

DISCOVERY CHARTER SCHOOL

***COMPREHENSIVE ANNUAL
FINANCIAL REPORT***

FISCAL YEAR ENDED JUNE 30, 2016

DISCOVERY CHARTER SCHOOL

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

***Comprehensive Annual Financial Report
For The Fiscal Year Ended June 30, 2016***

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
OF THE
DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Prepared by

***Discovery Charter School
Finance Department***

And

Barre & Company, CPAs

STATE BOARD OF EDUCATION

MARK W. BIEDRON.....Hunterdon
President

JOSEPH FISICARO.....Burlington
Vice President

ARCELIO APONTEMiddlesex

RONALD K BUTCHERGloucester

JACK FORNARO.....Warren

EDITHE FULTONOcean

ERNEST P. LEPOREHudson

ANDREW J. MULVIHILL.....Sussex

J. PETER SIMONMorris

DOROTHY S. STRICKLANDEssex

**David C. Hespe, Commissioner of Education
Secretary, State Board of Education**

**DISCOVERY CHARTER SCHOOL
TABLE OF CONTENTS**

	Page
INTRODUCTORY SECTION	1
Letter of Transmittal	2
Organizational Chart.....	6
Roster of Officials.....	7
Consultants and Advisors	8
FINANCIAL SECTION.....	9
Independent Auditor's Report	10
REQUIRED SUPPLEMENTARY INFORMATION – PART I.....	13
Management’s Discussion and Analysis	14
BASIC FINANCIAL STATEMENTS.....	20
SECTION A – CHARTER SCHOOL-WIDE FINANCIAL STATEMENTS.....	21
A-1 Statement of Net Position.....	22
A-2 Statement of Activities	23
SECTION B – FUND FINANCIAL STATEMENTS.....	24
GOVERNMENTAL FUNDS	25
B-1 Balance Sheet.....	26
B-2 Statement of Revenues, Expenditures, and Changes in Fund Balances	27
B-3 Reconciliation of Statements of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	28
PROPRIETARY FUNDS.....	29
B-4 Comparative Statement of Net Position	30
B-5 Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position ...	31
B-6 Comparative Statement of Cash Flows.....	32
FIDUCIARY FUNDS	33
B-7 Statement of Fiduciary Net Position	34
B-8 Statement of Changes in Fiduciary Net Position	35
NOTES TO THE FINANCIAL STATEMENTS	36
REQUIRED SUPPLEMENTARY INFORMATION – PART II.....	68
SECTION C – BUDGETARY COMPARISON SCHEDULES.....	69
C-1 Budgetary Comparison Schedule – General Fund.....	70
C-2 Budgetary Comparison Schedule – Special Revenue Fund	72
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION	73
C-3 Budget-to-GAAP Reconciliation	74

**DISCOVERY CHARTER SCHOOL
TABLE OF CONTENTS**

	Page
FINANCIAL SECTION (CONTINUED)	
REQUIRED SUPPLEMENTARY INFORMATION – PART III	75
SCHEDULE L - SCHEDULES RELATED TO ACCOUNTING AND REPORTING FOR PENSIONS (GASB 68)	76
L-1 Schedules of the Charter School’s Proportionate Share of the Net Pension Liability - PERS	77
L-2 Schedules of Charter School Contributions - PERS	78
L-3 Schedules of the Charter School’s Proportionate Share of the Net Pension Liability - TPAF.....	79
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION III	80
OTHER SUPPLEMENTARY INFORMATION	83
SECTION E – SPECIAL REVENUE FUND	84
E-1 Combining Schedule of Revenues and Expenditures – Budgetary Basis	85
SECTION G – PROPRIETARY FUNDS	86
SECTION H – FIDUCIARY FUNDS	87
H-1 Combining Statement of Fiduciary Net Position	88
H-2 Comparative Statement of Changes in Fiduciary Net Position	89
H-3 Student Activity Agency Fund Schedule of Receipts and Disbursements	90
H-4 Payroll Agency Fund Schedule of Receipts and Disbursements.....	91
STATISTICAL SECTION (UNAUDITED)	92
INTRODUCTION TO THE STATISTICAL SECTION	93
FINANCIAL TRENDS	94
J-1 Net Assets/Position by Component	95
J-2 Changes in Net Assets/Position	96
J-3 Fund Balances-Governmental Funds	97
J-4 Changes in Fund Balances, Governmental Funds	98
J-5 General Fund Other Local Revenue by Source	99
OPERATING INFORMATION	100
J-16 Full-time Equivalent Charter School Employees by Function/Program	101
J-17 Operating Statistics	102
J-18 School Building Information	103
J-20 Insurance Schedule	104
J-21 Charter School Performance Framework, Financial Performance, Fiscal Ratios.....	105

**DISCOVERY CHARTER SCHOOL
TABLE OF CONTENTS**

	Page
SINGLE AUDIT SECTION.....	106
K-1 Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	107
K-2 Report on Compliance For Each Major State Program; Report On Internal Control over Compliance; and Report on the Schedule of Expenditures of State Financial Assistance as Required by New Jersey OMB Circular 15-08	109
K-3 Schedule of Expenditures of Federal Awards – Schedule A.....	112
K-4 Schedule of Expenditures of State Financial Assistance – Schedule B	113
K-5 Notes to Schedules of Expenditures of Awards and Financial Assistance	114
K-6 Schedule of Findings and Questioned Costs	117
K-7 Summary Schedule of Prior Year Audit Findings and Questioned Costs As Prepared by Management	120

INTRODUCTORY SECTION

***DISCOVERY CHARTER SCHOOL
240 HALSEY STREET
NEWARK, NEW JERSEY 07102
973-623-0222***

November 28, 2016

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

Dear Board Members:

The Comprehensive Annual Financial Report (CAFR) of Discovery 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 Board of Trustees (the "Board"). To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the basic financial statements and results of operations of the various funds of the Charter School. All disclosures necessary to enable the reader to gain understanding of the Charter School's financial activities have been included.

This report will provide the taxpayers whose funding flows to the Charter School with comprehensive financial data in a format enabling them to gain an understanding of the Charter School's financial affairs.

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

- The Introductory Section contains a table of contents, Letter of Transmittal, List of Principal Officials, and an Organizational Chart of the Charter School;
- The Financial Section begins with the Independent Auditors' Report and includes the Management's Discussion and Analysis, the Basic Financial Statements and Notes providing an overview of the Charter School's financial position and operating results, and other schedules providing detailed budgetary information;
- The Statistical Section includes selected economic and demographic information, financial trends, and the fiscal capacity of the Charter School, generally presented on a multi-year basis;
- The Single Audit Section — The Charter School is required to undergo an annual single audit in conformity with the provisions of *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the audit

requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey; the New Jersey State Office of Management and Budget (OMB) Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Information related to this single audit, including the independent auditor's report on the internal control and compliance with applicable laws, regulations, contracts and grants, along with findings and questioned costs, are included in the single audit section of this report.

Charter School Organization

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

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

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

The Charter School provides a full range of services appropriate to grade levels 4 through 8. The Charter School completed the 2015-2016 fiscal year with an enrollment of 80 students, which is the same as the previous year’s enrollment. The following details the changes in the student enrollment of the Charter School over the last five years.

<u>Average Daily Enrollment</u>	
<u>Fiscal Year</u>	<u>Student Enrollment</u>
2015-2016	80
2014-2015	80
2013-2014	75
2012-2013	75
2011-2012	75

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

2) ENROLLMENT OUTLOOK: Discovery Charter School enrolled eighty students (80) 4th to 8th grades, for the 2015-2016 school year. The school hopes to enroll twenty (20) more students next year.

3) MAJOR ACCOMPLISHMENTS:

Test Scores/Disciplinary Records/Attendance Records:

- Students have exceeded the district in both ELA and Math test scores for several years.
- In its sixteen (16) years, Discovery Charter School has been one of the most sought-after learning institutions in Essex County, and Discovery has maintained full enrollment.
- In the annual parental survey, 100% of the parents asked to choose the highest grade possible for Discovery Charter School when questioned about the quality of their child's education.
- At Discovery Charter School, the scores of economically disadvantaged students were nearly equal to non-economically disadvantaged students on a variety of state tests.
- Teacher attendance was 98.2%, a full two percentage points over the state average.
- Discovery Charter School averaged 7 hours of instructional time a day. This was a full two hours more than the New Jersey State average despite a considerably lower cost per student.

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

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

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

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

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

BUDGETARY CONTROLS (CONTROLS)

An encumbrance accounting system is used to record outstanding purchase commitments on a line item basis. Open encumbrances at year-end are either canceled or are included as reappropriations of fund balance in the subsequent year. Those amounts to be reappropriated are reported as reservations of fund balance at June 30, 2016.

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

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

8) **OTHER INFORMATION:**

Independent Audit – State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Barre & Company, Certified Public Accountants, was selected by the Board. In addition to meeting the requirements set forth in State statutes, the audit also was designed to meet the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the New Jersey State Office of Management and Budget (OMB) Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. The auditor’s report on the basic financial statements and specific required supplemental information is 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.

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

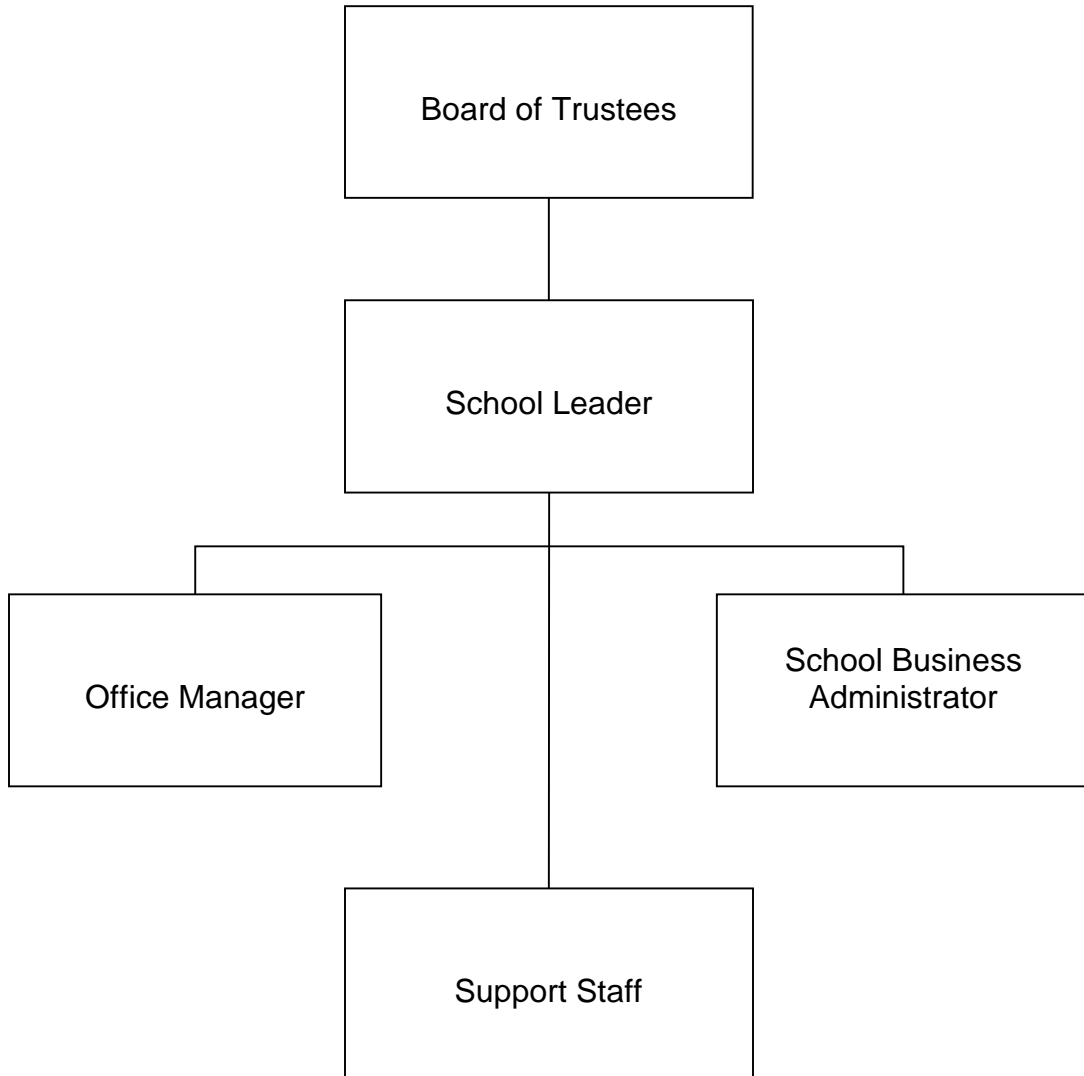
Respectfully submitted,



Irene Hall
Co-Leader

DISCOVERY CHARTER SCHOOL

Organizational Chart



**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**ROSTER OF OFFICIALS
June 30, 2016**

Members of the Board of Trustees

Position

Cheryl A. O'Brien

President

Irene Hall

Co-Leader (Non-voting)

