as a whole. Funds are accounting devices that the Charter School uses to keep track of a multitude of financial transactions. The Charter School's only major governmental fund is the General Fund.

**Governmental Funds**

Most of the Charter School's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year-end for spending in future periods. 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

The governmental fund statement provides a detailed short-term view of the Charter School's general government operations and the basic services it provides.

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

Governmental fund information helps determine whether there are sufficient 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 Position and the Statement of Activities and the governmental funds are reconciled in the financial statements.

**Enterprise Fund**

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

**The Charter School as a Whole**

The perspective of the Statement of Net Position is of the Charter School as a whole. The table below provides a summary of the Charter School's net position at June 30, 2016.

The total net position of the Charter School have increased by \$282,300 during the current fiscal year. The increase is due to increase in state revenues and cost savings.

The table that follows reflects the change in net position for fiscal year 2016.

	<b>Governmental Activities</b>	<b>Business Type Acvtivities</b>	<b>Total</b>
<b>Assets</b>			
Current Assets	\$ 780,858	\$ 47,814	\$ 828,672
Capital Assets, net	27,827	-	27,827
Total Assets	<u>808,685</u>	<u>47,814</u>	<u>856,499</u>
<b>Liabilities</b>			
Current Liabilities	(129,557)	237,247	107,690
Non-Current Liabilities	53,957	-	53,957
Total Liabilities	<u>(75,600)</u>	<u>237,247</u>	<u>161,647</u>
<b>Net Position</b>			
Invested in capital assets	27,827	-	27,827
Restricted for			
Food Service	189,433	-	189,433
Unrestricted	667,025	(189,433)	477,592
Total Net Position	<u>\$ 884,285</u>	<u>\$ (189,433)</u>	<u>\$ 694,852</u>

In 2016, total revenues increased by \$1.1 million about 29% compared to total revenues in 2015. This was due to increase in enrollment. Total expenses increased by \$1 million, about 27%.

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**The Charter School as a Whole - continued**

	Governmental Activities		Business Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charge for Services	\$ -	\$ -	\$ 1,806	\$ 1,710	\$ 1,806	\$ 1,710
Operating grants and Contributions	494,023	346,398	54,449	36,451	548,472	382,849
Total Program Revenues	494,023	346,398	56,255	38,161	550,278	384,559
General Revenues:						
Local Aid	585,489	439,154	-	-	585,489	439,154
Federal and State Aid	3,895,932	2,994,954	-	-	3,895,932	2,994,954
Miscellaneous	3,907	92,895	-	-	3,907	92,895
Total General Revenues	4,485,328	3,527,003	-	-	4,485,328	3,527,003
Total Revenues	4,979,351	3,873,401	56,255	38,161	5,035,606	3,911,562
Expenses:						
Instructions	2,091,489	1,674,263	-	-	2,091,489	1,674,263
Support Services:						
Administrative expenses	1,234,823	937,756	-	-	1,234,823	937,756
Other support services	1,260,382	1,063,295	-	-	1,260,382	1,063,295
Unallocated:						
Capital outlay	2,499	-	-	-	2,499	-
Depreciation	22,099	3,267	-	-	22,099	3,267
Food Service	-	-	142,014	75,822	142,014	75,822
Total Expenses	4,611,292	3,678,581	142,014	75,822	4,753,306	3,754,403
Changes in Net Position	\$ 368,059	\$ 194,820	\$ (85,759)	\$ (37,661)	\$ 282,300	\$ 157,159

**Governmental Activities**

The Statement of Activities reflects the cost of program services and the charges for services and operating grants and contributions offsetting those services. The table below, for government activities, indicates the total cost of services and the net cost of services. It identifies the cost of these services supported by unrestricted state entitlements for the fiscal year ended June 30, 2016.

**Business-Type Activity**

The business-type activities of the Charter School is the food service operation. This program had revenues of \$38,161 and operating expenses of \$75,822 for fiscal year 2016.



**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**The Charter School's Funds**

The Charter School's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had revenues and other financing sources of \$4.9 million and expenditures and other financing uses of \$4.6 million.

**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.

During the course of fiscal year 2016, the Charter School amended its General Fund budget as needed. The Charter School uses state-aid and other revenue-based budget. The budgeting systems are designed to tightly control total budget, but provide flexibility for Charter School management teams.

For the General Fund, final budgeted revenues were \$4.5 million. Expenditures and transfers were budgeted at \$4.8 million. The Charter School anticipated a decrease in fund balance before other financing sources of \$0.3 million. In its 2015-2016 budget expenses exceeded revenues and other financing sources by \$324,322. Actual revenues and other financing sources were \$4,731,213 and expenditures were \$4,327,377.

The State of New Jersey reimbursed the Charter School \$86,420 during the year ended June 30, 2016 for the employer's share of social security contributions for TPAF members. These unbudgeted amounts are included in both revenues and expenditures.

**Capital Assets**

At the end of fiscal year 2016, the Charter School had \$16,336 invested in capital assets all in governmental activities.

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**MANAGEMENT’S DISCUSSION AND ANALYSIS - CONTINUED**

**Capital Assets - continued**

The table below reflects fiscal year 2016 balances:

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
Machinery & equipment	\$ 53,193	\$ -	\$ 53,193
Leasehold improvements	-	-	-
	<hr/>	<hr/>	<hr/>
Total Capital Assets	53,193	-	53,193
Less Accumulated Depreciation	25,365	-	25,365
	<hr/>	<hr/>	<hr/>
Totals	\$ 27,828	\$ -	\$ 27,828

**Economic Factors and Next Year’s Budget**

The State of New Jersey continues to face serious budgetary constraints. These impacts the amount of state aid allocated to charter schools. This reality was taken into account when adopting the general fund budget for 2015-2016. Nothing was done to compromise the quality of the programs in place in our Charter School during the regular instructional day. The budget was prepared to ensure that all students have the textbooks, materials supplies, equipment and programs they need to meet New Jersey’s Core Curriculum Content Standards.

**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 reflect the Charter School’s accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to:

Paulo Freire Charter School  
Business Office  
Newark, New Jersey 07103

# **BASIC FINANCIAL STATEMENTS**

## **CHARTER SCHOOL WIDE FINANCIAL STATEMENTS**

This Statement of Net Position and the Statement of Activities display information about the Charter School as a whole. The Statement of Net Position presents the financial condition of the government and business-type activities of the Charter School at fiscal year-end. The Statement of Activities presents a comparison between direct expense and program revenues for each program or function of the Charter School's governmental and business-type activities.

THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)

## STATEMENT OF NET POSITION

JUNE 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 406,837	\$ 31,019	\$ 437,856
Accounts receivable	251,222	16,795	268,017
Interfund receivables	37,521	-	37,521
Escrow deposits	75,000	-	75,000
Other receivables	<u>10,278</u>	<u>-</u>	<u>10,278</u>
Total current assets	<u>780,858</u>	<u>47,814</u>	<u>828,672</u>
Capital assets:			
Machinery & equipment	<u>27,827</u>	<u>-</u>	<u>27,827</u>
Total assets	<u>808,685</u>	<u>47,814</u>	<u>856,499</u>
<b>Liabilities</b>			
Current Liabilities:			
Accounts payable	16,966	-	16,966
Intergovernmental payable:			
State	89,858	254	90,112
Federal	612	-	612
Interfund payables (internal)	(236,993)	236,993	-
Deferred revenues	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	(129,557)	237,247	107,690
Non-Current Liabilities:			
Long-term debt - due within one year	<u>53,957</u>	<u>-</u>	<u>53,957</u>
Total Liabilities	<u>(75,600)</u>	<u>237,247</u>	<u>161,647</u>
<b>Net Position</b>			
Invested in capital assets	27,827	-	27,827
Restricted for:			
Food service	189,433	-	189,433
Unrestricted	<u>667,025</u>	<u>(189,433)</u>	<u>477,592</u>
Total net position	<u>\$ 884,285</u>	<u>\$ (189,433)</u>	<u>\$ 694,852</u>

THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Totals
<b>Governmental activities:</b>						
Instruction	\$ 2,091,489	\$ -	\$ 300,274	\$ (1,791,215)	\$ -	\$ (1,791,215)
Administrative cost	1,234,823	-	66,153	(1,168,670)	-	(1,168,670)
Support services	1,260,382	-	127,596	(1,132,786)	-	(1,132,786)
Capital outlay	2,499	-	-	(2,499)	-	(2,499)
Unallocated:						
Depreciation	22,099	-	-	(22,099)	-	(22,099)
Total governmental activities	4,611,292	-	494,023	(4,117,269)	-	(4,117,269)
<b>Business-type activities:</b>						
Food Service	142,014	1,806	54,449	-	(85,759)	(85,759)
Total primary government	\$ 4,753,306	\$ 1,806	\$ 548,472	(4,117,269)	(85,759)	(4,203,028)
<b>General revenues, transfers and special items:</b>						
Local sources				\$ 585,489	\$ -	\$ 585,489
State sources				3,895,932	-	3,895,932
Miscellaneous				3,907	-	3,907
Total general revenues, transfers and special items				4,485,328	-	4,485,328
Changes in net position				368,059	(85,759)	282,300
Net position - beginning				516,226	(103,674)	412,552
Net position - ending				\$ 884,285	\$ (189,433)	\$ 694,852

**FUND FINANCIAL STATEMENTS**

**GOVERNMENTAL FUNDS**



THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)

GOVERNMENTAL FUNDS  
BALANCE SHEET

JUNE 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 406,837	\$ -	\$ 406,837
Accounts receivable:			
State	128,350	-	128,350
Federal	-	122,872	122,872
Interfund receivables	404,790	-	404,790
Escrow deposit	75,000	-	75,000
Other receivables	<u>2,002</u>	<u>8,276</u>	<u>10,278</u>
Total assets	<u>\$ 1,016,979</u>	<u>\$ 131,148</u>	<u>\$ 1,148,127</u>
	1,012,093		
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable and other liabilities	16,706	\$ 260	\$ 16,966
Intergovernmental payables:			
State	89,858	-	89,858
Federal	-	612	612
Interfund payables		130,276	130,276
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>106,564</u>	<u>131,148</u>	<u>237,712</u>
Fund balances:			
Assigned	174,688	-	174,688
Unassigned	<u>735,727</u>	<u>-</u>	<u>735,727</u>
Total fund balances	<u>910,415</u>	<u>-</u>	<u>910,415</u>
Total liabilities and fund balances	<u>\$ 1,016,979</u>	<u>\$ 131,148</u>	

Amounts reported for governmental activities in the statement of net position (A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Cost of capital assets	\$ 24,504
Accumulated depreciation	<u>(8,168)</u>
	<u>16,336</u>

Long-term liabilities, including capital leases and compensated absences are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Net pension liability	<u>53,957</u>
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Net assets of governmental activities - A-1

\$ 980,708

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**GOVERNMENTAL FUNDS**

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

**YEAR ENDED JUNE 30, 2016**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Total</b>
<b>Revenues</b>			
Local Sources:			
Local tax levy	\$ 585,489	\$ -	\$ 585,489
Contributions	-	8,000	8,000
Miscellaneous	<u>3,907</u>	<u>-</u>	<u>3,907</u>
Total revenues-local sources	589,396	8,000	597,396
State sources	3,895,932	-	3,895,932
Federal sources		240,138	240,138
Reimbursed TPAF - Social Security (non-budgeted)	86,420	-	86,420
TPAF pension and post retirement medical benefits on-behalf payments (non-budgeted)	<u>159,465</u>	<u>-</u>	<u>159,465</u>
Total revenues	<u>4,731,213</u>	<u>248,138</u>	<u>4,979,351</u>
<b>Expenditures</b>			
Current expense:			
Instruction	1,542,276	161,916	1,704,192
Administrative cost	1,528,415	22,423	1,550,838
Support services	999,412	63,799	1,063,211
Capital outlay	11,389	-	11,389
Reimbursed and on-behalf payments			
Reimbursed TPAF - Social Security (non-budgeted)	86,420	-	86,420
TPAF pension and post retirement medical benefits on-behalf payments (non-budgeted)	<u>159,465</u>	<u>-</u>	<u>159,465</u>
Total expenditures	<u>4,327,377</u>	<u>248,138</u>	<u>4,575,515</u>
Excess revenues over expenditures	403,836	-	403,836
Fund balances at beginning of the year	<u>506,579</u>	<u>-</u>	<u>506,579</u>
Fund balances at end of year	<u>\$ 910,415</u>	<u>\$ -</u>	<u>\$ 910,415</u>

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

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

**YEAR ENDED JUNE 30, 2016**

**Total net change in fund balances - governmental funds (B-2)** \$ 403,836

**Amounts reported for governmental activities in the Statement  
of Activities (A-2) are different because:**

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the period. Additionally, in the Statement of Activities gains or (losses) are recognized upon disposition.