Albert Barre

SBA (Non-Voting)

Resa Drasin

Trustee

Daniel Berlin

Trustee

Drew Adderly

Trustee

Tracey McNair

Trustee

Adam Padla

Trustee

Yusef Shaheed

Trustee

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

CONSULTANTS AND ADVISORS

Audit Firm

Barre & Company
Certified Public Accountants
2204 Morris Avenue, Suite 206
Union, New Jersey 07083

Official Depository

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

FINANCIAL SECTION

BARRE & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

2204 Morris Avenue, Suite 206
Union, New Jersey 07083
(908) 686-3484
FAX – (908) 686-6055

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying 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 Discovery Charter School (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

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Discovery Charter School, in the County of Essex, State of New Jersey, as of June 30, 2016, and the respective changes in the financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Information, and District's Proportionate Share of the Net Pension Liability for TPAF and PERS and District's PERS Contributions and the related notes starting on pages 14, 69, and 76, respectively, 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 response 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter School's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements and schedules of expenditures of federal awards and state financial assistance, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and New Jersey's OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, respectively; and the other information, such as the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

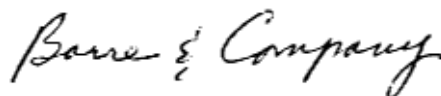
The combining and individual nonmajor fund financial statements and schedules of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other

records use to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules of expenditures of federal awards and state financial assistance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards* and the Division of Finance, Department of Education, State of New Jersey

In accordance with *Government Auditing Standards* and the Division of Finance, Department of Education, State of New Jersey, we have also issued our report dated November 28, 2016 on our consideration of the Discovery Charter School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the Division of Finance, Department of Education, State of New Jersey in considering the Charter School's internal control over financial reporting and compliance.



BARRE & COMPANY
Certified Public Accountants
Public School Accountants



Richard M. Barre
Public School Accountant
PSA Number CS-01181

Union, New Jersey
November 28, 2016

REQUIRED SUPPLEMENTARY INFORMATION – PART I

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED**

The Management's Discussion and Analysis (MD&A) of Discovery Charter School's financial performance provides an overall review of the Charter School's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Charter School's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the Charter School's financial performance. Certain comparative information between the current year (2015-2016) and the prior year (2014-2015) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2016 are as follows:

- ❖ General revenues accounted for \$1,564,142 in revenues or 93% of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$112,204 or 7% percent of total revenues of \$1,676,346.
- ❖ The Charter School had \$1,696,422 in expenses; only \$112,204 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$1,564,142 were not adequate to provide for these programs.
- ❖ Among governmental funds, the General Fund had \$1,503,446 in revenues and \$1,513,528 in expenditures. The General Fund's fund balance decreased \$10,082 over 2015. This decrease was anticipated by the Board of Trustees.

Using this Comprehensive Annual Financial Report (CAFR)

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

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

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(CONTINUED)**

Reporting the Charter School as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the Charter School to provide programs and activities, the view of the Charter School as a whole looks at all financial transactions and ask the question, "How did we do financially during 2016?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector businesses. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

- ❖ Governmental activities — All of the Charter School's programs and services are reported here including instruction, administration, support services, and capital outlay.
- ❖ Business-Type Activity — This service is provided on a charge for goods or services basis to recover all the expenses of the goods or services provided. The Food Service enterprise fund is reported as a business activity.

Reporting the Charter School's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

The Charter School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future years. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Charter

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(CONTINUED)**

Governmental Funds (Continued)

School's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Position* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

Enterprise Fund

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Charter School-wide and fund financial statements. The notes to the financial statements can be found starting on page 36 of this report.

The Charter School as a Whole

Recall that the *Statement of Net Position* provides the perspective of the Charter School as a whole. Net position may serve over time as a useful indicator of a government's financial position. The Charter School's financial position is the product of several financial transactions including the net results of activities.

The Charter School's combined net position were \$125,992 for 2016 and \$146,068 for 2015.

Governmental Activities

The Charter School's total revenues were \$1,580,386 for the year ended June 30, 2016 and \$1,460,265 for 2015. Federal, state, and local grants and state aid accounted for 84% for 2016 and 87% for 2015 of revenues which includes \$111,019 for 2016 and \$65,645 for 2015 of state reimbursed TPAF pension and social security contributions.

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(CONTINUED)**

The Charter School as a Whole (Continued)

Governmental Activities (Continued)

The total net cost of all program and services was \$1,553,126 for 2016 and \$1,368,903 for 2015. Instruction comprises 58% for 2016 and 55% for 2015 of Charter School expenses.

Business-Type Activities

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

- ❖ Food Service expenses exceeded revenues by \$3,938 for 2016 and \$15,104 for 2015.
- ❖ Charges for services represent \$4,894 for 2016 and \$447 for 2015 of revenue. This represents amounts paid by patrons for daily food.
- ❖ Federal and state reimbursements for meals, including payments for free and reduced lunches and breakfast were \$63,912 for 2016 and \$64,540 for 2015.

Governmental Activities

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services.

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and student, including extracurricular activities.

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

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

Capital Outlay represents instructional and/or non-instructional equipment purchased and is capitalized when such equipment is over the \$2,000 threshold.

The Charter School's Funds

All governmental funds (i.e., general fund and special revenue fund presented in the fund-based statements) are accounted for using the modified accrual basis of accounting. Total revenues amounted to \$1,580,386 for 2016 and \$1,460,265 for 2015 and expenditures were \$1,590,468 for 2016 and \$1,389,306 for 2015. The net change in fund balance for the year was a decrease of \$10,082 for 2016 and an increase of \$70,959 for 2015.

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(CONTINUED)**

The Charter School's Funds (Continued)

As demonstrated by the various statements and schedules included in the financial section of this report, the Charter School continues to meet its responsibility for sound financial management. The following schedules present a summary of the revenues of the governmental funds for the fiscal year ended June 30, 2016, and the amount and percentage of increases and decreases in relation to prior year revenues.

<u>Revenues</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase/ (Decrease) From 2015</u>	<u>Percent of Increase/ (Decrease)</u>
Local Sources	\$ 257,447	16.29%	\$ 62,028	32%
State Sources	1,245,999	78.84%	56,144	5%
Federal Sources	76,940	4.87%	1,949	3%
Total	<u>\$ 1,580,386</u>	<u>100.00%</u>	<u>\$ 120,121</u>	

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

The Charter School's Funds (Continued)

The following schedule represents a summary of general fund and special revenue fund expenditures for the fiscal year ended June 30, 2016, and the percentage of increases and decreases in relation to prior year amounts.

<u>Expenditures</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase/ (Decrease) From 2015</u>	<u>Percent of Increase/ (Decrease)</u>
Instruction	\$ 643,540	40.47%	\$ 35,958	6%
Administration	683,550	42.97%	150,594	28%
Support Services	256,334	16.12%	35,521	16%
Capital Outlay	7,044	0.44%	(20,911)	-75%
Total	<u>\$ 1,590,468</u>	<u>100.00%</u>	<u>\$ 201,162</u>	

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

**DISCOVERY CHARTER SCHOOL
NEWARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(CONTINUED)**

General Fund Budgeting Highlights

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

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

For the Future

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

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

Contacting the Charter School's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Charter School's finances and to show the Charter School's accountability for the money it receives. If you have questions about this report or need additional information, contact Miss Irene Hall, Co-Leader at Discovery Charter School, 240 Halsey Street, Newark, New Jersey 07102.

BASIC FINANCIAL STATEMENTS

SECTION A – CHARTER SCHOOL-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities display information about the Charter School. These statements include the financial activities of the overall Charter School, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the Charter School.

DISCOVERY CHARTER SCHOOL
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 261,725	\$ 3,302	\$ 265,027
Interfund Receivables	53,120	3,494	56,614
Receivables	96,066	3,932	99,998
Total Assets	410,911	10,728	421,639
DEFERRED OUTFLOWS OF RESOURCES:			
Pensions	31,093		31,093
Total Deferred Outflows of Resources	31,093	-	31,093
LIABILITIES:			
Interfund Payable	20,648		20,648
Accounts Payable	58,433	3,175	61,608
Other Current Liabilities	95,760		95,760
Noncurrent Liabilities:			
Due Beyond One Year:			
Net Pension Liability	149,691		149,691
Total Liabilities	324,532	3,175	327,707
DEFERRED INFLOWS OF RESOURCES:			
Pensions	2,604		2,604
Total Deferred Inflows of Resources	2,604	-	2,604
NET POSITION:			
Unassigned	118,439	7,553	125,992
Total Net Position	\$ 118,439	\$ 7,553	\$ 125,992

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

DISCOVERY CHARTER SCHOOL
Statement of Activities
For The Fiscal Year Ended June 30, 2016

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues			Net (Expense) Revenue and Changes In Net Position		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES:								
Instruction	\$ 643,540	255,201	\$ -	43,398	\$ -	(855,343)	\$ -	(855,343)
Administration	361,947	72,458				(434,405)		(434,405)
Support Services	256,334					(256,334)		(256,334)
Capital Outlay	7,044					(7,044)		(7,044)
Total Governmental Activities	<u>1,268,865</u>	<u>327,659</u>	<u>-</u>	<u>43,398</u>	<u>-</u>	<u>(1,553,126)</u>	<u>-</u>	<u>(1,553,126)</u>
BUSINESS-TYPE ACTIVITIES:								
Food Service	99,898		4,894	63,912			(31,092)	(31,092)
Total Business-Type Activities	<u>99,898</u>		<u>4,894</u>	<u>63,912</u>	<u>-</u>	<u>-</u>	<u>(31,092)</u>	<u>(31,092)</u>
Total Primary Government	<u>\$ 1,368,763</u>		<u>\$ 4,894</u>	<u>\$ 107,310</u>	<u>\$ -</u>	<u>\$ (1,553,126)</u>	<u>\$ (31,092)</u>	<u>\$ (1,584,218)</u>
GENERAL REVENUES								
General Purposes			\$	173,608	\$		\$	173,608
Federal and State Aid Not Restricted				1,279,541				1,279,541
Investment Earnings				29				29
Miscellaneous Income				83,810			27,154	110,964
Total General Revenues				<u>1,536,988</u>			<u>27,154</u>	<u>1,564,142</u>
Change in Net Position				(16,138)			(3,938)	(20,076)
Net Position - Beginning of Year				134,577			11,491	146,068
Net Position - Ending				<u>\$ 118,439</u>			<u>\$ 7,553</u>	<u>\$ 125,992</u>

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

SECTION B – FUND FINANCIAL STATEMENTS

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

GOVERNMENTAL FUNDS

DISCOVERY CHARTER SCHOOL

Governmental Funds

Balance Sheet

June 30, 2016

	General Fund	Special Revenue Fund	Total
ASSETS:			
Cash and Cash Equivalents	\$ 261,725	\$ -	\$ 261,725
Interfund Receivables	53,120		53,120
Receivables From State Government	75,418	20,648	96,066
Total Assets	\$ 390,263	\$ 20,648	\$ 410,911
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Interfund Payables	\$ -	\$ 20,648	\$ 20,648
Accounts Payable	58,433		58,433
Contracts Payable	95,760		95,760
Total Liabilities	154,193	20,648	174,841
Fund Balances:			
Unassigned:			
General Fund	236,070		236,070
Total Fund Balances	236,070	-	236,070
Total Liabilities and Fund Balances	\$ 390,263	\$ 20,648	

Amounts reported for *governmental activities* in the statement of net assets (A-1) which are different:

Net pension liability of \$149,691 ,deferred inflows of resources of \$2,604 less deferred outflows of resources of \$34,664 related to pensions are not reported in the governmental funds	(117,631)
Net Position of Governmental Activities	\$ 118,439

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

DISCOVERY CHARTER SCHOOL
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balance
 For the Fiscal Year Ended June 30, 2016

	General Fund	Special Revenue Fund	Total
REVENUES:			
Local Sources:			
Local Tax Levy	\$ 173,608	\$ -	\$ 173,608
Interest on Investments	29		29
Miscellaneous	83,810		83,810
Total Local Sources	257,447	-	257,447
State Sources	1,245,999		1,245,999
Federal Sources		76,940	76,940
Total Revenues	1,503,446	76,940	1,580,386
EXPENDITURES:			
Current:			
Instruction	586,429	57,111	643,540
Administration	683,550		683,550
Support Services	236,505	19,829	256,334
Capital Outlay	7,044		7,044
Total Expenditures	1,513,528	76,940	1,590,468
NET CHANGE IN FUND BALANCES	(10,082)	-	(10,082)
FUND BALANCES, JULY 1	246,152	-	246,152
FUND BALANCES, JUNE 30	\$ 236,070	\$ -	\$ 236,070

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

DISCOVERY CHARTER SCHOOL
Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Fiscal Year Ended June 30, 2016

Total net change in fund balances - governmental fund (from B-2)	\$ (10,082)
Amounts reported for governmental activities in the statement of activities (A-2) are different because:	
Pension costs associated with the PERS pension plan are reported in the governmental funds as expenditures in the year the school pension contribution is paid. However, on the statement of activities, the net difference between the current and prior year net pension liability is recognized.	
	<u>(6,056)</u>
Change in net position of governmental activities	<u>\$ (16,138)</u>

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

PROPRIETARY FUNDS

DISCOVERY CHARTER SCHOOL
Proprietary Fund
Statement of Net Position
June 30, 2016

Business-type Activities - Enterprise Fund	<u>Food Service</u>
ASSETS:	
Cash and Cash Equivalents	\$ 3,302
Due From Other Funds	3,494
Intergovernmental Accounts Receivable:	
Federal	3,870
State	<u>62</u>
Total Assets	<u><u>\$ 10,728</u></u>
LIABILITIES AND NET POSITION:	
Liabilities:	
Accounts Payable	<u>\$ 3,175</u>
Total Liabilities	<u>3,175</u>
Net Position:	
Unassigned	<u>7,553</u>
Total Net Position	<u>7,553</u>
Total Liabilities and Net Position	<u><u>\$ 10,728</u></u>

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

DISCOVERY CHARTER SCHOOL
 Proprietary Fund
 Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position
 For the Fiscal Year Ended June 30, 2016

Business-type Activities - Enterprise Fund	Food Service
OPERATING REVENUES:	
Charges for Services:	
Daily Sales Reimbursable Program	\$ 4,894
Daily Sales Non-Reimbursable Program	2,154
Total Operating Revenues	7,048
OPERATING EXPENSES:	
Salaries	15,383
Other Purchased Services	24,722
Supplies and Materials	2,734
Cost of Sales	56,919
Miscellaneous Expenses	140
Total Operating Expenses	99,898
OPERATING LOSS	(92,850)
NONOPERATING REVENUES:	
State Source:	
State School Lunch Program	856
Federal Source:	
National School Breakfast and Lunch Program	54,657
U.S.D.A. Commodities	8,399
Total Nonoperating Revenues	63,912
CHANGE IN NET ASSETS BEFORE OTHER FINANCING SOURCES	(28,938)
OTHER FINANCING SOURCES:	
Board Contributions	25,000
Total Other Financing Sources	25,000
CHANGE IN NET POSITION	(3,938)
TOTAL NET POSITION, JULY 1	11,491
TOTAL NET POSITION, JUNE 30	\$ 7,553

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

DISCOVERY CHARTER SCHOOL
Proprietary Fund
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

Business-type Activities - Enterprise Fund	<u>Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	\$ 9,249
Cash Payments to Suppliers and Employees	<u>(99,644)</u>
Net Cash Used In Operating Activities	<u>(90,395)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Cash Received From State And Federal Reimbursements	63,912
Board Contributions	<u>25,000</u>
Net Cash Provided By Noncapital Financing Activities	<u>88,912</u>
Net Decrease In Cash And Cash Equivalents	(1,483)
Cash And Cash Equivalents, Beginning Of Year	<u>4,785</u>
Cash And Cash Equivalents, End Of Year	<u><u>\$ 3,302</u></u>
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:	
Operating Loss Used for Operating Activities	\$ (92,850)
Change In Assets And Liabilities:	
Increase In Due From Other Funds	(1,782)
Decrease In Receivables From Other Governments	2,201
Increase In Accounts Payable	<u>2,036</u>
Net Cash Used In Operating Activities	<u><u>\$ (90,395)</u></u>

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

FIDUCIARY FUNDS

DISCOVERY CHARTER SCHOOL
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2016

	Unemployment Compensation Trust	Teachers Fund Trust Account <i>(Initial Year)</i>	Student Scholarship Trust Account <i>(Initial Year)</i>	Agency Fund
ASSETS:				
Cash and Cash Equivalents	\$ 7,127	\$ 6,753	\$ 2,531	\$ 37,133
Interfund Accounts Receivable				
Total Assets	<u>7,127</u>	<u>6,753</u>	<u>2,531</u>	<u>\$ 37,133</u>
LIABILITIES:				
Interfund Accounts Payable	1,897			\$ 34,069
Payroll Deductions and Withholdings Due to Student Groups				1,142
				<u>1,922</u>
Total Liabilities	<u>1,897</u>	<u>-</u>	<u>-</u>	<u>\$ 37,133</u>
NET POSITION:				
Held in Trust for Claims	<u>5,230</u>	<u>6,753</u>	<u>2,531</u>	
Total Net Position	<u>\$ 5,230</u>	<u>\$ 6,753</u>	<u>\$ 2,531</u>	

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

DISCOVERY CHARTER SCHOOL
 Fiduciary Funds
 Statement of Changes in Fiduciary Net Position
 For the Fiscal Year Ended June 30, 2016

	Unemployment Compensation Insurance	Teachers Fund Trust Account <i>(Initial Year)</i>	Student Scholarship Trust Account <i>(Initial Year)</i>
ADDITIONS:			
Fundraising Income	\$ -	\$ 6	\$ 4
Total Additions	-	6	4
DEDUCTIONS:			
Fundraising Expense	-	4,800	9,620
Total Deductions	-	4,800	9,620
CHANGE IN NET POSITION	-	(4,794)	(9,616)
NET POSITION, JULY 1	5,230	11,547	12,147
NET POSITION, JUNE 30	\$ 5,230	\$ 6,753	\$ 2,531

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

NOTES TO THE FINANCIAL STATEMENTS

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Charter School implemented Governmental Accounting Standard Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and Statement No. 71, "Pension Transition for Contribution Made Subsequent to the Measurement Date."

GASB Statement No. 68's objective is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirement of Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," as well as the requirements of Statement No. 50, "Pension Disclosures," as they relate to pensions that are provided through pension plan administered as trusts or equivalent arrangements that meet certain criteria.

GASB Statement No. 71 should be applied simultaneously with the provisions of Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by the a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

A. Reporting Entity

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

The primary criterion for including activities within the Charter School's reporting entity are set forth in Statement No. 14 of the Governmental Accounting Standards Board entitled "The Financial Reporting Entity" (GASB 14) as codified in Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards*.

Under GASB Statement No. 14, the financial reporting entity is determined by the degree of oversight responsibility maintained by the Charter School. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds and account groups of the Charter School over

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (Continued)

which it exercises operating control. The operations of the Discovery Charter School include a Grade 4 through 8 school located in the City of Newark. There are no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore, the Charter School is not includable in any other reporting entity on the basis of such criteria.

B. Basis of Presentation

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

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

The statement of net position presents the financial condition of the governmental and business-type activity of the Charter School at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for the business-type activity of the Charter School and for each function of the Charter School's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the Charter School.

Fund Financial Statements: During the fiscal year, the Charter School segregates transactions related to certain Charter School functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The fund financial statements provide information about the Charter School's funds, including its fiduciary funds. Separate statements for each fund category — *governmental, proprietary, and fiduciary* — are presented. The New Jersey Department of Education (NJDOE) has elected to require New Jersey

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Charter Schools to treat each governmental fund as a major fund in accordance with the option noted in GASB No. 34, paragraph 76. The NJDOE believes that the presentation of all funds as major is important for public interest and to promote consistency among Charter School financial reporting models.

The Charter School reports the following *governmental* funds:

General Fund: The general fund is the general operating fund of the Charter School and is used to account for all expendable financial resources except those required to be accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or non-instructional equipment which are classified in the capital outlay subfund. As required by the New Jersey State Department of Education, the Charter School includes budgeted capital outlay in this fund. Accounting principles generally accepted in the United States of America as they pertain to governmental entities state that general fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues. Resources for budgeted capital outlay purposes are normally derived from State of New Jersey Aid and appropriated fund balance. Expenditures are those that result in the acquisition of or additions to fixed assets for land, existing buildings, improvements of grounds, construction of buildings, additions to or remodeling of buildings and the purchase of built-in equipment. These resources can be transferred from and to Current Expense by School Board resolution.

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

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

The Charter School reports the following *proprietary* fund:

Enterprise Fund: The enterprise fund accounts for all revenues and expenses pertaining to the Charter School's Food Service operations. These funds are utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e. expenses including depreciation and indirect costs) of providing goods or services to the students on a continuing basis are financed or recovered primarily through user charges.