Capital outlay	28,689
Depreciation expense	<u>(22,099)</u>
	6,590

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Pension costs	<u>(42,367)</u>
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**Change in net position of governmental activities (A-2)** \$ 368,059

**PROPRIETARY FUNDS**

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**PROPRIETARY FUND**

**STATEMENT OF NET POSITION**

**JUNE 30, 2016**

**Assets**

**Current assets:**

Cash and cash equivalents	\$	31,019
Accounts receivable:		
Federal		16,531
State		264
Interfund receivables - General Fund		19,843
		<u>36,638</u>

Total assets	\$	<u>67,657</u>
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**Liabilities**

**Current liabilities**

Intergovernmental payable - State	\$	254
Interfund payable - General Fund		<u>256,836</u>
		<u>257,090</u>

**Net assets**

Unrestricted		<u>(189,433)</u>
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Total liabilities and net position	\$	<u>67,657</u>
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**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**PROPRIETARY FUND**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**

**YEAR ENDED JUNE 30, 2016**

Operating revenues:	
Charges for services:	
Daily sales - nonreimbursable programs	\$ <u>1,806</u>
Operating expenses:	
Cost of sales	81,441
Salaries	39,901
Professional/Technical services	2,340
Other purchased services	2,424
Supplies and materials	908
Miscellaneous	<u>15,000</u>
Total operating expenses	<u>142,014</u>
Operating income (loss)	<u>(140,208)</u>
Nonoperating revenues:	
State sources:	
State School Lunch Program	881
Federal sources:	
National School Lunch Program	46,453
National School Breakfast Program	6,130
Healthy Hunger-Free Kids Act Program	<u>985</u>
Total nonoperating revenues	<u>54,449</u>
Change in net position	(85,759)
Total net position at beginning of year	<u>(103,674)</u>
Total net position at end of year	<u>\$ (189,433)</u>

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**PROPRIETARY FUND**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED JUNE 30, 2016**

**Cash flows from operating activities**

Operating loss	\$ (140,208)
Adjustment to reconcile operating loss to net cash from operating activities	
Changes in assets and liabilities:	
Accounts receivable	(8,636)
Interfund receivable	-
Accounts payable	(2,245)
Interfund payable	<u>122,570</u>
Net cash from operating activities	(28,519)

**Cash flows from noncapital financing activities**

Cash received from state and federal reimbursements	54,449
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**Cash flows from investing activities**

	<u>-</u>
Net increase in cash and cash equivalents	25,930
Cash and cash equivalents at beginning of the year	<u>5,089</u>
Cash and cash equivalents at end of year	<u>\$ 31,019</u>

**FIDUCIARY FUNDS**



**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**FIDUCIARY FUNDS**

**STATEMENT OF FIDUCIARY NET POSITION**

**JUNE 30, 2016**

**Assets**

Cash and cash equivalents	\$ 146,516
Interfund receivables	<u>37,626</u>
Total assets	<u><u>184,142</u></u>

**Liabilities and Net Position**

Liabilities:

Payroll withholdings payable	\$ 100,830
Accounts payable	8,165
Interfund payables	<u>75,147</u>
Total liabilities	<u>184,142</u>

**Net Assets**

Restricted	
Unemployment compensation	<u>-</u>
Total net assets	<u>-</u>
Total liabilities and net position	<u><u>\$ 184,142</u></u>

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**FIDUCIARY FUNDS**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

**YEAR ENDED JUNE 30, 2016**

Revenues:

General fund appropriation	\$ 63,552
Employees' contributions	<u>12,602</u>
Total revenues	<u>76,154</u>

Expenditures:

Payments to NJ Unemployment Compensation Fund	<u>76,154</u>
Total expenditures	<u>76,154</u>

Excess (deficiency) of revenue over (under) expenditures -

Fund balance at beginning of the year -

Fund balance at end of year \$ -

**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Paulo Freire Charter School (the "Charter School") is presented to assist in understanding the Charter School's financial statements and notes are representation of the Charter School's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units and have been consistently applied in the preparation of these financial statements.

**A. Reporting Entity:**

The Paulo Freire Charter School ("Charter School") is an instrumentality of the State of New Jersey, established to function as an educational institution. The Board of Trustees (the "Board") consists of appointed officials and is responsible for the fiscal control of the Charter School. An Educational Director is appointed by the Board and is responsible for the administrative control of the Charter School. The Charter School was approved by the New Jersey Department of Education on July 16, 2012. Accordingly, the fiscal year ended June 30, 2013 is the inception year for the Charter School.

**B. Component Units**

The primary criterion for including activities within the Charter School's reporting entity, as set forth in Section 2100 of the GASB's Codification of Governmental Accounting and Financial Reporting Standards, is the degree of oversight responsibility maintained by the Charter School management. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, and ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds and account groups of the Charter School. Based on the aforementioned criteria, the Charter School has no component units.

**C. Basis of Presentation**

The financial statements of the Charter School have been prepared in conformity with GAAP as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**C. Basis of Presentation - Continued**

The Charter School also applies Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise fund unless they conflict with or contradict GASB pronouncements. The most significant of the Charter School's accounting policies are described below:

In June 1999, the Governmental Accounting Standards Boards unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the financial statements include the following:

The financial statements include:

- i) A Management's Discussion and Analysis (MD&A) section providing an analysis of the Charter School's overall financial position and results of operations.
- ii) Financial statements prepared using full accrual accounting for all of the Charter School's activities.
- iii) A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

**D. Basic Financial Statements**

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

**Government-wide Financial Statements**

The statement of net position and the statement of activities display information about the Charter School as a whole. These statements include the financial activities of the Charter School, except for fiduciary funds.

The statement of net position presents the financial condition of the governmental and business-type activities of the Charter School at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Charter School's governmental and business-type activities. The governmental activities generally are financed through federal and state awards, taxes and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**D. Basic Financial Statements - Continued**

**Fund Financial Statements**

Fund financial statements of the Charter School are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Charter School.

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. Fund financial statements are designed to present financial information of the Charter School at a more detailed level.

**E. Governmental Funds**

**General Fund** - The General Fund is the primary operating fund of the Charter School and is always classified as a major fund. It is used to account for all financial resources except those that are legally or administratively 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 sub-fund.

- 1) As required by the New Jersey Department of Education, the Charter School included budgeted capital outlay in this fund. Generally accepted accounting principles 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.
- 2) 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 ground, 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 board resolution.

**Special Revenue Fund** - The Special Revenue Fund is used to account for the proceeds of specific revenue from State and Federal Government, (other than major Capital Projects, Debt Service or the Enterprise Funds) and local appropriations that legally restricted to expenditures for specified purposes.

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**E. Governmental Funds - Continued**

**Capital Projects Fund** - The Capital Projects Fund is used to account for all financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The financial resources are derived from temporary notes or serial bonds that are specifically authorized by the voters as a separate question on the ballot either during the annual election or at a special election. As of June 30, 2016, there was no Capital Projects Fund.

**Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of principal and interest on, bonds issued to finance major property acquisitions, construction, and improvement programs. As of June 30, 2016, there was no debt service fund.

**F. Proprietary Funds**

The focus of Proprietary Funds' measurement is upon determination of net income, changes in net position, financial position and cash flows. The generally accepted accounting principles applicable are those similar to business in the private sector. The following is a description of the Proprietary Funds of the Charter School:

**Enterprise Funds:**

The Enterprise Fund are utilized to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the Charter School is that the cost (i.e. expenses including depreciation and indirect costs) of providing goods and services to the students on a continuing basis be financed or recovered primarily through user charges; or where the Charter School has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities, whether current or noncurrent, associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and unreserved retained earnings, if applicable. Proprietary fund type operating statements present increases (revenue) and decreases (expenses) in net total assets.

**Internal Service (Self-Insurance) Fund:**

The Self-Insurance Fund is used to cover the self-insured limits of the various insurance policies for all funds. Charter School does not use self-insurance fund.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**G. Fiduciary Funds**

Fiduciary or trust and Agency Funds are used to account for assets held by the Charter School in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. This fund category includes:

**Expendable Trust Funds** - Expendable Trust Funds are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable Trust Funds account for assets where both the principal and interest may be spent.

**Nonexpendable Trust Funds** - Nonexpendable Trust Funds are used to account for assets held under the terms of a formal trust agreement, whereby the Charter School is under obligations to maintain the trust principal.

**Agency Funds** - Agency funds are 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. Agency funds include payroll and student activities funds.

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

**Measurement Focus** - Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. On the government-wide statements of net position and the statement of activities, both governmental and business-like activities are presented using the economic resources measurement focus. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statement of these funds present increases (i.e., revenues and other financing sources), and decreases (i.e. Expenditures and other financial uses) during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

All proprietary funds are accounted for on a flow economic resources measurement focus. With this measurement focus, the accounting objectives are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flow. All assets and all liabilities, whether current or noncurrent, associated with their activities are included on the balance sheet. Fund equity (i.e., net total assets) is classified as net position.



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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**H. Measurement Focus and Basis of Accounting - Continued**

**Basis of Accounting** - In the government-wide statement of net position and statements of activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting revenues are recognized when earned and expenses are recognized when the liability, resulting from exchange and exchange like transactions, is incurred (i. e. the exchange takes place).

In the fund financial statements, governmental fund and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available.

“Measurable” means the amount of the transaction can be determined and “available” means collectible with the current period or soon enough thereafter to be used to pay liabilities of the current period. State equalization monies are recognized as revenue during the period in which they are appropriated. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

**I. Budgets/Budgetary Control**

Annual appropriated budgets are prepared prior to July 1, for the General Fund. The budget is 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 must be approved by the State Department of Education. Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds, there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles, with the exception of the Special Revenue Fund as noted below.

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles 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.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**I. Budgets/Budgetary Control - Control**

The accounting records of 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 recognized encumbrances as expenditures and also recognized the related revenue, whereas the GAAP basis does not. Sufficient supplemental records are maintained to allow of the presentation of GAAP basis financial report. As presented in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General, Special Revenue Fund and Debt Service Funds to the GAAP basis of accounting as presented in the Statements of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds.

**J. Deposits, Investments and Risk Disclosure**

Cash and cash equivalents includes 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. 40 replaces in part, and otherwise modifies the prior GASB Statement No. 3, in addressing the requirements for disclosure of the level of custodial credit risk assumed by the Board in its cash, cash equivalents and investments. Custodial credit risk disclosures are limited to deposits that are not covered by depository insurance and are (a) uncollateralized; (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

**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

**PAULO FREIRE CHARTER SCHOOL  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**J. Deposits, Investments and Risk Disclosure - Continued**

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 Charter School 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.
- d. New Jersey Cash Management Fund, New Jersey Arbitrage Rebate Management Fund and MBIA CLASS.

As of June 30, 2016, the Charter School did not hold any investments.

**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. Although GASB Statement No. 40 eliminated Categories 1 and 2 as previously established by GASB Statement No. 3, it maintained, with modification, the level-of-disclosure requirements of GASB Statement No. 3.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**J. Deposits, Investments and Risk Disclosure - Continued**

As of June 30, 2016, the Board had funds invested and on deposit in checking accounts. These funds constitute “deposits with financial institutions” as defined by GASB Statement No. 3 and modified by GASB Statement No. 40, and as such, are deposits that are insured or collateralized with securities held by the Board or by its agent in the Board’s name, both at year-end and throughout the year.

The Charter School does not have a policy for the management of the custodial risk, other than depositing all of its funds in banks covered by GUDPA.

**K. Prepaid Expenses**

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

Prepaid expenses in the Governmental activities represent payments made to vendors for services that will benefit periods beyond June 30, 2016.

**L. Interfund Assets/Liabilities**

On the fund financial statements, receivables and payables resulting from short-term Interfund loans are classified as Interfund Receivable/Payable. Interfund balanced within governmental activities and within business-type activities are eliminated on the government-wide Statements of Net Position.

**M. Fixed Assets**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the Charter School as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. The valuation based for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the governmental fund capital assets.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**M. Fixed Assets - Continued**

Donated capital assets are capitalized at estimated fair market value on the date donated. Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of the depreciable capital assets are as follows:

<u>Description</u>	<u>Estimated lives</u>
Building and Buildings Improvements	20 - 40 years
Furniture and Equipment	5 - 10 years
Vehicles	3 - 5 years

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

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

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

**O. Compensated Absences**

The Charter School accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 16), "Accounting for Compensated Absences." A liability for compensated absences that are attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

Charter School employees are granted sick and vacation leave in varying amounts under the Charter School's personnel policies and according to negotiated contracts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave. Vacation days not used during the year may only be carried forward with approval from the Head of School.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**O. Compensated Absences - continued**

In the charter school-wide Statement of Net Position, the liabilities whose average maturities are greater than one year should be reported in two components – the amount due within one year and the amount due in more than one year.

The liability for vested compensated absences of the proprietary fund types is recorded within those funds as the benefits accrue to employees. As of June 30, 2016, there are no liabilities for compensated absences.

**P. Net Pension Liability (Asset)**

The net pension liability (asset) represents the Charter School's proportionate share of the net pension liability (asset) of the New Jersey State Pension Employees' Retirement System and the New Jersey State Teachers' Pension and Annuity Fund System. The financial reporting of these amounts are presented in accordance with the provisions of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date".

**Q. Deferred Revenue**

Deferred revenue in special revenue fund represent cash that has been received but not yet earned.

**R. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payable, accrued liabilities, and long-term obligations payable from the enterprises fund are reported and the enterprises fund 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. However, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payments during the current year.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**S. Fund Balance and Equity**

Generally, fund balance represents the difference between current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the Charter School is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Under this standard, the fund balance classifications are as follows:

*Nonspendable* fund balance includes amounts that cannot be spent because they are either not in spendable form (inventories, prepaid amounts, long-term receivables) or they are legally or contractually required to be maintained intact (the corpus of a permanent fund).

*Restricted* fund balance is to be reported when constraints placed on the use of the resources are imposed by grantors, contributors, laws or regulations of other governments or imposed by law through enabling legislation. Enabling legislation includes a legally enforceable requirement that these resources be used only for the specific purposes as provided in the legislation. This fund balance classification will be used to report funds that are restricted for debt service obligations and for other items contained in General Municipal Law or Education Law. Committed fund balance will be reported for amounts that can only be used for

*Committed* fund balance will be reported for amounts that can only be used for specific purposes pursuant to formal action of the entity's highest level of decision making authority. These funds may only be used for the purpose specified unless the entity removes or changes the purpose by taking the same action that was used to establish the commitment. This classification includes certain designations established and approved by the entity's governing board.

*Assigned* fund balance, in the General Fund, will represent amounts constrained either by the entity's highest level of decision making authority or a person with delegated authority from the governing board to assign amounts for a specific intended purpose. An assignment cannot result in a deficit in the unassigned fund balance in the General Fund. This classification will include amounts designated for balancing the subsequent year's budget and encumbrances. Assigned fund balance in all other governmental funds represents any positive remaining amount after classifying nonspendable, restricted or committed fund balance amounts.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

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

R. **Fund Balance and Equity** - Continued

*Unassigned* fund balance, in the General Fund, represents amounts not classified as nonspendable, restricted, committed or assigned. The General Fund is the only fund that would report a positive amount in unassigned fund balance. For all governmental funds other than the General Fund, unassigned fund balance would necessarily be negative, since the fund's liabilities, together with amounts already classified as nonspendable, restricted and committed would exceed the fund's assets.

When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the Charter School's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the Charter School's policy to use fund balance in the following order: committed, assigned, and unassigned.

S. **Net Position**

Net Position on the *Statement of Net Position* include the following:

**Investments in Capital Assets, net of Related Debt** - the component of net position there reports the differences between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributed to the acquisition, construction or improvement of those assets.

**Restricted for Specific Purposes** – the component of net position that reports the difference between assets and liabilities of the certain programs that consist of assets with constraints placed on their use by either external parties and /or enabling legislation.

**Restricted for Debt Service** – the component of net position that reports the difference between assets and liabilities of the Debt Service Fund that consists of assets with constraints placed on their use by creditors.

**Unrestricted** - the difference between the assets and liabilities that is not reported in Net Position Invested in Capital Assets, net of Related Debt, Net Position Restricted for Specific Purposes or Net Position Restricted for Debt Services.



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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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

**T. Contributed Capital**

Contributed capital represents the amount of fund capital contributed to the proprietary funds from other funds.

**U. Interfund Transactions**

Interfund transfers are defined as the flow of assets, such as cash or goods, without equivalent flows of assets in return. Interfund borrowings are reflected as "Due from/to Other Funds" on the accompanying financial statements. All other interfund transfers are reported as operating transfers.

**V. Use of Estimates**

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

**W. Accounting for Uncertainty in Income Taxes**

The Charter High School recognizes the effect of income tax positions only of those positions are more likely than not of being sustained. Management has determined that the Charter High School had no uncertain tax positions that would require financial statement recognition. The Charter High School is no longer subject to audits by the applicable taxing jurisdictions for tax periods prior to 2013.

**X. On-Behalf Payments**

Revenues and expenditures of the General Fund include payment made by the State of New Jersey for Pension and social security contributions for certified teacher members of the New Jersey Teachers Pension and Annuity Fund, and for post-retirement medical benefits of members. The amounts are not required to be included in the Charter School's annual budget.

**Y. Subsequent Events Evaluation by Management**

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is November 17, 2016.

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**NOTE 2 APPLICATION OF ACCOUNTING STANDARDS**

For the year ended June 30, 2016, the Charter School implemented the following:

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

Statement No. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The adoption of the above Statements did not have an effect on the Charter School’s financial statements.

**NOTE 3 CASH AND CASH EQUIVALENTS**

The Charter School’s cash and cash equivalents are classified below to inform financial statement users about the extent to which the Charter School’s deposits and investments are exposed to custodial credit risk.

As of June 30, 2016, the Charter School’s carrying amount of deposits and investments are as follows:

	General Fund	Special Revenue Fund	Enterprise Fund	Trust and Agency Funds	Total
Operating Account	\$ 406,837	\$ -	\$ 31,019	\$ 134,453	\$ 572,309
Restricted cash	75,000	-	-	-	75,000
Total	<u>\$ 481,837</u>	<u>\$ -</u>	<u>\$ 31,019</u>	<u>\$ 134,453</u>	<u>\$ 647,309</u>

**PAULO FREIRE CHARTER SCHOOL  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**NOTE 3 CASH AND CASH EQUIVALENTS - CONTINUED**

Operating cash accounts are held in the Charter School's name by several banking institutions. At June 30, 2016, the Charter School's carrying amount of deposits was \$572,309 and the bank balance was \$798,391. Of the bank balance, up to a maximum of \$250,000 of the Charter School's cash deposits on June 30, 2016 were secured by federal deposit insurance and \$473,391 was covered by a collateral pool maintained by the bank as required by New Jersey statutes in accordance with the New Jersey Governmental Unit Deposit Protection Act ("GUDPA").

*Restricted Cash*

The Charter School has established and funded an Escrow Account pursuant to an agreement signed with the New Jersey Department of Education. The required maximum is \$75,000, which is fully funded at June 30, 2016. The agreement stipulates that the intended use of the escrow amount is "to pay for legal and audit expenses and any other outstanding pension benefits that would be associated with a dissolution should it occur."

**NOTE 4 CAPITAL ASSETS**

As required under accounting standards discussed in Note 2, the Charter School performed a thorough review of the inventory records of all its fixed assets. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost have been used.

Capital assets activities for the year ended June 30, 2016 are as follows:

	<b>Beginning Balance</b>	<b>Net Additions (Deletions)</b>	<b>Ending Balance</b>
<b><u>Governmental Activities</u></b>			
Capital assets being depreciated:			
Machinery and equipment	\$ 24,504	\$ 28,689	\$ 53,193
Less: accumulated depreciation	<u>3,267</u>	<u>22,099</u>	<u>25,366</u>
Capital assets, net	<u>\$ 21,237</u>	<u>\$ 6,590</u>	<u>\$ 27,827</u>
<b><u>Business-Type Activities</u></b>			
Capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ 21,237</u>	<u>\$ 6,590</u>	<u>\$ 27,827</u>

**PAULO FREIRE CHARTER SCHOOL  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**NOTE 5 LONG-TERM DEBT**

During the fiscal year ended June 30, 2016, long term liabilities are reported in the *Statement of Net Position* for the net pension liability related to PERS in the amount of \$53,957 which is due on April 1, 2017.

**NOTE 6 NET POSITION**

As of June 30, 2016, governmental activities net position consisted of the following components:

<b>INVESTMENT IN CAPITAL ASSETS, <u>RESTRICTED FOR</u></b>	\$ 27,827
Food service	189,433
<b><u>UNRESTRICTED</u></b>	
Net position not restricted above	<u>667,025</u>
<b>NET POSITION</b>	<u>\$ 884,285</u>

Business-type activities net position did not have any capital assets or restrictions.

**NOTE 7 PENSIONS PLANS**

**A. Description of Plans**

All eligible employees of the Charter School are covered by either the Public Employee's Retirement System (PERS) or the Teacher's Pension and Annuity Fund (TPAF) which have been established by state statute and are administered by the New Jersey Division of Pension and Benefit (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 PERS and the TPAF. These reports may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

**i. Public Employees' Retirement System (PERS)**

The Public Employees' Retirement Systems (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county municipality, Charter School, or public agency provided the employee is not a member of another state-administered

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**NOTE 7 PENSIONS PLANS - CONTINUED**

**A. Description of Plans - Continued**

**ii. Teachers Pension and Annuity Fund (TPAF)**

retirement system. 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, Charter School, 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.

The Teachers' Pension and Annuity Fund was established in January 1, 1995, under the provisions of N.J.S.A. 18A:66 to provide coverage including post-retirement health care to substantially all full time certified teachers or professional staff of the public school systems in the State. The Teacher's 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 systems other related non-contributing 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.

**B. Vesting and Benefit Provisions**

The vesting and benefit provisions for PERS are set by N.J.S.A 43:15a and 4303B and N.J.S.A. 18A: 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 55 and are generally determine to be 1/55 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 member 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 2% of related interest earned on the

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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**NOTE 7 PENSIONS PLANS - CONTINUED**

**C. Significant Legislation**

contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the member's accounts.

Two pieces of legislation passed during fiscal year 2001 having significant impact on the benefit provisions under PERS and TPAF. Chapter 133, P.L.2001, increases retirement benefits for service, deferred and early retirements by changing the formula from 1/60 to 1/55 of final compensation for each year of service. The legislation also increases the retirement benefit for veteran member with 35 years or more of service and reduces age qualification from 60 to 55. The legislation further provides that existing retirees and beneficiaries would also receive a comparable percentage increase in their retirement allowance. The benefit enhancements are effective with the November 1, 2001 benefit checks. Chapter 120, P.L 2001, established an additional retirement option for plan members. Under the new option, a retiree's actuarially reduced allowance (to provide a benefit to the retiree's beneficiary upon the death of the retiree) would "pop-up" to the maximum retirement allowance if the beneficiary predeceases the retiree.

Chapter 4, P.L 2001 provides increased benefit to certain members of PERS who retired prior to December 29, 1989 with at least 25 years of creditable service. The maximum amount of the increase is 5 percent the retiree's final compensation. For those with 30 or more years of service, the total pension would increase from 65 to 71 percent of final compensation.

Due to the enactment of 1997 legislation, Chapter 114, P.L. 1997 and Chapter 115, P.L 1997, the State of New Jersey's portion of the unfunded accrued liability under each retirement system was eliminated. In addition, excess valuation assets were available to fund, in full or in part, the State of New Jersey's normal contribution from 1997 to 2001, excluding the contribution for post-retirement medical benefits in the PERS and TPAF.