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

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

The Charter School reports the following *fiduciary* funds:

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

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

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

C. Basis of Accounting – Measurement Focus

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

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

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

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting – Measurement Focus (Continued)

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

D. Budgets/Budgetary Control

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

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

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

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

Budgets/Budgetary Control (Continued)

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

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	2016	2015
Total Revenues & Expenditures (Budgetary Basis)	\$ 76,940	\$ 74,991
Adjustments:		
Less Encumbrances at June 30, 2016	-	-
Plus Encumbrances at June 30, 2015	-	-
Total Revenues and Expenditures (GAAP Basis)	\$ 76,940	\$ 74,991

E. Encumbrances Accounting

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

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

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

F. Assets, Liabilities, and Equity

Interfund Transactions:

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

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

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Equity (Continued)

Inventories:

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

Prepaid Expenses:

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

Capital Assets:

The Charter School has established a formal system of accounting for its capital assets. Purchased or constructed capital assets are reported at cost. Donated capital assets are valued at their estimated fair market value on the date received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The Charter School does not possess any infrastructure. The capitalization threshold used by Charter Schools in the State of New Jersey is \$2,000.

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

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

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

Deferred Revenue:

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

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Equity (Continued)

Accrued Liabilities and Long-term Obligations:

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

Net Position:

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Charter School or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Charter School's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balance Reserves:

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

Revenues — Exchange and Nonexchange Transactions:

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

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues — Exchange and Nonexchange Transactions: (Continued)

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

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

Operating Revenues and Expenses:

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

Allocation of Indirect Expenses:

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

Extraordinary and Special Items:

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

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Equity (Continued)

Management Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Accrued Salaries and Wages:

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

G. Pensions

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 pension of the State of New Jersey Public Employees' Retirement System (PERS) and the State of New Jersey Teachers' Pension and Annuity Fund (TPAF) and additions to/deductions from the PERS's and TPAF's net position have been determined on the same basis as they are reported by the PERS and the TPAF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Pension Plan investments are reported at fair value.

H. Impact of Recently Issued Accounting Principles

Adopted Accounting Pronouncements

For the year ended June 30, 2016, the Charter School implemented GASB Statement No. 72, *Fair Value Measurement and Application*. As a result of implementing this statement, the Charter School is required to measure certain investments at fair value for financial reporting purposes. In addition, the Charter School is required to measure donated capital assets at acquisition value (an entry price); these assets were previously required to be measured at fair value. Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Implementation of this Statement did not impact the Charter School's financial statements.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of Recently Issued Accounting Principles (Continued)

The Charter School implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*. Implementation of this Statement did not impact the Charter School's financial statements.

The Charter School implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Implementation of this Statement did not impact the Charter School's financial statements.

Recently Issued and Adopted Accounting Pronouncements

The GASB has issued the following Statements which will become effective in future years as shown below:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ended June 30, 2017. Management does not expect this Statement to impact the Charter School's financial statements.

Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agency Employers and Agent Multi-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB Plans. This Statement will be effective for the year ended June 30, 2018. Management has not yet determined the potential impact on the Charter School's financial statements.

Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose information about those agreements. This Statement will be effective for the year ended June 30, 2017. Management does not expect this Statement to impact the Charter School's financial statements.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of Recently Issued Accounting Principles (Continued)

Recently Issued and Adopted Accounting Pronouncements (Continued)

Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement will be effective for the year ended June 30, 2017. Management does not expect this Statement to impact the Charter School's financial statements.

Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. This Statement will be effective for the year ended June 30, 2017. Management does not expect this Statement to impact the Charter School's financial statements.

Statement No. 80, *Blending Requirements for Certain Component Units –an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement will be effective for the year ended June 30, 2018. Management does not expect this Statement to impact the Charter School's financial statements.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement will be effective for the year ended June 30, 2018. Management does not expect this Statement to impact the Charter School's financial statements.

Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, 68 and 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement will be effective for the year ended June 30, 2018. Management has not yet determined the potential impact on the Charter School's financial statements.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

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

Deposits

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

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.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

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

Investments

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

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

As of June 30, 2016, cash and cash equivalents and investments of the Charter School consisted of the following:

	General Fund	Proprietary Fund	Fiduciary Funds	Total
Operating Account	\$ 261,725	\$ 3,302	\$ 53,544	\$ 318,571

The carrying amount of the Board's cash and cash equivalents at June 30, 2016 was \$318,571 and the bank balance was \$334,771. All bank balances were covered by federal depository insurance and/or covered by a collateral pool maintained by the banks as required by New Jersey statutes.

Risk Category

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

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

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

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

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

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

Risk Category (Continued)

As of June 30, 2016, the Charter School had funds on deposit in checking accounts. These funds constitute deposits with financial institutions” as defined by GASB Statement No. 3 and are classified as Category 1, both at year-end and throughout the year.

New Jersey Cash Management Fund

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

As of June 30, 2016, the Charter School had no funds on deposit with the New Jersey Cash Management Fund.

NOTE 3: RECEIVABLES

Receivables at June 30, 2016, consisted of accounts, intergovernmental, grants, and miscellaneous.

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

	Governmental Fund Financial Statements	Governmental Wide Financial Statements
State Aid	\$ 75,418	\$ 75,480
Federal Aid	20,648	24,518
Other	-	-
Gross Receivables	<u>96,066</u>	<u>99,998</u>
Less: Allowance for Uncollectibles	-	-
Total Receivables, Net	<u><u>\$ 96,066</u></u>	<u><u>\$ 99,998</u></u>

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4: INTERFUND TRANSFERS AND BALANCES

Transfers between funds are used to repay expenses paid by another fund. The following interfund balances remained on the fund financial statements at June 30, 2016:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 53,120	\$ -
Special Revenue Fund		20,648
Proprietary Fund	3,494	
Fiduciary Fund		35,966
	\$ 56,614	\$ 56,614
Total		

NOTE 5: RENTAL LEASE

The school entered into a new lease for the premises located at 240 Halsey Street, Newark, New Jersey. The Charter School moved into the new premises in late June, 2013, after completion of the school year. The effective commencement date of the new lease is June 30, 2013, and said lease runs for a term of twenty (20) years. Total lease payments for the year ended June 30, 2016 amounted to \$185,078.

The future minimum rental payments are as follows:

Year Ended June 30,	Amount
2017	171,997
2018	227,671
2019	227,671
Total future minimum rental lease payments	\$ 627,339

NOTE 6: EQUIPMENT RENTAL LEASE

The school also entered into a new equipment lease for a Konica Minolta Copier. The commencement date of the equipment lease is September 18, 2013, for a five year period, at a monthly rental of \$1,527.80. The future minimum rental payments on the equipment lease are as follows;

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6: EQUIPMENT RENTAL LEASE (CONTINUED)

Year Ended June 30,	Amount
2017	\$ 18,334
2018	18,334
Total future minimum equipment lease payments	\$ 36,668

NOTE 7: PENSION PLANS

Substantially all the Board's employees participate in one of the two contributory, defined benefit public employee systems: the Teachers' Pension and Annuity Fund (TPAF) or the Public Employee's Retirement System (PERS) of New Jersey; or the Defined Contribution Retirement Program (DCRP).

A. Public Employees' Retirement System (PERS)

Plan Description

The State of New Jersey, Public Employees; Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about the PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

Benefits Provided

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS. The following represents the membership tiers for PERS:

Tier	Descriptions
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008, and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7: PENSION PLANS (CONTINUED)

Benefits Provided (Continued)

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and to tier 5 members upon 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to Tiers 3 and 4 before age 62 with 25 or more years of service credit and Tier 5 with 30 more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a members retires prior to the age of which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Contributions

The contribution policy for PERS is set by N.J.S.A. 15A and requires contributions by active members and contributing members. The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability.

The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. Charter School contributions to PERS amounted to \$5,733 for fiscal year 2016.

The employee contribution rate was 7.06% effective July 1, 2015. Subsequent increases after October 1, 2011 are being phased on over 7 years effective on each July 1st to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7: PENSION PLANS (CONTINUED)

Pension Liabilities Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Charter School reported a liability of \$149,691 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 01, 2014 which was rolled forward to June 30, 2015. The Charter School's proportion of the net pension liability was based on a projection of the Charter School's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2015, the Charter School's proportion was 0.0006668359% , which was an increase of 0.00008847% from its proportion measured as of June 30, 2014.

For the fiscal year ended June 30, 2015, the Charter School recognized pension expense of \$4,768. At June 30, 2015, the Charter School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	\$ 16,076	\$ -
Changes in Proportion	14,052	195
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	3,571	2,407
	<u>\$ 33,699</u>	<u>\$ 2,602</u>

Amounts reported as deferred outflows of resources and deferred inflows resources (excluding employer specific amounts including changes in proportion) related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Total
2015	\$ 3,139
2016	3,139
2017	3,139
2018	4,999
2019	2,826
	<u>\$ 17,240</u>

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7: PENSION PLANS (CONTINUED)

Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 01, 2014 which was rolled forward to June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuations as of July 01, 2014. This actuarial valuations used the following actuarial assumptions, applied to all periods in the measurement.

Inflation Rate	3.04%
Salary Increases:	
2012-2021	2.15-4.40% based on age
Thereafter	3.15-5.40% based on age
Investment Rate of Return	7.90%

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA. The RP-2000 Disability Mortality Tables (setback 3 years for males and setback 1 year for females) are used to value disabled retirees.

The actuarial assumptions used in the July 01, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pension and Benefits, the Board of Trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS' target asset allocation as of June 30, 2015 are summarized in the following table:

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7: PENSION PLANS (CONTINUED)

Long Term Expected Rate of Return (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%
Core Bonds	1.75%	1.64%
Intermediate-Term Bonds	10.00%	1.79%
Mortgage	2.10%	1.62%
High Yield Bonds	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.25%
Broad U.S. Equities	27.25%	8.52%
Developed Foreign Equities	12.00%	6.88%
Emerging Market Equities	6.40%	10.00%
Private Equity	9.25%	12.41%
Hedge Funds/Absolute Return	12.00%	4.72%
Real Estate (Property)	2.00%	6.83%
Commodities	1.00%	5.32%
Global Debt ex US	3.50%	-0.40%

Discount Rate

The discount rate used to measure the total pension liability was 4.90% as of June 30, 2015. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.90% and a municipal bond rate of 3.80% as of June 30, 2015, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be based on the average of the last five years of contributions made in relation to the last five years of actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7: PENSION PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Sensitivity of the Charter School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Charter School's proportionate share of the collective net pension liability of the participating employers as of June 30, 2015, calculated using the discount rate as disclosed above as well as what the Charter School's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

Fiscal Year Ended June 30, 2015			
	1% Decrease (3.90%)	Current Discount Rate (4.90%)	1% Increase (5.90%)
Charter School's proportionate share of the Net Pension Liability	\$ 186,048	\$ 149,691	\$ 119,210
Fiscal Year Ended June 30, 2014			
	1% Decrease (4.39%)	Current Discount Rate (5.39%)	1% Increase (6.39%)
Charter School's proportionate share of the Net Pension Liability	\$ 157,065	\$ 124,850	\$ 97,797

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial statements.