**D. Contribution Requirement**

The contribution policy is set by laws of the State of New Jersey 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 4.5% and 3%, respectively 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 adjustment, noncontributory death benefits, and post-retirement medical premiums. Under current statute the Charter School is a non-contributing

**PAULO FREIRE CHARTER SCHOOL  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**NOTE 7 PENSIONS PLANS - CONTINUED**

**D. Contribution Requirement - Continued**

employer of the TPAF. The Charter School did not have any contribution to PERS for the year ended June 30, 2016.

In accordance with N.J.S.A 18A:66-66 the State of New Jersey reimbursed the Charter School \$86,420 during the year ended June 30, 2016 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.

**E. GASB 68 Disclosures**

**i. Public Employees' Retirement System (PERS)**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERS and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For the year ended June 30, 2016, the Charter School recognized pension expense of zero.

**ii. Teachers Pension and Annuity Fund (TPAF)**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers Pension and Annuity Fund (TPAF) and additions to/deductions from the TPAF's fiduciary net position have been determined on the same basis as they are reported by the TPAF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For the year ended June 30, 2016, the Charter School recognized pension expense and revenue of zero in the school-wide financial statements for its proportionate share in the special funding support provided by the State for its TPAF members.

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**NOTE 8 POST- RETIREMENT BENEFITS**

P.L. 1987, c. 384 and P.L. 1990, c.6 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, 2015, there were 107,314 retirees receiving post-retirement medical benefits, and the State contributed \$1.25 billion on their behalf. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical benefits changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

The State is also responsible for the cost attributable to P.L. 1992, c.126, which provides employer paid health benefits to members of PERS and the Alternate Benefit Program (APB) who retired from a board of education or county college with 25 years of service. The State paid \$214.1 million toward Chapter 126 benefits for 19,056 eligible retired members in Fiscal Year 2015.

The School Employees Health Benefits Program (SEHBP) Act is found in New Jersey Statutes Annotated, Title 52, Article 17.25 et.seq. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for SEHBP. That report may be obtained from the Treasury website at:

<http://www.nj.gov/treasury/pensions/pdf/financial/2015divisioncombined.pdf>

**NOTE 9 DEFERRED COMPENSATION**

The Charter School offered its employees a choice of the following deferred compensation plans created in accordance with Internal Revenue Service 403(b). The Plan which are administered by the Charter School and various insurance companies, permits participants to defer apportion of their salary until future years. Amounts deferred under the plan are not available to employees until termination, death or unforeseeable emergency.



**PAULO FREIRE CHARTER SCHOOL  
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**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**NOTE 10 RISK MANAGEMENT**

The Charter School is exposed to various risks of loss relates to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

**A. Property and Liability Insurance**

The Charter School maintains commercial insurance coverage for property, liability and surety bonds. A complete schedule of insurance coverage can be found in the Statistical Section (Unaudited) of this Comprehensive Annual Financial Report (Schedule J-20).

**B. New Jersey Unemployment Compensation**

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 following is a summary of Charter School contributions, employee contributions, reimbursements to the State for benefits employees and charged to its account with the State.

<u>Fiscal Year</u>	<u>Charter School Contributions</u>	<u>Employee Contributions</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2015-2016	\$ 63,552	\$ 12,602	\$ 76,154	\$ -
2014-2015	28,854	1,360	30,214	-
2013-2014	36,707	919	37,626	-

**NOTE 11 INTERFUND RECEIVABLES AND PAYABLES**

Amount reported in the governmental funds as interfund receivable and payable from/to other governmental funds are eliminated in the governmental activities column. The remaining internal receivable and payable between the governmental funds and enterprise fund have been eliminated in the total Charter School-wide Statement of Net Position.

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**NOTE 11 INTERFUND RECEIVABLES AND PAYABLES**

At June 30, 2016, the interfund balances consisted of the following components:

	<u>RECEIVABLE (PAYABLE)</u>			
	<b>General</b>	<b>Special</b>	<b>Enterprise</b>	<b>Fiduciary</b>
	<b>Fund</b>	<b>Revenue</b>	<b>Fund</b>	<b>Fund</b>
	<b>Fund</b>	<b>Fund</b>	<b>Fund</b>	<b>Fund</b>
General fund	\$ 404,790	\$ (130,277)	\$ (236,992)	\$ (37,521)
GASB No 34 mandated eliminations within governmental activities	<u>(130,277)</u>	<u>130,277</u>	-	-
Net interfund balances reported as follows: Entity-wide (eliminated in total column)	<u>\$ 274,513</u>	<u>\$ -</u>	<u>\$ (236,992)</u>	-
External (Due to Trust and Agency Fund)				<u>\$ (37,521)</u>

**NOTE 12 CONTINGENCIES**

**State and Federal Aid Receipts**

State and Federal awards are generally subject to review by the responsible governmental agencies for compliance with the agencies regulations governing the aid. In the opinion of the Charter School's management and legal counsel, any potential adjustments to the Federal or State aid recorded by the Charter School through June 30, 2016, resulting from a review by a responsible government agency will not have a material effect on the Charter School financial statements at June 30, 2016.

**REQUIRED SUPPLEMENTARY INFORMATION**

**PART II**

**BUDGETARY COMPARISON SCHEDULES**

GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE

YEAR ENDED JUNE 30, 2016

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>Revenues</b>					
Local Sources:					
Local tax levy	\$ 642,935	\$ (57,446)	\$ 585,489	\$ 585,489	\$ -
Contributions	-	-	-	-	-
Miscellaneous	-	2,737	2,737	3,907	1,170
Total revenues -local sources	642,935	(54,709)	588,226	589,396	1,170
State sources	4,260,720	(364,788)	3,895,932	3,895,932	-
Reimbursed TPAF - Social Security (non-budgeted)	-	-	-	86,420	86,420
TPAF pension and post retirement medical benefits on-behalf payments (non-budgeted)	-	-	-	159,465	159,465
Total revenues	4,903,655	(419,497)	4,484,158	4,731,213	247,055
<b>Expenditures</b>					
Current expense:					
Instruction					
Salaries	1,566,537	(21,600)	1,544,937	1,081,823	463,114
Professional/technical service	40,500	107,886	148,386	137,576	10,810
Other purchased services	94,000	(32,000)	62,000	61,024	976
General supplies	539,998	(275,754)	264,244	172,174	92,070
Textbooks	156,362	(77,362)	79,000	33,771	45,229
Miscellaneous	45,210	33,701	78,911	55,908	23,003
Total current expense	2,442,607	(265,129)	2,177,478	1,542,276	635,202
Administrative cost:					
Salaries	792,050	(119,347)	672,703	672,703	-
Total benefit costs	309,132	195,864	504,996	516,002	(11,006)
Professional/technical service	21,616	91,589	113,205	90,155	23,050
Other purchased services	119,210	19,934	139,144	143,041	(3,897)
Communications and telephones	25,000	28,455	53,455	50,323	3,132
General supplies	24,088	900	24,988	24,937	51
Miscellaneous	19,783	12,298	32,081	31,254	827
Total administrative cost	1,310,879	229,693	1,540,572	1,528,415	12,157
Support services:					
Salaries	466,994	87,106	554,100	551,784	2,316
Purchased professional/technical service	12,000	95,825	107,825	94,370	13,455
Other purchased services	40,000	35,892	75,892	74,289	1,603
Rent on land and buildings	368,000	(185,286)	182,714	127,499	55,215
Insurance-fidelity, liability, property	39,000	(5,273)	33,727	33,727	-
Supplies and materials	23,000	3,565	26,565	26,178	387
Nurse supplies	3,000	(400)	2,600	2,144	456
Transportation-other than to/from school	25,000	18,904	43,904	39,813	4,091
Utilities	65,000	(34,303)	30,697	30,696	1
Custodial	8,000	-	8,000	6,406	1,594
Miscellaneous	5,000	8,017	13,017	12,506	511
Total support services	1,054,994	24,047	1,079,041	999,412	79,629

GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE

YEAR ENDED JUNE 30, 2016

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
Capital outlay:					
Non-instructional equipment	-	11,389	11,389	11,389	-
Total capital outlay	-	11,389	11,389	11,389	-
Reimbursed TPAF - Social Security (non-budgeted)	-	-	-	86,420	(86,420)
TPAF pension and post retirement medical benefits on-behalf payments (non-budgeted)	-	-	-	159,465	(159,465)
Total expenditures	4,808,480	-	4,808,480	4,327,377	481,103
Excess revenues over expenditures	95,175	(419,497)	(324,322)	403,836	(234,048)
Fund balances at beginning of the year	506,579	-	506,579	506,579	-
Fund balances at ending of the year	<u>\$ 601,754</u>	<u>\$ (419,497)</u>	<u>\$ 182,257</u>	<u>\$ 910,415</u>	<u>\$ (234,048)</u>

THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)

## SPECIAL REVENUE FUND

## BUDGETARY COMPARISON SCHEDULE

YEAR ENDED JUNE 30, 2016

	Original Budget	Budget Transfers	Final Budget	Actual	Final to Actual
<b>Revenues</b>					
Local	\$ 8,000	\$ -	\$ 8,000	\$ 8,000	\$ -
Federal	267,905	-	267,905	240,138	27,767
Total revenues -all sources	<u>275,905</u>	<u>-</u>	<u>275,905</u>	<u>248,138</u>	<u>27,767</u>
<b>Expenditures</b>					
Current Expenditures:					
Instruction:					
Salaries of teachers	90,377	21,091	111,468	111,468	-
Other salaries for instruction	45,965	(7,942)	38,023	38,023	-
Purchased professional and technical services	10,000	(5,000)	5,000	-	5,000
Other purchased services	8,000	-	8,000	8,000	-
Supplies and materials	29,453	(20,463)	8,990	4,425	4,565
Miscellaneous	-	-	-	-	-
Total instruction	<u>183,795</u>	<u>(12,314)</u>	<u>171,481</u>	<u>161,916</u>	<u>9,565</u>
Support services					
Salaries of supervisors of instruction	32,327	12,258	44,585	44,585	-
Salaries of secretarial/clerical asst.	-	-	-	-	-
Employee benefits	32,563	6,145	38,708	22,423	-
Purchased professional educational services	18,568	(11,765)	6,803	10,830	(4,027)
Travel	-	-	-	-	-
Rent	-	-	-	-	-
Other purchase services	5,000	3,934	8,934	3,191	5,743
Supplies and materials	3,252	1,722	4,974	4,774	200
Miscellaneous	400	20	420	419	1
Total support services	<u>92,110</u>	<u>12,314</u>	<u>104,424</u>	<u>86,222</u>	<u>1,917</u>
Capital Outlay:					
Facilities acquisition and construction services	-	-	-	-	-
Instructional equipment	-	-	-	-	-
Noninstructional equipment	-	-	-	-	-
Total facilities acquisition and construction services	-	-	-	-	-
Total expenditures	<u>\$ 275,905</u>	<u>\$ -</u>	<u>\$ 275,905</u>	<u>\$ 248,138</u>	<u>\$ 11,482</u>

**NOTES TO THE REQUIRED  
SUPPLEMENTARY INFORMATION**

**PART II**

THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY GAAP RECONCILIATION  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2016

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>
<b>Sources/inflows of resources</b>		
Actual amounts (budgetary basis) "revenue" from the budgetary comparison schedule:	[C-1] \$ 4,731,213	[C-2] \$ 248,138
Difference - budget to GAAP:		
Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized.	-	-
Last State aid payment recognized for budgetary purposes only.	-	-
General Fund contribution to Early Childhood Program Aid.	<u>-</u>	<u>-</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	[B-2] <u>4,731,213</u>	[B-2] <u>248,138</u>
<b>Uses/outflows of resources</b>		
Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	[C-1] 4,327,377	[C-2] 248,138
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 reporting purposes.	-	-
Transfers to and from other funds are presented as outflows of budgetary resources but are not expenditures for financial reporting purposes. Net transfer (outflows) to general fund	<u>-</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	[B-2] <u>\$ 4,327,377</u>	[B-2] <u>\$ 248,138</u>

Note A -The general fund budget basis of the use/outflow of resources is GAAP, therefore no reconciliation is required.