B. Teacher's Pension Annuity Fund (TPAF)

Pension Description

The State of New Jersey, Teacher's Pension and Annuity Fund (TPAF), is a cost-sharing multiple-employer defined benefit pension plan with a special funding situation, by which the State of New Jersey (the State) is responsible fund 100% of the employer contributions, excluding any local employer early retirement incentive (ERI) contributions. The TPAF is administered by the State of New Jersey Division of Pensions and Benefits (the Division). For additional information about the TPAF, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7: PENSION PLANS (CONTINUED)

Teacher's Pension Annuity Fund (TPAF) (Continued)

Benefit Provided

The vesting and benefit provision are set by N.J.S.A. 18A:66. TPAF provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of TPAF. Members are always fully vested for their own contributions and, after three years of service credit, become vested of 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts. The following represents the membership tiers for TPAF:

Tier	Descriptions
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, Tiers 3 and 4 before age 62 with 25 or more years of service credit, and Tier 5 before age 65 with 30 or more years of service credit. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the retirement age for his/her respective tier. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Contributions

The contribution policy for TPAF is set by N.J.S.A 18A:66 and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For Fiscal year 2015, the State's pension contribution was less than the actuarially determined amount.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7: PENSION PLANS (CONTINUED)

Teacher's Pension Annuity Fund (TPAF) (Continued)

Contributions (Continued)

The Employer contributions for local participating employers are legally required to be funded by the State in accordance with N.J.S.A. 18:66-33. Therefore, these local participating employers are considered to be in a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statements of the local participating employers, such as the Charter School. This note discloses the portion of the Charter School's total proportionate share of the net pension liability that is associated with the Charter School. During the fiscal year ended 2015, the State of New Jersey contributed \$8,826 to the TPAF for normal pension benefits on behalf of the Charter School, which is less than the contractually required contribution of \$12,834.

The employee contribution rate was 7.06% effective July 01, 2015. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1st to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the State's proportionate share of the net pension liability associated with the Charter School was \$1,806,800. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 01, 2014 which was rolled forward to June 30, 2015. The Charter School's proportion of the net pension liability was based on a projection of the Charter School's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2015, Charter School's proportion was 0.0028586670% , which was a decrease of -0.0001626% from its proportion measured as of June 30, 2014.

Charter School's Proportionate Share of the Net Pension Liability	\$	-
State's Proportionate Share of the Net Pension Liability Associated with the District		1,806,800
Total	\$	1,806,800

For the fiscal year ended June 30, 2015, the State recognized pension expense on behalf of the Charter School in the amount of \$15,363 and the Charter School recognized pension expense and revenue for that same amount in the fiscal year ended June 30, 2016 financial statements.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7: PENSION PLANS (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The State reported collective deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	\$ 7,200,153,386	\$ -
Difference Between Expected and Actual Experience	321,224,871	19,039,817
Changes in Proportion and differences between employer contributions and proportionate share of contributions	117,933,318	117,933,318
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	_____	535,359,188
	\$ 7,639,311,575	\$ 672,332,323

The \$7,639,311,575 reported as deferred outflows of resources related to pensions resulting from changes in assumptions will be amortized over a period of 8.5 years. The \$7,639,311,575 reported as deferred outflows of resources related to pensions resulting from the difference between expected and actual experience will be amortized over a period of 8.5 years. The \$672,332,323 reported as deferred inflows of resources related to pensions resulting from the difference between expected and actual experience will be amortized over a period of 8.5 years. The \$672,332,323 reported as a deferred inflow of resources resulting from the difference between projected and actual earnings on pension plan investments will be amortized over a period of 5 years.

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions will be recognized in pension expense excluding that attributable to employer-paid member contributions as follows:

Fiscal Year Ending June 30,	Total
2016	\$ 818,433,596
2017	818,433,596
2018	818,433,598
2019	1,253,742,742
2020	1,061,100,680
Thereafter	2,196,835,040
	\$ 6,966,979,252

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7: PENSION PLANS (CONTINUED)

Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 01, 2014 which was rolled forward to June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 01, 2014. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation Rate	2.50%
Salary Increases:	
2012-2021	Varies based on experience
Thereafter	Varies based on experience
Investment Rate of Return	7.90%

Mortality rates were based on the RP-2000 Health Annuitant Mortality Tables for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA. Pre-retirement mortality improvements for active members are projected using Scale AA from the base year of 200 until the valuation date plus 15 years to account for future mortality improvement. Post-retirement mortality improvements for non-disabled annuitants are projected using Scale AA from the base year of 2000 for males and 2003 for females until the valuation date plus 7 years to account for future mortality improvement.

The actuarial assumptions used in the July 01, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2012.

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pension and Benefits, the Board of Trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in TPAF's target asset allocation as of June 30, 2015 is summarized in the following table:

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7: PENSION PLANS (CONTINUED)

Long-Term Expected Rate of Return (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Cash	5.00%	0.53%
US Government Bonds	1.75%	1.39%
US Credit Bonds	13.50%	2.72%
US Mortgages	2.10%	2.54%
US Inflation-Indexed Bonds	1.50%	1.47%
US High Yield Bonds	2.00%	4.57%
U.S. Equity Markets	27.25%	5.63%
Foreign Developed Equity	12.00%	6.22%
Emerging Market Equities	6.40%	8.46%
Private Real Estate Property	4.25%	3.97%
Timber	1.00%	4.09%
Farmland	1.00%	4.61%
Private Equity	9.25%	9.15%
Commodities	1.00%	3.58%
Hedge Funds- Multi Strategy	4.00%	4.59%
Hedge Funds- Equity Hedge	4.00%	5.68%
Hedge Funds- Distressed	4.00%	4.30%

Discount Rate – TPAF

The discount rate used to measure the total pension liability was 4.13% as of June 30, 2015. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.90%, and a municipal bond rate of 3.80% as of June 30, 2015, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of employers' contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2027. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2027, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7: PENSION PLANS (CONTINUED)

Sensitivity of the Charter School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the State as of June 30, 2015 calculated using the discount rate as disclosed above, as well as what the State's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Fiscal Year Ended June 30, 2015		
	1%	Current	1%
	Decrease (3.13%)	Discount Rate (4.13%)	Increase (5.13%)
Charter School's proportionate share of the Net Pension Liability	\$ 2,160,006	\$ 1,816,908	\$ 1,522,372

	Fiscal Year Ended June 30, 2014		
	1%	Current	1%
	Decrease (3.68%)	Discount Rate (4.68%)	Increase (5.68%)
Charter School's proportionate share of the Net Pension Liability	\$ 1,850,215	\$ 1,538,336	\$ 1,278,935

Pension Plan Fiduciary Net Position – TPAF

Detailed information about the TPAF's fiduciary net position is available in the separately issued TPAF financial statements.

C. Defined Contribution Retirement Program (DCRP)

Prudential Financial jointly administers the DCRP investments with the NJ Division of Pensions and Benefits. If an employee is ineligible to enroll in the PERS or TPAF, the employee may be eligible to enroll in the DCRP. DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting is immediate upon enrollment for members of the DCRP.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the DCRP. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey 08625-0295.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7: PENSION PLANS (CONTINUED)

Defined Contribution Retirement Program (DCRP) (Continued)

The contribution policy is set by the New Jersey Statutes and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by the State of New Jersey regulation. Employers are required to contribute at an actuarially determined rate. Employee contributions are based on percentages of 5.50% for DCRP of employees' annual compensation, as defined. The expanded under the provisions of Chapter 89, P.L. 2008. Employee contributions for DCRP are matched by a 3% employer contribution.

The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits, and post-retirement medical premiums.

For DCRP, the Charter School recognized no pension expense for the fiscal year ended June 30, 2016. There were no employee contributions to DCRP for the fiscal year ended June 30, 2016.

During the year ended June 30, 2016, the State of New Jersey contributed \$82,932 to the TPAF for normal cost pension contributions and post-retirement medical benefits on behalf of the Charter School. Also, in accordance with N.J.S.A. 18A:66-66 the State of New Jersey reimbursed the Charter School \$28,087 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, and the combining and individual fund statements and schedules as a revenue and expenditure in accordance with GABS No. 24.

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.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8: POST-RETIREMENT BENEFITS (CONTINUED)

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 (ABP) 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: RISK MANAGEMENT

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

Property and Liability Insurance

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

New Jersey Unemployment Compensation Insurance

Prior to January 27, 2014, the charter school had elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method." Under this plan, the charter school was required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State.

A resolution was passed by the Board of Trustees on January 27, 2014 to change the unemployment contribution to the "Contributory Method" where the Charter School will now remit the entire employee deduction to the Commissioner of Labor. As of June 30, 2016, there remains a balance of \$1,897 in the school's Unemployment Compensation trust account.

**DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10: FUND BALANCE

General Fund

Of the \$236,070 General Fund's fund balance at June 30, 2016, \$236,070 is unreserved and undesignated.

NOTE 11: SUBSEQUENT EVENTS

The Charter School's management has informed us that there are no significant events that need to be disclosed after the balance sheet date through the date of the audit.

REQUIRED SUPPLEMENTARY INFORMATION – PART II

SECTION C – BUDGETARY COMPARISON SCHEDULES

DISCOVERY CHARTER SCHOOL
General Fund
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2016

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
REVENUES:					
Local Levy Budget:					
Equalization Aid-Local Share-Charter School Aid	\$ 159,012	\$ 14,596	\$ 173,608	\$ 173,608	\$ -
Total Local Levy Budget	159,012	14,596	173,608	173,608	-
Categorical Aid:					
Equalization Aid-State Share-Charter School Aid	958,666	87,996	1,046,662	1,046,662	-
Special Education	34,662	8,736	43,398	43,398	-
Security Aid	44,372	548	44,920	44,920	-
Total Categorical Aid	1,037,700	97,280	1,134,980	1,134,980	-
Revenues From Other Sources:					
Interest Income	-	-	-	29	29
Donations and Contributions	30,000	(30,000)	-	36,769	36,769
Miscellaneous Revenue	-	-	-	47,041	47,041
On-Behalf TPAF Pension Contributions (Non-Budgeted)	-	-	-	82,932	82,932
Reimbursed TPAF Social Security Contributions (Non-Budgeted)	30,000	-	30,000	28,087	(1,913)
Total Revenues From Other Sources	60,000	(30,000)	30,000	194,858	164,858
Total Revenues	1,256,712	81,876	1,338,588	1,503,446	164,858
EXPENDITURES:					
Instruction:					
Salaries of Teachers	392,826	24,670	417,496	416,590	906
Other Salaries for Instruction	71,000	(2,307)	68,693	68,693	-
Purchased Prof/Tech Services	37,500	8,851	46,351	45,402	949
Other Purchased Services	7,500	15,517	23,017	23,017	-
General Supplies	20,000	(7,758)	12,242	12,216	26
Textbooks	15,000	(14,762)	238	238	-
Miscellaneous	10,000	10,273	20,273	20,273	-
Total Instruction	553,826	34,484	588,310	586,429	1,881
Administration:					
Salaries - General Administration	35,000	29,865	64,865	64,865	-
Salaries of Secretarial/Clerical Assistants	73,838	(769)	73,069	72,920	149
Total Benefits Cost	203,047	33,943	236,990	216,640	20,350
Purchases Prof/Tech Services	76,250	35,667	111,917	111,917	-
Other Purchased Services	56,751	4,113	60,864	60,864	-
Communications/Telephone	30,000	(10,000)	20,000	18,286	1,714
Supplies and Materials	30,000	(7,507)	22,493	22,493	-
Miscellaneous Expenses	4,000	546	4,546	4,546	-
Total Administration	508,886	85,858	594,744	572,531	22,213

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

DISCOVERY CHARTER SCHOOL
General Fund
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2016

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
(Continued from Prior Page)					
Support Services:					
Rental of Land and Buildings	\$ 175,000	\$ 10,078	\$ 185,078	\$ 185,078	\$ -
Transportation-Other Than To/From School	7,500	-	7,500	2,325	5,175
Insurance for Property, Liability and Fidelity	20,000	(4,000)	16,000	15,931	69
Supplies and Materials	6,000	5,500	11,500	2,853	8,647
Energy Costs (Heat and Electricity)	15,000	3,942	18,942	9,418	9,524
Miscellaneous Expenses	5,500	19,163	24,663	20,900	3,763
Total Support Services	229,000	34,683	263,683	236,505	27,178
Capital Outlay:					
Instructional Equipment	-	25,000	25,000	2,400	22,600
Non-Instructional Equipment	-	4,644	4,644	4,644	-
Total Capital Outlay	-	29,644	29,644	7,044	22,600
On-Behalf TPAF Pension Contributions (Non-Budgeted)	-	-	-	82,932	(82,932)
Reimbursed TPAF Social Security Contributions (Non-Budgeted)	-	-	-	28,087	(28,087)
Total Expenditures	1,291,712	184,669	1,476,381	1,513,528	(37,147)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(35,000)	(102,793)	(137,793)	(10,082)	127,711
FUND BALANCE, JULY 1	246,152	-	246,152	246,152	-
FUND BALANCE, JUNE 30	\$ 211,152	\$ (102,793)	\$ 108,359	\$ 236,070	\$ 127,711
Recapitulation of Excess (Deficiency) of Revenues Over (Under) Expenditures					
Budgeted Fund Balance	\$ 211,152	\$ (102,793)	\$ 108,359	\$ 236,070	\$ 127,711
Total	\$ 211,152	\$ (102,793)	\$ 108,359	\$ 236,070	\$ 127,711

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

DISCOVERY CHARTER SCHOOL
Special Revenue Fund
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2016

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
REVENUE SOURCES:					
Federal	\$ 76,940	\$ -	\$ 76,940	\$ 76,940	\$ -
Total Revenues	76,940	-	76,940	76,940	-
EXPENDITURES:					
Instruction:					
Salaries	57,111	-	57,111	57,111	-
Total Instruction	57,111	-	57,111	57,111	-
Support Services:					
Salaries	3,952	-	3,952	3,952	-
Personal Services - Employee Benefits	15,877	-	15,877	15,877	-
Total Support Services	19,829	-	19,829	19,829	-
Total Expenditures	76,940	-	76,940	76,940	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

DISCOVERY CHARTER SCHOOL
 Required Supplementary Information
 Budgetary Comparison Schedule
 Note to RSI
 Fiscal Year Ended June 30, 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>
Sources/Inflows of Resources			
Actual amounts (budgetary) "revenues" from the budgetary comparison schedules	[C-1] \$ 1,503,446		[C-2] \$ 76,940
Difference - Budget to GAAP Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized			-
Total revenues as reports on the statement of revenues, expenditures and changes in fund balance - governmental funds.	[B-2] \$ <u>1,503,446</u>		[B-2] \$ <u>76,940</u>
Uses/Outflows of resources			
Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	[C-1] \$ 1,513,528		[C-2] 76,940
Differences - Budget to GAAP: Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial accounting purposes.			-
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	[B-2] \$ <u>1,513,528</u>		[B-2] \$ <u>76,940</u>

REQUIRED SUPPLEMENTARY INFORMATION – PART III

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

DISCOVERY CHARTER SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF THE CHARTER SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST 2 FISCAL YEARS
UNAUDITED

	Fiscal Year Ending June 30,	
	2014	2015
Charter School's proportion of the net pension liability	0.00008847%	#####
Charter School's proportionate share of the net pension liability	\$ 110,820	\$ 149,691
Charter School's covered employees payroll	\$ 118,978	\$ 211,790
Charter School's proportionate share of the net pension liability as a percentage of it's covered employee payroll	93%	71%
Plan fiduciary net position as a percentage of the total pension liability	48.72%	52.08%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the fiscal year ended June 30, 2015.

**DISCOVERY CHARTER SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF THE CHARTER SCHOOL CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST 2 FISCAL YEARS
UNAUDITED**

	Fiscal Year Ending June 30,	
	2014	2015
Contractually required contribution	\$ 4,369	\$ 5,733
Contributions in relation to the contractually required contribution	<u>(0)</u>	<u>(5,733)</u>
Contribution deficiency/(excess)	<u>\$ 4,369</u>	<u>\$ -</u>
Charter School's covered employee payroll	\$ 118,978	\$ 211,790
Contributions as a percentage of covered employee payroll	3.67%	2.71%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the fiscal year ended June 30, 2015.

DISCOVERY CHARTER SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF THE CHARTER SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER'S PENSION AND ANNUITY FUND
LAST 2 FISCAL YEARS
UNAUDITED

	Fiscal Year Ending June 30,	
	2014	2015
State's proportion of the net pension liability attributable of the Charter School	0.0028586670%	0.00000000%
State's proportionate share of the net pension liability attributable to the Charter School	\$ 2,026,751	\$ -
CS / District's covered employees payroll	\$ 440,986	\$ 357,442
Charter School's proportionate share of the net pension liability as a percentage of it's covered employee payroll	459.59%	0.00%
Plan fiduciary net position as a p ercentage of the total pension liability	33.76%	33.64%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the fiscal year ended June 30, 2015.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION III

DISCOVERY CHARTER SCHOOL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC EMPLOYEES RETIREMENT SYSTEM
FOR FISCAL YEAR ENDED JUNE 30, 2015

A. Benefit Changes

There were none.

B. Changes in Assumptions

The discount rate changed from 5.39% as of June 30, 2014 to 4.90% as of June 30, 2015. The inflation rate changed from 3.01% as of June 30, 2014 to 3.04% as of June 30, 2015.

DISCOVERY CHARTER SCHOOL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
TEACHER'S PENSION AND ANNUITY FUND
FOR FISCAL YEAR ENDED JUNE 30, 2015

A. Benefit Changes

There were none.

B. Changes in Assumptions

The discount rate changed from 4.68% as of June 30, 2014 to 4.13% as of June 30, 2015.

OTHER SUPPLEMENTARY INFORMATION

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

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

DISCOVERY CHARTER SCHOOL
Special Revenue Fund
Combining Schedule of Program Revenues and Expenditures - Budgetary Basis
For the Fiscal Year Ended June 30, 2016

	NCLB Title I	I.D.E.A. Part B	NCLB Title II	Grand Total
REVENUE SOURCES:				
Federal	\$ 52,658	\$ 19,302	\$ 4,980	\$ 76,940
Total Revenues	52,658	19,302	4,980	76,940
EXPENDITURES:				
Instruction:				
Salaries	41,792	15,319	-	57,111
Total Instruction	41,792	15,319	-	57,111
Support Services:				
Salaries	-	-	3,952	3,952
Personal Services - Employee Benefits	10,866	3,983	1,028	15,877
Total Support Services	10,866	3,983	4,980	19,829
Total Expenditures	52,658	19,302	4,980	76,940
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ -	\$ -

**SECTION G – PROPRIETARY FUNDS
DETAIL STATEMENTS**

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

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

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

**SECTION H – FIDUCIARY FUNDS
DETAIL STATEMENTS**

Fiduciary Funds are used to account for funds received by the Charter School for a specific purpose.

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

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

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

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

DISCOVERY CHARTER SCHOOL
 Fiduciary Funds
 Combining Statement of Fiduciary Net Position
 As of June 30, 2016

	Trust			Agency				
	Unemployment Compensation Insurance	Teachers Trust Fund Account	Students Scholarship Trust Account	Total Trust Fund	Payroll Agency	Net Payroll	Student Activities	Total Agency Fund
ASSETS:								
Cash and Cash Equivalents	\$ 7,127	\$ 6,753	\$ 2,531	\$ 16,411	\$ 17,088	\$ 18,123	\$ 1,922	\$ 37,133
Interfund Accounts Receivable				-				-
Total Assets	<u>7,127</u>	<u>6,753</u>	<u>2,531</u>	<u>16,411</u>	<u>17,088</u>	<u>18,123</u>	<u>1,922</u>	<u>37,133</u>
LIABILITIES:								
Interfund Accounts Payable	1,897			1,897	15,946	18,123	-	34,069
Payroll Deductions and Withholdings Due to Student Groups					1,142		1,922	1,142
Total Liabilities	<u>1,897</u>	<u>-</u>	<u>-</u>	<u>1,897</u>	<u>17,088</u>	<u>18,123</u>	<u>1,922</u>	<u>37,133</u>
NET POSITION:								
Held in Trust for Claims	5,230	6,753	2,531	14,514				
Total Net Position	<u>\$ 5,230</u>	<u>\$ 6,753</u>	<u>\$ 2,531</u>	<u>\$ 14,514</u>				

DISCOVERY CHARTER SCHOOL
 Fiduciary Funds
 Combining Statement of Changes in Fiduciary Net Position
 Trust Funds
 For the Fiscal Year Ended June 30, 2016

	Unemployment Compensation Insurance	Teachers Trust Fund Account <i>(Initial Year)</i>	Students Scholarship Trust Account <i>(Initial Year)</i>	Total Trust Fund
ADDITIONS:				
Fundraising Income	\$ -	\$ 6	\$ 4	\$ 10
Total Additions	-	6	4	10
DEDUCTIONS:				
Fundraising Expense		4,800	9,620	14,420
Total Deductions	-	4,800	9,620	14,420
CHANGE IN NET POSITION	-	(4,794)	(9,616)	(14,410)
NET POSITION, JULY 1	5,230	11,547	12,147	28,924
NET POSITION, JUNE 30	<u>\$ 5,230</u>	<u>\$ 6,753</u>	<u>\$ 2,531</u>	<u>\$ 14,514</u>

Discovery Charter School
 Fiduciary Funds
 Student Activity Agency Fund
 Schedule of Receipts and Disbursements
 For the Fiscal Year Ended June 30, 2016

	<u>Balance July 1, 2015</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Balance June 30, 2016</u>
Kid's in Business	\$ 1,922	\$ -	\$ -	\$ 1,922
Total	<u>\$ 1,922</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,922</u>

Discovery Charter School
Fiduciary Funds
Payroll Agency Fund
Schedule of Receipts and Disbursements
For the Fiscal Year Ended June 30, 2016

	Balance July 1, 2015	Receipts	Disbursements	Balance June 30, 2016
ASSETS:				
Cash and Cash Equivalents	\$ 12,184	\$ 283,966	\$ 279,062	\$ 17,088
Total Assets	<u>\$ 12,184</u>	<u>\$ 283,966</u>	<u>\$ 279,062</u>	<u>\$ 17,088</u>
LIABILITIES:				
Interfund Accounts Payable	\$ 12,184	\$ 3,762	\$ -	\$ 15,946
Payroll Deductions and Withholdings	<u>-</u>	<u>280,204</u>	<u>279,062</u>	<u>1,142</u>
Total Liabilities	<u>\$ 12,184</u>	<u>\$ 283,966</u>	<u>\$ 279,062</u>	<u>\$ 17,088</u>

STATISTICAL SECTION (UNAUDITED)

GASB requires that ten years of statistical data be presented. The following information is presented utilizing information available. Each year thereafter, an additional year's data will be included until ten years of data is presented.