**REQUIRED SUPPLEMENTARY INFORMATION**

**PART III**

**SCHEDULES RELATED TO ACCOUNTING  
AND REPORTING FOR PENSIONS (GASB 68)**

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**EXHIBIT L-1**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHARTER SCHOOL'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY - PERS  
Last Ten Fiscal Years (1)**

	<u>2016</u>		<u>2015</u>
Charter School's proportion of the net pension liability (asset)	0.00%		0.00%
Charter School's proportionate share of the net pension liability (asset)	\$ -	\$	-
Charter School's covered-employee payroll	\$ -	\$	-
Charter School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.00%		0.00%
Plan fiduciary net position as a percentage of the total pension liability	0.00%		0.00%

As of June 30, 2016, the Charter School has no proportionate share in the net pension liability (asset).

(1) The Charter School implemented GASB 68, Accounting and Financial Reporting for Pension in fiscal year 2014. No data is available prior to fiscal year 2015.

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**EXHIBIT L-2**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHARTER SCHOOL'S CONTRIBUTIONS  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)  
Last Ten Fiscal Year (1)**

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Charter School's covered-employee payroll	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	0.00%	0.00%

As of June 30, 2016, the Charter School has no proportionate share in the net pension liability (asset).

(1) The Charter School implemented GASB 68, Accounting and Financial Reporting for Pension in fiscal year 2014. No data is available prior to fiscal year 2015.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHARTER SCHOOL'S PROPORTIONATE**  
**SHARE OF THE NET PENSION LIABILITY - TPAF**  
**Last Ten Fiscal Years (1)**

	<u>2016</u>	<u>2015</u>
Charter School's proportion of the net pension liability (asset)	0.00%	0.00%
Charter School's proportionate share of the net pension liability (asset)	\$ -	\$ -
Charter School's covered-employee payroll	\$ -	\$ -
Charter School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	0.00%	0.00%

As of June 30, 2016, the State has no proportionate share in the net pension liability (asset) attributable to the Charter School.

(1) The Charter School implemented GASB 68, Accounting and Financial Reporting for Pension in fiscal year 2014. No data is available prior to fiscal year 2015.

**NOTES TO THE REQUIRED  
SUPPLEMENTARY INFORMATION**

**PART III**

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PART III  
YEAR ENDED JUNE 30, 2016**

**Public Employees Retirement System (PERS)**

*Change in benefit terms.* There is no change in the benefit terms.

*Change in assumptions.* The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date (4.63%) to the current measurement date (4.29%), resulting in a change in the discount rate from 5.55% to 5.39%. This change in the discount rate is considered to be a change in actuarial assumptions under GASBS No. 68.

At June 30, 2016, the Charter School's proportionate share in the net pension liability is zero.

**Teachers Pension and Annuity Fund (TPAF)**

*Change in benefit terms.* There is no change in the benefit terms.

*Change in assumptions.* The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date (4.63%) to the current measurement date (4.29%), resulting in a change in the discount rate from 4.95% to 4.68%. This change in the discount rate is considered to be a change in actuarial assumptions under GASBS No. 68.

At June 30, 2016, the Charter School's proportionate share in the net pension liability is zero.

## **OTHER SUPPLEMENTARY INFORMATION**

**SPECIAL REVENUE FUND**



THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)

SPECIAL REVENUE FUND  
COMBINING SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGETARY BASIS

YEAR ENDED JUNE 30, 2016

	Title I	IDEA	Local Grants	Total
<b>Revenues</b>				
Local	\$ -	\$ -	\$ 8,000	\$ 8,000
Federal	181,098	59,040	-	240,138
Total revenues -all sources	<u>181,098</u>	<u>59,040</u>	<u>8,000</u>	<u>248,138</u>
<b>Expenditures</b>				
Current Expenditures:				
Instruction:				
Salaries of teachers	70,299	41,169	-	111,468
Other salaries for instruction	38,023	-	-	38,023
Purchased professional and technical services	-	-	-	-
Other purchased services	-	-	8,000	8,000
Supplies and materials	2,500	1,925	-	4,425
Miscellaneous	-	-	-	-
Total instruction	<u>110,822</u>	<u>43,094</u>	<u>8,000</u>	<u>161,916</u>
Support services				
Salaries of supervisors of instruction	44,585	-	-	44,585
Salaries of secretarial/clerical asst.	-	-	-	-
Employee benefits	16,248	6,175	-	22,423
Purchased professional educational services	5,100	5,730	-	10,830
Travel	-	-	-	-
Rent	-	-	-	-
Other purchase services	3,191	-	-	3,191
Supplies and materials	1,152	3,622	-	4,774
Miscellaneous	-	419	-	419
Total support services	<u>70,276</u>	<u>15,946</u>	<u>-</u>	<u>86,222</u>
Capital Outlay:				
Facilities acquisition and construction services:				
Instructional equipment	-	-	-	-
Noninstructional	-	-	-	-
Total facilities acquisition and construction services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 181,098</u>	<u>\$ 59,040</u>	<u>\$ 8,000</u>	<u>\$ 248,138</u>

## **CAPITAL PROJECTS FUND**

The capital projects fund is used to account for the acquisition and construction of major capital facilities and equipment purchases other than those financed by propriety funds.

At June 30, 2016, there was no capital project fund.

## **ENTERPRISE FUNDS**

Enterprise 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 Charter School is that the costs of providing goods and services be financed through user charges. The Charter School has the Food Service and After Care in its Enterprise Fund to account for the operation of food services and after care.

THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)

ENTERPRISE FUND

COMBINING STATEMENT OF NET POSITION

JUNE 30, 2016

	<u>FOOD SERVICE</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 31,019
Accounts receivable:	
Federal	16,531
State	264
Interfund receivable - Food service	<u>19,843</u>
	<u>36,638</u>
Total Assets	<u>\$ 67,657</u>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	\$ -
Accounts payable - State	254
Interfund payable - General fund	<u>256,836</u>
Total current liabilities	257,090
<b>Net assets</b>	
Unrestricted deficit	<u>(189,433)</u>
Total Liabilities and Net Position	<u>\$ 67,657</u>

**EXHIBIT G-2**

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**ENTERPRISE FUND**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION**

**YEAR ENDED JUNE 30, 2016**

	<b>FOOD SERVICE</b>
Operating revenues:	
Charges for services:	
Daily sales - nonreimbursable programs	\$ 1,806
Operating expenses:	
Cost of sales	81,441
Salaries	39,901
Employee benefits	-
Professional /Technical services	2,340
Other purchased services	2,424
Supplies and materials	908
Miscellaneous	15,000
Total operating expenses	<u>142,014</u>
Operating loss	<u>(140,208)</u>
Nonoperating revenues:	
State sources:	
State School Lunch	881
Federal sources:	
National School Lunch	46,453
National School Breakfast	6,130
Healthy Hunger-Free Kids Act Program	985
Total nonoperating revenues	<u>54,449</u>
Changes in net position	(85,759)
Total net position at beginning of year	<u>(103,674)</u>
Total net position at end of year	<u>\$ (189,433)</u>

THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)

ENTERPRISE FUND

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

	<u>FOOD SERVICE</u>
<b>Cash flows from operating activities</b>	
Operating income	\$ (140,208)
Adjustment to reconcile operating loss to net cash from operating activities	
Changes in assets and liabilities:	
Accounts receivable	(8,636)
Interfund receivable	-
Accounts payable	(2,245)
Interfund payable	<u>122,570</u>
Net cash from operating activities	<u>(28,519)</u>
<b>Cash flows from noncapital financing activities</b>	
Cash received from state and federal reimbursements	<u>54,449</u>
Net decrease in cash and cash equivalents	25,930
Cash and cash equivalents at beginning of the year	<u>5,089</u>
Cash and cash equivalents at end of year	<u>\$ 31,019</u>

## **FIDUCIARY FUNDS**

Trust funds are used to account for gifts and bequests to the Charter School for specific purposes.

Unemployment Compensation Insurance Trust Fund is an expendable trust fund used to account for unemployment transactions of the Charter School.

At June 30, 2016, there was no non-expandable trust fund utilized by the Charter School.

Agency funds are used to account for assets held by the Charter School as an agent for individuals, private organizations, governmental and/or other funds.

Payroll Fund - This agency fund is used to account for the payroll transactions of the Charter School.

THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)

## FIDUCIARY FUNDS

## COMBINING STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	New Jersey Unemployment Benefits	Student Activities	Agency		Total
			Net Payroll	Payroll Agency	
<b>Assets</b>					
Cash and cash equivalents	\$ -	\$ 8,165	\$ 12,063	\$ 126,288	\$ 146,516
Interfund receivable	-	-	37,626	-	37,626
Total assets	<u>\$ -</u>	<u>\$ 8,165</u>	<u>\$ 49,689</u>	<u>\$ 126,288</u>	<u>\$ 184,142</u>
<b>Liabilities and fund balances</b>					
Liabilities:					
Payroll and withholdings payable	\$ -	\$ -	49,689	\$ 51,141	\$ 100,830
Accounts payable	-	8,165	-	-	8,165
Interfund payable	-	-	-	75,147	75,147
Total liabilities	<u>-</u>	<u>8,165</u>	<u>49,689</u>	<u>126,288</u>	<u>184,142</u>
<b>Net Position</b>					
Restricted					
Unemployment compensation	-	-	-	-	-
Total liabilities and net position	<u>\$ -</u>	<u>\$ 8,165</u>	<u>\$ 49,689</u>	<u>\$ 126,288</u>	<u>\$ 184,142</u>



THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)

FIDUCIARY FUNDS

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
(TRUST FUND)

YEAR ENDED JUNE 30, 2016

	New Jersey Unemployment Benefits
Revenues:	
General fund appropriation	\$63,552
Employees' contributions	12,602
Total revenues	<u>76,154</u>
Expenditures:	
Payments to NJ Unemployment Compensation Fund	<u>76,154</u>
Total expenditures	<u>76,154</u>
Excess (deficiency) of revenue over expenditures	-
Net position at beginning of the year	<u>-</u>
Net position at end of year	<u>\$ -</u>

THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)

STUDENT ACTIVITY AGENCY FUND

SCHEDULE OF RECEIPTS AND DISBURSEMENTS

YEAR ENDED JUNE 30, 2016

	<u>Balance June 30, 2015</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Balance June 30, 2016</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 6,480	\$ 23,400	\$ 21,715	\$ 8,165
<b>Liabilities</b>				
Accounts Payable	\$ 6,480	\$ 23,400	\$ 21,715	\$ 8,165

THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)

PAYROLL AGENCY FUND

SCHEDULE OF RECEIPTS AND DISBURSEMENTS

YEAR ENDED JUNE 30, 2016

	<u>Balance June 30, 2015</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Balance June 30, 2016</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 102,725	\$ 1,127,995	\$ 1,104,432	\$ 126,288
<b>Liabilities</b>				
Payroll deductions and withholdings	\$ 27,538	\$ 1,107,966	\$ 1,084,363	51,141
Due to Other Funds	<u>75,187</u>	<u>20,029</u>	<u>20,069</u>	<u>75,147</u>
Total Liabilities	<u>\$ 102,725</u>	<u>\$ 1,127,995</u>	<u>\$ 1,104,432</u>	<u>\$ 126,288</u>

## **LONG-TERM DEBT**

The long-term debt is used to record the outstanding principal balances of the long-term liabilities of the charter school. This includes the outstanding principal balance on capital lease, the accrued liability for insurance claims and the liability for compensated absences and the outstanding principal balance on certificates of participation outstanding or mortgage note payable. The Charter School has no long-term debts.

# **STATISTICAL SECTION**

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**INTRODUCTION TO THE STATISTICAL SECTION**

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b>  These schedules contain trend information to help the reader understand how the district's financial performance and well being have changed over time.	<b>69</b>
<b>Revenue Capacity</b>  These schedules contain information to help the reader assess the district's most significant local revenue source, the property tax.	<b>N/A</b>
<b>Debt Capacity</b>  These schedules present information to help the reader assess the affordability of the district' s current levels of outstanding debt and the district's ability to issue additional debt in the future.	<b>N/A</b>
<b>Demographic and Economic Information</b>  These schedules offer demographic and economic indicators to help the reader understand the environment within which the district's financial activities take place.	<b>74</b>
<b>Operating Information</b>  These schedules contain service and infrastructure data to help the reader understand how the information in the district's financial report relates to the services the district provides and the activities it performs.	<b>76</b>

**Sources:** *Unless otherwise noted, the information in these schedules are derived from the comprehensive annual financial reports (CAFR) for the relevant year. Fiscal year ended June 30, 2013 is the first operating year of the Charter School; schedules presenting charter-wide information include information beginning in that year.*

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**NET POSITION BY COMPONENT  
Last Four Fiscal Years**

*(Accrual basis of accounting)*

	<b>Fiscal Year Ending June 30,</b>			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Governmental activities				
Invested in capital assets, net of related debt	\$ 27,827	\$ 21,237	\$ -	\$ -
Restricted	-	-	-	19,412
Unrestricted	<u>667,025</u>	<u>391,315</u>	<u>255,393</u>	<u>127,625</u>
Total governmental activities net position	<u>\$ 694,852</u>	<u>\$ 412,552</u>	<u>\$ 255,393</u>	<u>\$ 147,037</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-
Unrestricted	<u>(189,433)</u>	<u>(103,674)</u>	<u>(66,013)</u>	<u>4,240</u>
Total business-type activities net position	<u>\$ (189,433)</u>	<u>\$ (103,674)</u>	<u>\$ (66,013)</u>	<u>\$ 4,240</u>
School-wide				
Invested in capital assets, net of related debt	\$ 27,827	\$ 21,237	\$ -	\$ -
Restricted	-	-	-	19,412
Unrestricted	<u>477,592</u>	<u>287,641</u>	<u>189,380</u>	<u>131,865</u>
Total charter school net position	<u>\$ 505,419</u>	<u>\$ 308,878</u>	<u>\$ 189,380</u>	<u>\$ 151,277</u>

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**CHANGES IN NET POSITION**

**Last Four Fiscal Years**

*(Accrual basis of accounting)*

	<b>Fiscal Year Ending June 30,</b>			
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Expenses</b>				
Governmental activities				
Instruction				
Regular	\$ 2,091,489	\$ 1,674,263	\$ 1,398,409	\$ 444,320
Support Services:				
Student and instruction related services	1,260,382	1,063,295	371,681	193,648
General and business administrative	1,234,823	937,756	465,909	338,603
Unallocated depreciation	22,099	3,267	-	-
Total governmental activities expenses	<u>4,608,793</u>	<u>3,678,581</u>	<u>2,235,999</u>	<u>976,571</u>
Business-type activities:				
Food service	142,014	75,822	99,945	30,169
Total business-type activities expense	<u>142,014</u>	<u>75,822</u>	<u>99,945</u>	<u>30,169</u>
Total district expenses	<u>4,750,807</u>	<u>3,754,403</u>	<u>2,335,944</u>	<u>1,006,740</u>
<b>Program Revenues</b>				
Governmental activities:				
Operating grants and contributions	494,023	346,398	303,030	55,424
Capital grants and contributions	-	-	-	-
Total governmental activities program revenues	<u>494,023</u>	<u>346,398</u>	<u>303,030</u>	<u>55,424</u>
Business-type activities:				
Charges for services				
Food service	1,806	1,710	1,181	219
Child care	-	-	-	-
Operating grants and contributions	54,449	36,451	28,511	4,021
Capital grants and contributions	-	-	-	-
Total business-type activities program revenues	<u>56,255</u>	<u>38,161</u>	<u>29,692</u>	<u>4,240</u>
Total district program revenues	<u>550,278</u>	<u>384,559</u>	<u>332,722</u>	<u>59,664</u>
<b>Net (Expense)/Revenue</b>				
Governmental activities	(4,114,770)	(3,332,183)	(1,932,969)	(921,147)
Business-type activities	(85,759)	(37,661)	(70,253)	(25,929)
Total district-wide net expense	<u>(4,200,529)</u>	<u>(3,369,844)</u>	<u>(2,003,222)</u>	<u>(947,076)</u>
<b>General Revenues and Other Changes in Net Assets</b>				
Governmental activities:				
Property taxes levied for general purposes, net	4,481,421	3,434,108	2,100,758	160,691
Grants and contributions	-	-	-	937,533
Miscellaneous income	3,907	92,895	6,580	129
Transfers	-	-	-	(30,169)
Total governmental activities	<u>4,485,328</u>	<u>3,527,003</u>	<u>2,107,338</u>	<u>1,068,184</u>



**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**CHANGES IN NET POSITION**

**Last Four Fiscal Years**

*(Accrual basis of accounting)*

	<b>Fiscal Year Ending June 30,</b>			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Business-type activities:				
Investment earnings	-	-	-	-
Transfers	-	-	-	30,169
Total business-type activities	-	-	-	30,169
Total district-wide	<u>4,485,328</u>	<u>3,527,003</u>	<u>2,107,338</u>	<u>1,098,353</u>
<b>Changes in Net Position</b>				
Governmental activities	370,558	194,820	174,369	147,037
Business-type activities	(85,759)	(37,661)	(70,253)	4,240
Total district	<u>\$ 284,799</u>	<u>\$ 157,159</u>	<u>\$ 104,116</u>	<u>\$ 151,277</u>

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**FUND BALANCES - GOVERNMENTAL FUNDS**

**Last Four Fiscal Years**

*(Modified accrual basis of accounting)*

	<b>Fiscal Year Ending June 30,</b>			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
General Fund				
Assigned	\$ 174,688	\$ 8,964	\$ 39,232	\$ 19,412
Unassigned	735,727	497,616	282,174	127,625
Total general fund	<u>910,415</u>	<u>506,580</u>	<u>321,406</u>	<u>147,037</u>
All Other Governmental Funds				
Assigned	-	-	-	-
Unassigned, reported in:				
Special revenue fund	-	-	-	-
Capital projects fund	-	-	-	-
Debt service fund	-	-	-	-
Permanent fund	-	-	-	-
Total all other governmental funds	<u>\$ 910,415</u>	<u>\$ 506,580</u>	<u>\$ 321,406</u>	<u>\$ 147,037</u>

THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)

CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
Last Four Fiscal Years  
(Unaudited)

Function	2016	2015	2014	2013
<b>Revenues</b>				
Local Sources:				
Local tax levy	\$ 585,489	\$ 439,154	\$ 283,302	\$ 160,691
Miscellaneous	11,907	109,211	41,147	37,898
State sources	3,982,352	3,086,343	1,889,964	937,533
Federal sources	<u>240,138</u>	<u>231,569</u>	<u>195,955</u>	<u>17,655</u>
Total Revenues	<u>4,819,886</u>	<u>3,866,277</u>	<u>2,410,368</u>	<u>1,153,777</u>
<b>Current Expense</b>				
Instruction	1,704,192	1,481,187	1,275,665	444,320
Administrative cost	1,550,838	1,090,095	530,809	338,603
Support services	1,063,211	1,001,052	357,017	193,648
Capital outlay	11,389	17,380	-	-
TPAF - FICA Reimbursement	86,420	91,389	72,508	-
TPAF - On-behalf payments	<u>159,465</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>4,575,515</u>	<u>3,681,103</u>	<u>2,235,999</u>	<u>976,571</u>
Excess (Deficiency) of Revenues Over Expenditures	244,371	185,174	174,369	177,206
Other financing sources(uses):				
Operating transfers in/(out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,169)</u>
Total other financing sources/(uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,169)</u>
Net change in fund balances	<u>\$ 244,371</u>	<u>\$ 185,174</u>	<u>\$ 174,369</u>	<u>\$ 147,037</u>
Debt service as a percentage of noncapital expenditures	0.00%	0.00%	0.00%	0.00%

Source: Charter school's records.

Note: Noncapital expenditures are total expenditures less capital outlay.

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**DEMOGRAPHIC AND ECONOMIC STATISTICS  
Last Four Fiscal Years**

<u>Year</u>	<u>Population <sup>a</sup></u>	<u>Personal Income <sup>b</sup></u>	<u>Per Capita Personal Income <sup>c</sup></u>	<u>Unemployment Rate <sup>d</sup></u>
2016	281,944	**	**	8.80%
2015	281,944	**	**	8.80%
2014	280,579	16,363,086,701	58,319	10.20%
2013	279,468	15,260,629,608	\$ 54,606	7.90%
2012	278,289	15,116,101,902	54,318	8.80%

\*\* Data not available

**Source:**

<sup>a</sup> Population information provided by the NJ Dept of Labor and Workforce Development

<sup>b</sup> Personal income has been estimated based upon the municipal population and per capita personal income presented

<sup>c</sup> Per capita personal income by municipality estimated based upon the 2000 Census published by the US Bureau of Economic Analysis.

<sup>d</sup> Unemployment data provided by the NJ Dept of Labor and Workforce Development

**THE PAULO FREIRE CHARTER SCHOOL**  
(COUNTY OF ESSEX, NEW JERSEY)

**PRINCIPAL EMPLOYERS**  
**Current Year and Three Years Ago**

Employer	2016		2013	
	Employees	Percentage of Total Municipal Employment	Employees	Percentage of Total Municipal Employment
St. Barnabas Health Care System	23,000	**	-	
Verizon	17,100	**	18,000	**
Prudential Ins. Co. of America	16,850	**	8,119	**
Rutgers University - Newark Campus	15,500	**	-	
Continental Airlines	11,000	**	14,000	**
Newark Board of Education	7,050	**	-	
Automatic Data Processing	5,649	**	4,666	**
New Jersey Transit	4,000	**	-	
City of Newark	4,000	**	-	
Essex County	3,500	**	-	
PSE&G	-		10,300	**
JP Morgan Chase	-		5,300	**
Horizon Blue Cross/Blue Shield	-		4,808	**
Roche	-		3,715	**
KPMG	-		2,265	**
Ricoh American Corp	-		1,400	**
	<u>107,649</u>		<u>72,573</u>	

Note - Principal employers are that of Essex County

\*\* - Information not available

Source: Essex County Economic Development Corporation

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**FULL-TIME EQUIVALENT CHARTER SCHOOL EMPLOYEES BY FUNCTION/PROGRAM**

**Last Four Fiscal Years**

(Unaudited)

<u>Function/Program</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Instruction				
Regular	12	12	12	7
Special education	1	1	1	1
Other instruction	1	1	1	1
Support Services:				
Student & instruction related services	1	1	1	1
General administration	6	6	6	3
School administrative services	2	2	2	2
Administrative Information Technology	1	1	1	1
Other support services	2	2	2	2
Food Service	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total	<u>27</u>	<u>27</u>	<u>27</u>	<u>19</u>

**Source:** Charter School's personnel records

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**OPERATING STATISTICS**

**Last Four Fiscal Years  
(Unaudited)**

Fiscal Year	Enrollment	Operating Expenditures <sup>a</sup>	Cost Per Pupil	Percentage Change	Teaching Staff <sup>b</sup>	Pupil/Teacher Ratio		Average Daily Enrollment (ADE) <sup>c</sup>	Average Daily Attendance (ADA) <sup>c</sup>	% Change in Average Daily Enrollment	Student Attendance Percentage
							High School				
2013	68	921,147	13,546	N/A	4		1:7	63.0	64.0	N/A	92%
2014	127	2,235,999	17,606	30.0%	13		1:11	119.0	116.62	88.89%	98%
2015	189	3,681,103	19,477	10.6%	13		1:11	181.0	177.38	52.10%	98%
2016	273	4,575,515	16,760	-13.9%	13		1:11	265.0	259.70	46.41%	98%

**Source:** Charter School's 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 certificated staff.
- c Average daily enrollment and average daily attendance are obtained from the School Register Summary (SRS).