Contents

Financial Trends

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

Revenue Capacity (Not Applicable to Charter School)

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

FINANCIAL TRENDS

DISCOVERY CHARTER SCHOOL
 Net Assets/Position by Component
 Last Ten Fiscal Years
(accrual basis of accounting)
 Unaudited

	Fiscal Year Ending June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Governmental Activities										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	118,439	134,577	175,193	105,992	208,515	197,245	301,252	282,853	399	19,680
Total Governmental Activities Net Assets/Position	<u>\$ 118,439</u>	<u>\$ 134,577</u>	<u>\$ 175,193</u>	<u>\$ 105,992</u>	<u>\$ 208,515</u>	<u>\$ 197,245</u>	<u>\$ 301,252</u>	<u>\$ 282,853</u>	<u>\$ 399</u>	<u>\$ 19,680</u>
Business-Type Activities										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	7,553	11,491	26,595	23,158	9,611	30,663	29,959	19,334	11,095	5,864
Total Business-Type Activities Net Assets/Position	<u>\$ 7,553</u>	<u>\$ 11,491</u>	<u>\$ 26,595</u>	<u>\$ 23,158</u>	<u>\$ 9,611</u>	<u>\$ 30,663</u>	<u>\$ 29,959</u>	<u>\$ 19,334</u>	<u>\$ 11,095</u>	<u>\$ 5,864</u>
Charter School-wide										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	125,992	146,068	201,788	129,150	218,126	227,908	331,211	302,187	11,494	25,544
Total Charter School-wide Net Assets/Position	<u>\$ 125,992</u>	<u>\$ 146,068</u>	<u>\$ 201,788</u>	<u>\$ 129,150</u>	<u>\$ 218,126</u>	<u>\$ 227,908</u>	<u>\$ 331,211</u>	<u>\$ 302,187</u>	<u>\$ 11,494</u>	<u>\$ 25,544</u>

Source: Comprehensive Annual Financial Report

DISCOVERY CHARTER SCHOOL
 Changes in Net Assets/Position
 Last Ten Fiscal Years
(accrual basis of accounting)
 Unaudited

	Fiscal Year Ending June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Expenses										
Governmental Activities:										
Instruction	\$ 898,741	\$ 758,254	\$ 704,101	\$ 742,312	\$ 573,967	\$ 679,155	\$ 555,155	\$ 502,757	\$ 493,104	\$ 530,706
Administration	434,405	387,807	339,281	431,870	489,015	325,262	362,295	206,803	285,890	221,573
Support Services	256,334	220,813	223,124	209,143	204,169	250,032	325,280	200,968	217,885	453,520
Capital Outlay	7,044	27,955	15,518	14,683	6,801	-	-	3,000	-	-
Total Governmental Activities Expenses	<u>1,596,524</u>	<u>1,394,829</u>	<u>1,282,024</u>	<u>1,398,008</u>	<u>1,273,952</u>	<u>1,254,449</u>	<u>1,242,730</u>	<u>913,528</u>	<u>999,879</u>	<u>1,205,799</u>
Business-Type Activities:										
Food Service	99,898	80,091	42,259	36,708	63,456	35,826	21,638	20,734	23,903	34,170
Total Business-Type Activities Expenses	<u>99,898</u>	<u>80,091</u>	<u>42,259</u>	<u>36,708</u>	<u>63,456</u>	<u>35,826</u>	<u>21,638</u>	<u>20,734</u>	<u>23,903</u>	<u>34,170</u>
Total Charter School Expenses	<u>\$ 1,696,422</u>	<u>\$ 1,474,920</u>	<u>\$ 1,324,283</u>	<u>\$ 1,434,716</u>	<u>\$ 1,337,408</u>	<u>\$ 1,290,275</u>	<u>\$ 1,264,368</u>	<u>\$ 934,262</u>	<u>\$ 1,023,782</u>	<u>\$ 1,239,969</u>
Program Revenues										
Governmental Activities:										
Charges for Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Grants and Contributions	43,398	25,926	12,963	17,862	24,045	25,480	19,626	25,666	37,250	53,080
Capital Grants and Contributions	-	-	-	-	-	-	-	-	-	-
Total Governmental Activities Revenues	<u>43,398</u>	<u>25,926</u>	<u>12,963</u>	<u>17,862</u>	<u>24,045</u>	<u>25,480</u>	<u>19,626</u>	<u>25,666</u>	<u>37,250</u>	<u>53,080</u>
Business-Type Activities:										
Charges for Services	4,894	447	899	-	563	984	1,438	1,296	712	2,845
Operating Grants and Contributions	63,912	64,540	44,797	50,255	41,837	35,531	30,797	27,657	28,172	28,111
Capital Grants and Contributions	-	-	-	-	-	-	-	-	-	-
Total Business-Type Activities Revenues	<u>68,806</u>	<u>64,987</u>	<u>45,696</u>	<u>50,255</u>	<u>42,400</u>	<u>36,515</u>	<u>32,235</u>	<u>28,953</u>	<u>28,884</u>	<u>30,956</u>
Total Charter School Program Revenues	<u>\$ 112,204</u>	<u>\$ 90,913</u>	<u>\$ 58,659</u>	<u>\$ 68,117</u>	<u>\$ 66,445</u>	<u>\$ 61,995</u>	<u>\$ 51,861</u>	<u>\$ 54,619</u>	<u>\$ 66,134</u>	<u>\$ 84,036</u>
Net (Expense)/Revenue										
Governmental Activities	\$ (1,553,126)	\$ (1,368,903)	\$ (1,269,061)	\$ (1,380,146)	\$ (1,249,907)	\$ (1,228,969)	\$ (1,223,104)	\$ (887,862)	\$ (962,629)	\$ (1,152,719)
Business-Type Activities	(31,092)	(15,104)	3,437	13,547	(21,056)	689	10,597	8,219	4,981	(3,214)
Total Charter School-wide Net Expense	<u>\$ (1,584,218)</u>	<u>\$ (1,384,007)</u>	<u>\$ (1,265,624)</u>	<u>\$ (1,366,599)</u>	<u>\$ (1,270,963)</u>	<u>\$ (1,228,280)</u>	<u>\$ (1,212,507)</u>	<u>\$ (879,643)</u>	<u>\$ (957,648)</u>	<u>\$ (1,155,933)</u>
General Revenues and Other Changes in Net Assets/Position										
Governmental Activities:										
General Purposes	\$ 173,608	\$ 171,945	\$ 154,133	\$ 143,893	\$ 134,976	\$ 126,580	\$ 99,750	\$ 139,469	\$ 173,295	\$ 135,258
Federal and State Aid Not Restricted	1,279,541	1,238,920	1,131,221	1,113,208	1,065,572	967,635	1,054,859	993,575	692,392	921,871
Investment Earnings	29	19	-	1	107	-	-	-	-	-
Miscellaneous Income	83,810	23,455	52,908	20,521	60,522	30,747	86,894	36,395	77,661	55,544
Total Governmental Activities	<u>1,536,988</u>	<u>1,434,339</u>	<u>1,338,262</u>	<u>1,277,623</u>	<u>1,261,177</u>	<u>1,124,962</u>	<u>1,241,503</u>	<u>1,169,439</u>	<u>943,348</u>	<u>1,112,673</u>
Business-Type Activities:										
Investment Earnings	-	-	-	-	4	16	29	20	-	-
Miscellaneous Income	27,154	-	-	-	-	-	-	-	250	1,180
Total Business-Type Activities	<u>27,154</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4</u>	<u>16</u>	<u>29</u>	<u>20</u>	<u>250</u>	<u>1,180</u>
Total Charter School-wide	<u>\$ 1,564,142</u>	<u>\$ 1,434,339</u>	<u>\$ 1,338,262</u>	<u>\$ 1,277,623</u>	<u>\$ 1,261,181</u>	<u>\$ 1,124,978</u>	<u>\$ 1,241,532</u>	<u>\$ 1,169,459</u>	<u>\$ 943,598</u>	<u>\$ 1,113,853</u>
Change in Net Assets/Position										
Governmental Activities	\$ (16,138)	\$ 65,436	\$ 69,201	\$ (102,523)	\$ 11,270	\$ (104,007)	\$ 18,399	\$ 281,577	\$ (19,281)	\$ (40,046)
Business-Type Activities	(20,076)	50,332	72,638	(88,976)	(9,782)	(103,302)	29,025	289,816	5,231	(2,034)
Total Charter School	<u>\$ (36,214)</u>	<u>\$ 115,768</u>	<u>\$ 141,839</u>	<u>\$ (191,499)</u>	<u>\$ 1,257</u>	<u>\$ (107,309)</u>	<u>\$ 47,424</u>	<u>\$ 311,393</u>	<u>\$ (13,050)</u>	<u>\$ (42,080)</u>

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

	Fiscal Year Ending June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General Fund	-	-	-	-	-	-	-	-	-	-
Restricted	236,070	246,152	175,193	105,992	208,515	197,245	301,252	282,853	-	-
Unassigned	-	-	-	-	-	-	-	-	-	-
Total General Fund	\$ 236,070	\$ 246,152	\$ 175,193	\$ 105,992	\$ 208,515	\$ 197,245	\$ 301,252	\$ 282,853	\$ 399	\$ 19,680

Source: Comprehensive Annual Financial Report

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

Fiscal Year Ending June 30,	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenues:										
Local Sources:										
Local Tax Levy	\$ 173,608	\$ 171,945	\$ 154,133	\$ 143,893	\$ 134,976	\$ 126,580	\$ 99,750	\$ 139,469	\$ 173,295	\$ 135,258
Interest in Investments	29	19	-	1	107	-	-	-	-	-
Miscellaneous	83,810	23,455	52,908	20,521	60,522	30,747	86,894	36,395	77,661	55,544
State Sources	1,245,999	1,189,855	1,073,485	1,056,275	1,017,528	923,151	927,161	940,761	640,107	638,211
Federal Sources	76,940	74,991	70,699	74,795	72,089	69,964	147,324	78,480	89,535	336,740
Total Revenues	1,580,386	1,460,265	1,351,225	1,295,485	1,285,222	1,150,442	1,261,129	1,195,105	980,598	1,165,753
Expenditures:										
Instruction	643,540	607,582	578,192	552,936	494,266	573,340	496,200	433,472	386,283	454,915
Administration	683,550	532,956	465,190	621,246	568,716	433,097	429,254	279,359	397,834	299,131
Support Services	256,334	220,813	223,124	209,143	204,169	248,012	317,276	197,697	212,762	451,753
Capital Outlay	7,044	27,955	15,518	14,683	6,801	-	-	3,000	3,000	-
Total Expenditures	1,590,468	1,389,306	1,282,024	1,398,008	1,273,952	1,254,449	1,242,730	913,528	999,879	1,205,799
Net Change in Fund Balance	\$ (10,082)	\$ 70,959	\$ 69,201	\$ (102,523)	\$ 11,270	\$ (104,007)	\$ 18,399	\$ 281,577	\$ (19,281)	\$ (40,046)

Source: Comprehensive Annual Financial Report

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

Fiscal Year Ending June 30,	Donations and Contributions	Miscellaneous Revenue	Annual Total
2016	\$ 36,769	\$ 47,041	\$ 83,810
2015	23,455	-	23,455
2014	52,762	146	52,908
2013	20,057	464	20,521
2012	56,841	3,681	60,522
2011	-	388	388
2010	-	31,681	31,681
2009	35,405	990	36,395
2008	2,400	32,636	35,036
2007	600	1,944	2,544