**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**SCHOOL BUILDING INFORMATION  
Last Four Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>High School</u>				
Square Feet	84,999	84,999	10,582	10,582
Capacity (students)	320	320	320	320
Enrollment	273	189	119	68

**Source:** Charter School's Records



**THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**INSURANCE SCHEDULE**

**June 30, 2016  
(Unaudited)**

	<u>Coverage</u>	<u>Deductible</u>
<b>Commercial Property Coverage</b>		
Contents All Inclusive	705,862	1,000
Legal Liability Personal Property	100,000	1,000
<b>Commercial General Liability</b>		
General Aggregate	3,000,000	
Each Occurrence	1,000,000	
Personal and Advertising Injury	1,000,000	
Damage to Premises Rented to You Limit	10,000	
Medical Expenses, Any One Person	15,000	
Sexual Molestation Aggregate	3,000,000	
Sexual Molestation Each Incident	1,000,000	
<b>School &amp; Educators Legal Liability Aggregate Limit</b>		
Each "Claim" Limit	1,000,000	5,000
Aggregate	3,000,000	5,000
<b>Business Auto Coverage</b>		
Business Auto Coverage	1,000,000	
<b>Workers Compensation</b>		
Bodily Injury By Accident	1,000,000	
Bodily Injury By Disease	1,000,000	
Bodily Injury By Disease (limit)	1,000,000	
<b>Errors &amp; Omissions</b>	1,000,000	
<b>Student Accident Insurance</b>		
Medical Excess Benefit	1,000,000	
Volunteers Accident Medical Benefit	25,000	
<b>Bonds</b>		
Treasurer Bond	155,000	
Business Administrator Bond	50,000	

**Source:** Charter School's Records

THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF MIDDLESEX, NEW JERSEY)

CHARTER SCHOOL PERFORMANCE FRAMEWORK  
FINANCIAL PERFORMANCE  
FISCAL RATIOS

Multi-Year Information  
(Unaudited)

	2014 Audit	2015 Audit	2016 Audit	Source
Cash	\$ 182,216	\$ 251,748	\$ 437,856	Audit: Exhibit A-1
Current Assets	407,047	718,503	828,672	Audit: Exhibit A-1
Total Assets	407,047	739,740	856,499	Audit: Exhibit A-1
Current Liabilities	151,654	315,597	107,690	Audit: Exhibit A-1
Total Liabilities	151,654	315,597	107,690	Audit: Exhibit A-1
Net Assets	255,393	412,552	694,852	Audit: Exhibit A-1
Total Revenue	2,440,060	3,911,562	5,035,606	Audit: Exhibit A-2
Total Expenses	2,335,944	3,754,403	4,753,306	Audit: Exhibit A-2
Change in Net Assets	104,116	157,159	282,300	Audit: Exhibit A-2
Depreciation Expense	-	3,267	22,099	Financial Statements/Audit Workpapers
Interest Expense	-	-	-	Financial Statements/Audit Workpapers
Principal Payments	-	-	-	Financial Statements/Audit Workpapers
Interest Payments	-	-	-	Financial Statements/Audit Workpapers
Final Average Daily Enrollment	119	189	273	DOE Enrollment Reports
March 30th Budgeted Enrollment	205	205	284	Charter School Budget

RATIOS ANALYSIS						
Near Term Indicators	2014	2015	2016	3 YR CUM	Source:	Target
1a. Current Ratio	2.68	2.34	7.95	3.40	Current Assets/Current Liabilities	> 1.1
1b. Unrestricted Days Cash	28.47	24.47	33.62	29.35	Cash/(Total Expenses/365)	30-60
1c. Enrollment Variance	58%	92%	96%	94%	Average Daily Enrollment/Budgeted Enrollment	>95%
1d. Default	No	No	No	No	Audit	not in default
<b>Sustainability Indicators</b>						
2a. Total Margin	4%	4%	6%	5%	Change in Net Assets/Total Revenue	positive
2b. Debt to Asset	0.37	0.43	0.13	0.29	Total Liabilities/Total Assets	<.9
2c. Cash Flow	11,369	69,532	186,108	255,640	Net change in cash flow from prior years	3 yr cum positive
2d. Debt Service Coverage Ratio	-	-	-	-	(Change in Net Assets+Depreciation+Interest Expense)/(Principal & Interest Payments)	>1.10

# **SINGLE AUDIT SECTION**

**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**

The Honorable President and  
Members of the Board of Trustees  
Paulo Freire Charter School  
Essex County, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Paulo Freire Charter School (the Charter School), in the County of Essex, State of New Jersey, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements, and have issued our report thereon dated November 17, 2016.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described Finding 2016-001 in the accompanying schedule of findings and questioned costs to be material weakness

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**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 - CONTINUED**

**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 Office of School Finance, Department of Education, State of New Jersey.

However, we noted certain matters that we have reported to the Board of Trustees of the Paulo Freire Charter School in the County of Essex, New Jersey in a separate *Auditor's Management Report on Administrative Findings - Financial, Compliance and Performance*, dated November 17, 2016.

**Paulo Freire Charter School's Response to Finding**

The Charter School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it

**Purpose of this Report**

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



Leonora Galleros, CPA  
Licensed Public School Accountant  
No. 20CS002239400



November 17, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH STATE PROGRAMS  
AND ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY  
NEW JERSEY OMB LETTER CIRCULAR 15-08**

The Honorable President and  
Members of the Board of Trustees  
Paulo Freire Charter School  
Essex County, New Jersey

**Report on Compliance for Each Major State Programs**

We have audited the Paulo Freire Charter School's (the Charter School) in the County of Essex, State of New Jersey compliance 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, 2016. The Charter School's major state program are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Charter School's major state programs based on our audit of the types of compliance requirements referred to above. 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 Office of School Finance, Department of Education, State of New Jersey; and New Jersey OMB Letter Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards, and New Jersey OMB Letter Circular 15-08, require 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 major federal or 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.

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH STATE PROGRAMS AND ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY NEW JERSEY OMB LETTER CIRCULAR 15-08 - CONTINUED**

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state programs. However, our audit does not provide a legal determination of the Charter School's compliance.

### **Opinions on Each Major State Programs**

In our opinion, the Paulo Freire Charter School Board of Trustees, in the County of Essex, State of New Jersey, complied, in all material respects, with the 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, 2016.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with New Jersey OMB Letter Circular 15-08, and which is described in the accompanying schedule of findings and questioned costs as item 2016-002. Our opinion on each major state financial assistance is not modified with respect to this matter.

### **Report on Internal Control Over Compliance**

Management of the Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major state programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance for each major state programs and to test and report on internal control over compliance in accordance with New Jersey OMB Letter Circular 15-08, 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 Charter School's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance 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 federal or 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 federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH STATE PROGRAMS  
AND ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY NEW JERSEY  
OMB LETTER CIRCULAR 15-08 - CONTINUED**

Our consideration of 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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Charter School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of New Jersey OMB Letter Circular 15-08. Accordingly, this report is not suitable for any other purpose.



Leonora Galleros, CPA  
Licensed Public School Accountant  
No. 20CS002239400



November 17, 2016



THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)

EXHIBIT K-3  
SCHEDULE A

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

Federal Grant/ Pass-Through Grantor/ Program Title	Federal CFDA No.	Grant Period	Award Amount	Balance at June 30, 2015	Carryover Walkover Amount	Cash Received	Budgetary Expenditures	Repayment of Prior Years' Balances	(Accounts Receivable) at June 30, 2016	Deferred Revenue at June 30, 2016	Due to Grantor at June 30, 2015
<b>U.S. Department of Education:</b>											
<b>Passed-through New Jersey State Department Education</b>											
<b>No Child Left Behind:</b>											
Title I, Part A - Grants to Local Educational Agencies	84.010	7/1/15-6/30/16	\$ 181,098	\$ -	\$ -	\$ 112,693	\$ (181,098)	\$ -	(68,405)	\$ -	\$ -
Title I, Part A - Grants to Local Educational Agencies	84.010	7/1/14-6/30/15	107,487	(58,491)	-	58,491	-	-	-	-	-
IDEA - Basic	84.027	7/1/15-6/30/16	59,040			6,133	(59,040)	-	(52,907)	-	-
IDEA - Basic	84.027	7/1/14-6/30/15	28,312	(18,028)	-	18,028	-	-	-	-	-
Title II, Part A - Improving Teacher Quality	84.367	7/1/14-6/30/15	1,560	(1,560)	-	-	-	-	(1,560)	-	-
Title V Part B, Charter Implementation Competitive	84.282	11/1/2013-10/31/2014	175,000	(14,401)	-	14,401	-	-	-	-	-
Total U.S. Department of Education				(92,480)	-	209,746	(240,138)	-	(122,872)	-	-
<b>U.S. Department of Agriculture</b>											
<b>Passed-through New Jersey State Department of Agriculture</b>											
National School Lunch Program	10.555	7/1/15-6/30/16	47,438	-	-	32,631	(47,438)	-	(14,807)	-	-
National School Lunch Program	10.555	7/1/14-6/30/15	31,947	(7,310)	-	7,310	-	-	-	-	-
National School Breakfast Program	10.553	7/1/15-6/30/16	6,130	-	-	4,406	(6,130)	-	(1,724)	-	-
National School Breakfast Program	10.553	7/1/14-6/30/15	4,196	(849)	-	849	-	-	-	-	-
Total U.S. Department of Agriculture				(8,159)	-	45,196	(53,568)	-	(16,531)	-	-
<b>Total Expenditures of Federal Awards</b>				\$ (100,639)	\$ -	\$ 254,942	\$ (293,706)	\$ -	\$ (139,403)	\$ -	\$ -

THE PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)

EXHIBIT K-4  
SCHEDULE B

SCHEDULE OF STATE FINANCIAL ASSISTANCE

YEAR ENDED JUNE 30, 2016

State Grantor/Program Title	Grant or State Project Number	Grant Period	Award Amount	Balance at June 30, 2015	Adjustments	Carryover Walkover Amount	Cash Received	Budgetary Expenditures	Repayment of Prior Years' Balances	(Accounts Receivable) at June 30, 2016	Deferred Revenue at June 30, 2016	Due to Grantor at June 30, 2016
<b>New Jersey State Department of Education</b>												
<b>General Fund:</b>												
Equalization Aid	16-495-034-5120-078	7/1/15-6/30/16	\$ 3,632,281	\$ -	\$ -	\$ -	\$ 3,588,407	\$ (3,632,281)	\$ -	\$ (71,160)	\$ -	\$ 27,286
Equalization Aid	15-495-034-5120-078	7/1/14-6/30/15	2,804,631	128,824	-	-	59,295	-	(178,880)	-	-	9,239
Equalization Aid	14-495-034-5120-078	7/1/13-6/30/14	1,718,404	14,799	-	-	-	-	(14,799)	-	-	-
Equalization Aid	13-495-034-5120-078	7/1/12-6/30/13	858,747	(32,059)	-	-	32,059	-	-	-	-	-
Special Education Categorical Aid	16-495-034-5120-089	7/1/15-6/30/16	145,947	-	-	-	151,301	(145,947)	-	-	-	5,354
Special Education Categorical Aid	15-495-034-5120-089	7/1/14-6/30/15	96,617	6,937	-	-	-	-	(6,937)	-	-	-
TPAF-Social Security	16-495-034-5095-006	7/1/15-6/30/16	86,420	-	-	-	33,197	(86,420)	-	(53,223)	-	-
TPAF-Social Security	15-495-034-5095-006	7/1/14-6/30/15	91,389	(52,527)	-	-	52,527	-	-	-	-	-
Security Aid	16-495-034-5120-084	7/1/15-6/30/16	117,704	-	-	-	118,550	(117,704)	-	(908)	-	1,754
Security Aid	15-495-034-5120-084	7/1/14-6/30/15	93,706	4,133	-	-	2,121	-	(5,896)	-	-	358
Security Aid	14-495-034-5120-084	7/1/13-6/30/14	64,651	310	-	-	-	-	(310)	-	-	-
Total General Fund				<u>70,417</u>	<u>-</u>	<u>-</u>	<u>4,037,457</u>	<u>(3,982,352)</u>	<u>(206,822)</u>	<u>(125,291)</u>	<u>-</u>	<u>43,991</u>
<b>Enterprise Fund:</b>												
State School Lunch Program	16-100-010-3350-023	7/1/15-6/30/16	881	-	-	-	616	(880)	-	(264)	-	-
State School Lunch Program	15-100-010-3350-023	7/1/14-6/30/15	308	159	-	-	95	-	-	-	-	254
Total Enterprise Fund				<u>159</u>	<u>-</u>	<u>-</u>	<u>711</u>	<u>(880)</u>	<u>-</u>	<u>(264)</u>	<u>-</u>	<u>254</u>
<b>Total State Financial Assistance</b>				<u>\$ 70,576</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,038,168</u>	<u>\$ (3,983,232)</u>	<u>\$ (206,822)</u>	<u>\$ (125,555)</u>	<u>\$ -</u>	<u>\$ 44,245</u>

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS AND STATE  
FINANCIAL ASSISTANCE**

**FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 1 GENERAL**

The accompanying schedules of expenditures of federal awards and state financial assistance include federal and state activity of the Board of Trustees of the 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 federal awards and state financial assistance.

**NOTE 2 BASIS OF ACCOUNTING**

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance are presented using the budgetary basis of accounting with the exception of those 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 Board's basic financial statements. The information in these schedules is presented in accordance with the requirements Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, *Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and New Jersey OMB's Letter Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. 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**

Amounts reported in the accompanying schedules agree with the amounts reported in the Board's basic financial statements. The basic financial statements present the special revenue fund on both GAAP and budgetary 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. See Exhibit C-3 for a reconciliation of the budgetary basis to the GAAP basis of accounting for the special revenue fund. Awards and financial assistance revenues are reported in the Board's basic financial statements on a GAAP basis as follows:

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS AND STATE  
FINANCIAL ASSISTANCE - CONTINUED**

**NOTE 3 RELATIONSHIP TO BASIC FINANCIAL STATEMENTS - CONTINUED**

	<u>Federal</u>	<u>State</u>	<u>Total</u>
General Fund	\$ -	\$ 3,982,352	\$ 3,982,352
Special Revenue Fund	240,138		240,138
Enterprise Fund	53,568	880	54,448
Total	<u>\$ 293,706</u>	<u>\$ 3,983,232</u>	<u>\$ 4,276,938</u>

**NOTE 4 RELATIONSHIP TO STATE FINANCIAL REPORTS**

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

**NOTE 5 ON-BEHALF PAYMENTS**

TPAF Social Security Contributions represents reimbursements in the amount of \$86,420 by the State for the employer's share of social security contributions for TPAF members for the year ended June 30, 2016.

**NOTE 6 ON-BEHALF PROGRAMS NOT SUBJECT TO STATE SINGLE AUDIT**

On-behalf State Programs for TPAF Pension and Post-Retirement Medical Benefits Contributions are not subject to a State single audit and, therefore, are excluded from major program determination. The Schedule of State Financial Assistance provides a reconciliation of State financial assistance reported in the Charter School's financial statements and the amount subject to State single audit and major program determination.

**NOTE 7 DE MINIMIS INDIRECT COST**

The Charter School has not elected to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statement Section**

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes     No

Significant deficiency(ies) identified not considered to be material weaknesses?

Yes     No

Noncompliance material to financial statements noted?

Yes     No

**Federal Awards (Not Applicable)**

Dollar threshold used to determine Type A and B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes     No

Type of auditor's report on compliance for major programs:

Unmodified

Internal control over compliance:

Material weakness(es) identified?

Yes     No

Significant deficiency(ies) identified not considered to be material weakness(es)?

Yes     No

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 Section .510(a)?

Yes     No

**Identification of Major Programs:**

\_\_\_\_\_ CFDA Number \_\_\_\_\_

\_\_\_\_\_ Federal Program \_\_\_\_\_

No major programs identified.

**PAULO FREIRE CHARTER SCHOOL  
(COUNTY OF ESSEX, NEW JERSEY)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**SECTION I - SUMMARY OF AUDITORS' RESULTS -**

**State Financial Assistance**

Dollar threshold used to determine Type A and B programs: \$750,000

Auditee qualified as low-risk auditee?  Yes  No

Type of auditor's report on compliance for major programs: Unmodified

Internal control over compliance:

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified not considered to be material weakness(es)?  Yes  No

Any audit findings disclosed that are required to be reported in accordance with NJ OMB Letter Circular 15-08?  Yes  No

**Identification of Major Programs:**

<u>State or Project No.</u>	<u>Name of State Program</u>
State Aid Public Cluster: 16-495-034-5120-078 16-495-034-5120-084 16-495-034-5120-089	Equalization Aid Security Aid Special Education Aid

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### **Finding 2016-001                      Cash Disbursements and Travel Expenditures**

##### *Criteria*

N.J.A.C. 6A:23A 22.1 requires that charter schools' internal control policies promote operational efficiency and effectiveness, provide reliable financial information, safeguard assets and records, encourage adherence to prescribed policies and comply with law and regulation as detailed at N.J.A.C. 6A:23A-22.1 through 22.15.

##### *Condition*

In our review of cash disbursements and various transactions comprising certain expenditure amounts, we noted the following:

- a. Several purchase orders have the same date as the invoices/receipts or check dates.
- b. Some claims did not have supporting documents such as approved purchase orders, invoices and/or purchase requisitions.
- c. There were two (2) claims that did not have vendor declaration.
- d. Reimbursement for expenses and/or liquidation of advances of Executive Officers had no sign-offs by a designated board member.

In addition, we noted five out-of- town travels for conferences with costs exceeding \$ 5,000 per travel during the year that were board approved, but prior approval from the Executive County Superintendent was not obtained as required under N.J.A.C. 6A:23A-5.9.

Further, from our review of bank transactions and other receivables, we noted five ACH web remittances from the Charter's School operating account in the total amount of \$21,672 to a PayPal account and Debit Card transactions established under the Charter School. However, there was no resolution approving the ACH payments nor authorization to establish a PayPal or use the General Checking account as a Debit Card. Further, we also note that the Paypal and Debit Card transactions were mainly for purchase of airfare and hotel accommodation for Board-approved out-of-state professional development/fieldtrips. We also noted that it was also used to purchase movie tickets, admission fees related to the fieldtrips, airline seats upgrades, and purchase of office supplies. As of June 30, 2016, \$1,697 is outstanding.

##### *Cause*

There was lack of familiarity with regards to Charter School's policies and procedures related to various levels of approval for certain expenditures.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### **Finding 2016-001    Cash Disbursements and Travel Expenditures - continued**

##### *Effect*

Non-compliance with Charter School policies and procedures, and certain provisions of N.J.A.C. related to travel and cash disbursements.

##### *Recommendation*

We recommend review of policies and procedures related to Charter School cash disbursements and approval for travel expenditures.

##### *View of Responsible Official and Planned Corrective Action*

- a. In accordance with Standard Operating Procedures no purchase orders will be produced after receiving an invoice. In addition, all effort will be made to confine same day purchase orders and invoices to emergencies, such as plumbing or facilities related needs.
- b. Per Diem employee advances for travel will be recorded as balance sheet items until the staff member returns from the conference with receipts at which point the advances will be liquidated and the expense will be recorded. Simultaneously a purchase order will be created in the same amount to charge the expenses after the staff member returns with the receipts. No excess funds will be paid for meals over the per-diem amount. Lodging will be paid in advance via a check or a wire transfer after board and county approval of the event. Conference fees will be encumbered by the school and paid in advance only if required by the conference. Airfare will be purchased using a board approved ACH method or check.
- c. Reimbursement for expenses and or liquidation of advances of Executive Officers will be approved by the Board or a designated board member.



## SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

### SECTION III STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

#### Finding 2016-002 Enrollment Information

##### Program: State Aid Public Cluster

###### *Criteria*

“Pursuant to N.J.A.C. 6A:23A-15 charter schools are required to conduct enrollment counts on October 15 and the last day of the school year... Accurate maintenance of the enrollment system is vital so that the resident districts can rely on the accuracy of the payment schedules. ... Charter schools are required to prepare written internal procedures, which should provide a description of the count process for the two required enrollment counts... and detail the various assigned responsibilities for collection of the data and the follow-up procedures to identify student information to be corrected in the subsequent count.”

###### *Condition*

In our review of records and reports related to State Aid and Food Service Program, we noted that entries in the Charter School Enrollment (CHE) System of the New Jersey Department of Education did not agree to information on verified applications and supporting documents as follows:

In our review of enrollment information as reported in State’s system and as per school records, we noted the following:

- a. One student was incorrectly classified as Grade 11 in CHE. However, attendance is in 10th grade.
- b. There were 3 students with missing birth certificate and proof of address.
- c. One student was reported with full Average Daily Enrollment (ADE) in the June 2016 CHE, however, actual attendance was only 0.39 ADE.
- d. One student was reported with 0.4 ADE in the June 2016 CHE; however, actual attendance was 0.96 ADE.

###### *Cause*

Procedures to review student application and meals classification were not adhered to consistently.

###### *Effect*

The basis for Federal and State claims/reimbursements may not be accurate.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

### SECTION III STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

#### Finding 2016-002 Enrollment Information - continued

##### *Questioned costs*

Cannot be determined.

##### *Recommendation*

We recommend that entries in the CHE system should be reviewed against information on verified lunch applications by designated Charter School personnel to ensure proper reporting and accurate claims of meals served under the three categories: free, reduced, or paid meals. All completed applications should be maintained and be made available for review.

##### *View of Responsible Official and Planned Corrective Action*

In response to the above recommendation the Paulo Freire Charter School will:

1. An efficient control system will be implemented. The Operations Manager and Executive Director will work with the Food Services Coordinator, Business Administrator and Special Services Director to ensure accurate reporting.
2. The Operations Manager will determine the eligibility on all lunch applications which will be independently reviewed by the School Business Administrator. The Operations Manager will then input the eligibility for students in the CHE system. These will be reviewed by the Executive Director to ensure accuracy. The Operations Manager will update the Food Services POS (point of sale) software with the correct eligibilities as per the CHE report. The Food Services Coordinator will review this information for accuracy. All completed lunch applications are kept on file in the Business Office.
3. The school will obtain the list students with missing birth certificates or proof of address from the auditors to make corrections into the student information system. In this way, the school will correct the records based on the errors discovered by the auditors.
4. For the students that entered the school this year, personnel in charge of student records will review the student files to ensure that the information is correct in the student information system upon the student's entrance into the school. Then they will check that information against CHE to correct any incorrect information for the final count, June 2017.

**SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT**

**FISCAL YEAR ENDED JUNE 30, 2016**

**Finding 2015-01**

*Condition*

In our review of cash disbursements and various transactions comprising certain expenditure amounts, we noted the following:

- a. Several purchase orders have the same date as the invoices/receipts or check dates.
- b. Per diem employee advances for travel were recorded as expenses on the date the advances were issued rather than the date of liquidation of advances.
- c. Reimbursement for expenses and/or liquidation of advances of Executive Officers had no signoffs by a designated board member.
- d. Board approval for an employee stipend disbursed for \$9,000 in July 2014 could not be ascertained from the board minutes and/or resolutions on file.

In addition, we noted five out-of- town travels for conferences with costs exceeding \$ 5,000 per travel during the year that were board approved, but prior approval from the Executive County Superintendent was not obtained as required under N.J.A.C. 6A:23A-5.9.

Further, from our review of bank transactions and other receivables, we noted five ACH web remittances from the Charter's School operating account in the total amount of \$18,890 to a PayPal account established under the Charter School to pay for board-approved travels. However, there was no resolution approving the ACH payments nor authorization to establish a PayPal account. Upon further inquiry, and review of supporting documents, a portion of the travel costs processed through PayPal for \$2,832 were for personal expenses that had to be reimbursed. As of June 30, 2015, \$1,587 is outstanding.

*Current Status*

A similar finding is noted and described under finding 2016-001.

**SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT**

**FISCAL YEAR ENDED JUNE 30, 2016**

**Finding 2015-002**

*Condition*

In our review of records and reports related to State Aid and Food Service Program, we noted that entries in the Charter School Enrollment (CHE) System of the New Jersey Department of Education did not agree to information on verified applications and supporting documents as follows:

- a. There were nine (9) students classified under “denied” category but should have been under “free” category based on the completed application and income information on file
- b. One (1) student was classified under “free” category but should have been under “reduced” category based on the completed application and income information on file
- c. There were three (3) students classified under “denied” category but should have been under “reduced” category based on the completed application and income information on file.
- d. One (1) student was classified under “reduced” category but should have been under “denied” category based on the completed application and income information on file.

In our review of enrollment information as reported in State’s system and as per school records, we noted the following:

- a. There were 7 students with incorrect names and/or birthdates in CHE.
- b. One student was incorrectly classified as Grade 10 in CHE. However, attendance is in 9thgrade.
- c. There were 16 students with missing birth certificate and proof of address.

*Current Status*

A similar finding is noted and described under finding 2016-002.