Source: Charter School records

OPERATING INFORMATION

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

Function	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Instruction	12	11	12	15	15	15	11	11	11	11
Administrative	3	2	2	2	1	3	2	1	1	1
Support Services	1	1	1	1	1	1	1	1	1	1
Food Service	0	1	0	0	0	0	1	1	1	1
Total	16	15	15	18	17	19	15	14	14	14

Source: Charter School Personnel Records

DISCOVERY CHARTER SCHOOL

Operating Statistics
Last Ten Fiscal Years

Fiscal Year	Enrollment	Operating Expenditures ^a	Cost Per Pupil	Percentage Change	Teaching Staff ^b	Pupil/Teacher Ratio		Average Daily Enrollment (ADE) ^c	Average Daily Attendance (ADA) ^c	Percent Change in Average Daily Enrollment	Student Attendance Percentage
						Elementary					
2016	80	\$ 1,583,424	\$ 19,793	16.31%	12	6:1	80	80	0.00%	100.00%	
2015	80	1,361,351	17,017	0.77%	11	5:1	80	80	6.25%	100.00%	
2014	75	1,266,506	16,887	-8.44%	12	5:1	75	72	0.00%	96.00%	
2013	75	1,383,325	18,444	9.17%	15	5:1	75	72	0.00%	96.00%	
2012	75	1,267,151	16,895	-0.33%	15	5:1	75	72	1.33%	96.00%	
2011	74	1,254,449	16,952	2.31%	15	5:1	74	72	-1.35%	97.30%	
2010	75	1,242,730	16,570	36.48%	11	5:1	75	72	0.00%	96.00%	
2009	75	910,528	12,140	-8.66%	11	7:1	75	72	0.00%	96.00%	
2008	75	996,879	13,292	-17.33%	11	7:1	75	72	0.00%	96.00%	
2007	75	1,205,799	16,077	-13.03%	11	7:1	75	72	0.00%	96.00%	

Sources: Charter School records

Note: Enrollment based on annual October Charter School count.

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

DISCOVERY CHARTER SCHOOL
 School Building Information
 Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<u>Charter School Building</u>										
<u>Middle School</u>										
Square Feet	11,243	11,243	11,243	8,250	8,250	8,250	8,250	8,250	8,250	8,250
Capacity (students)	80	80	80	75	75	75	75	75	75	75
Enrollment	80	80	75	75	75	75	75	75	75	75

Number of Schools at June 30, 2016
 Middle School = 1

Source: Charter School Facilities Office

Note: Increases in square footage and capacity are the result of additions.
 Enrollment is based on the annual October Charter School count.

DISCOVERY CHARTER SCHOOL

Insurance Schedule

June 30, 2016

<u>COVERAGE</u>	<u>LIMITS</u>	<u>SUMMARY</u>
Package NJSBAIG P832 09/03/15-16 \$6,486	Covered Location	230 Halsey Street, Newark, NJ 07102
Property	\$300,000 \$200,000 \$120,000	Business Personal Property w/ \$1,000 Deductible Electronic Data Processing w/ \$1,000 Deductible Business Income w/ \$1,000 Deductible
Crime	\$50,000 \$50,000 \$10,000 \$10,000	Faithful Performance w/ \$500 Deductible Forgery & Alternation w/ \$500 Deductible Money & Securities w/ \$500 Deductible Money Order/Counterfeit w/ \$500 Deductible
	\$113,000 \$113,000	Board Treasurer w/ \$1,000 Deductible (N. Puzo) Board Secretary/BA w/ \$1,000 Deductible (A. Barre)
General Liability	\$5,000,000 \$5,000,000 \$5,000,000 \$5,000,000 \$5,000,000 \$5,000	Single Limit for Bodily Injury and Property Damage Products/Completed Operations Aggregate Annual Aggregate for Child Molestation/Sexual Abuse Each Occurrence for Personal Injury/Advertising Injury Each Claim for Employee Benefits Liability Premise Medical Payments Per Person
Automobile Liability	\$5,000,000	Hired and Non-Owned Automobile Liability
Student Accident Berkley Life & Health Insurance Company PAI L00490427 09/03/15-16 \$644	\$1,000,000 \$25,000	Medical Benefit Amount (Full Excee) Accidental Medical Excess Benefit (Gold Plan)
School Leaders E&O NJSBAIG E832 09/03/15-16 \$4,112	\$1,000,000 \$100,000 \$300,000	Coverage A Each Loss w/ \$5,000 Deductible Coverage B Each Loss w/ \$5,000 Deductible Coverage B Annual Aggregate
Workers' Compensation NJSBAIG W832 09/03/15-16 \$10,819	\$1,000,000 \$1,000,000 \$1,000,000	Each Accident Each Employee Policy Limit
(Based on \$554,393 School Professional and \$13,200 School Non-Professional 0.9005 MOD)		
Supplemental Indemnity NJSBAIG 64775774 09/03/15-16 \$500	Statutory	7-Day Waiting Period

Source: Charter School's Records

DISCOVERY CHARTER SCHOOL
 Charter School Performance Framework Financial Indicators
 Fiscal Ratios
 Last Three Fiscal Years

	2014	2015	2016	Source
	Audit	Audit	Audit	
Cash	\$ 253,140	\$ 307,293	\$ 265,027	Audit: Exhibit A-1
Current Assets (includes CASH)	296,427	357,216	421,639	Audit: Exhibit A-1
Total Assets	296,427	360,621	456,303	Audit: Exhibit A-1
Current Liabilities	94,639	99,573	178,016	Audit: Exhibit A-1
Total Liabilities	94,639	106,266	180,620	Audit: Exhibit A-1
Net Assets	201,788	146,068	125,992	Audit: Exhibit A-1
Total Revenue	1,396,921	1,525,252	1,676,346	Audit: Exhibit A-2
Total Expenses	1,324,283	1,474,920	1,696,422	Audit: Exhibit A-2
Change in Net Assets	72,638	50,332	(20,076)	Audit: Exhibit A-2
Depreciation Expense	-	-	-	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	75.00	80.00	80.00	DOE Enrollment Reports
March 30th Budgeted Enrollment	75	80	80	Charter School Budget

RATIOS ANALYSIS...					Changes
Near Term Indicators	2013	2014	2015	3 YR CUM	Source:
1a. Current Ratio	3.13	3.59	2.37		Current Assets/Current Liabilities
1b. Unrestricted Days Cash	69.77	76.05	57.02		Cash/(Total Expenses/365)
1c. Enrollment Variance	100%	100%	100%		Average Daily Enrollment/Budgeted Enrollment
1d.* Default	N/A	N/A	N/A		Audit
Sustainability Indicators					
2a. Total Margin	5%	3%	-1%	2%	Change in Net Assets/Total Revenue
2b. Debt to Asset	0.32	0.29	0.40		Total Liabilities/Total Assets
2c.** Cash Flow	125,683	54,153	(42,266)		Net change in cash flow from prior years
2d. Debt Service Coverage Ratio	N/A	N/A	N/A		(Change in Net Assets+Depreciation+Interest Expense)/(Principal & Interest Payments)
					Target
					> 1.1
					30-60
					>95%
					not in default
					positive
					<.9
					3 yr cum positive
					>1.10

* Is school in default of loan covenant(s) and/or is delinquent with debt service payments? Yes or No
 ** 2016 = 2016 Cash - 2015 Cash; 2015 = 2015 Cash - 2014 Cash; 2014 = 2014 Cash - 2013 Cash

Refer questions to charterfinance@doe.state.nj.us

SINGLE AUDIT SECTION

BARRE & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

2204 Morris Avenue, Suite 206

Union, New Jersey 07083

(908) 686-3484

FAX – (908) 686-6055

K-1
Page 1

**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**

INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and in compliance with audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Discovery Charter School (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, and have issued our report thereon dated November 28, 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.

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 reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

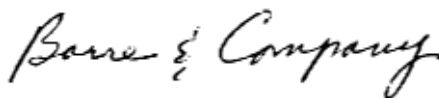
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter School's financial statements are free from 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 matter 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.

We also noted other matters that we reported to the Board of Trustees of the Discovery Charter School in a separate report entitled, Auditor's Management Report on Administrative Findings dated November 28, 2016.

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* and the Office of School Finance, Department of Education, State of New Jersey in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BARRE & COMPANY
Certified Public Accountants
Public School Accountants



Richard M. Barre
Public School Accountant
PSA Number CS-01181

Union, New Jersey
November 28, 2016

BARRE & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

2204 Morris Avenue, Suite 206

Union, New Jersey 07083

(908) 686-3484

FAX – (908) 686-6055

K-2
Page 1

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR
STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF
STATE FINANCIAL ASSISTANCE REQUIRED BY NEW JERSEY OMB
CIRCULAR 15-08**

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

Report on Compliance for Each Major State Program

We have audited the compliance of the Discovery Charter School (Charter School), in the County of Essex, State of New Jersey, with the types of compliance requirements described in the *New Jersey State Aid/Grant Compliance Supplement* that could have a direct and material effect on each of the Charter School’s major state programs for the year ended June 30, 2016. The Charter School’s major state programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

The Charter School’s management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor’s 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 of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*; the audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey; and New Jersey OMB’s Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards, the Uniform Guidance, and New Jersey OMB’s 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 a major state program occurred. An audit includes examining, on a test basis, evidence about the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major State Program

In our opinion, the Discovery Charter School, in the County of Essex, State of New Jersey, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of Discovery 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 program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and New Jersey OMB's 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 the 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 state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *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 state 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.


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 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 that the testing based on the requirements of the Uniform Guidance and New Jersey OMB's Circular 15-08. Accordingly, this report is not suitable for any other purposes.

Report on Schedule of Expenditures of State Financial Assistance Required by New Jersey OMB's Circular 15-08

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Discovery Charter School, 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. We issued our report thereon dated November 28, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of state financial assistance as required by the New Jersey OMB's Circular 15-08 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibilities of management and was derived from and related directly to the underlying accounting and other records used to prepare basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures and schedule of expenditures of state financial assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.


BARRE & COMPANY
Certified Public Accountants
Public School Accountants


Richard M. Barre
Public School Accountant
PSA Number CS-01181

Union, New Jersey
November 28, 2016

DISCOVERY CHARTER SCHOOL
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	FAIN	Grant or State Project Number	Program or Award Amount	Grant Period From To	Balance at June 30, 2015	Carryover/ (Waiver) Amount	Cash Received	Budgetary Expenditures	Adjustments	Repayment Of Prior Years' Balances	Accounts Receivable	Balance at June 30, 2016 Deferred Revenue	Due to Grantor
U.S. Department of Education														
Passed-through State Department of Education														
Special Revenue Fund:														
No Child Left Behind Cluster:														
Title I Part A	84.010A	S010A150030	NCLB - 6320 - 16	\$ 52,658	7/1/15	6/30/16	\$ -	\$ 41,250	\$ (62,658)	\$ -	\$ -	\$ (11,408)	\$ -	\$ -
Title II Part A	84.367A	S367A150029	NCLB - 6320 - 16	4,980	7/1/15	6/30/16	-	2,141	(4,980)	-	-	(2,839)	-	-
Total No Child Left Behind Cluster				57,638				43,391	(67,638)			(14,247)		
Individuals with Disabilities Cluster:														
IDEA, Part B Basic	84.027	H027A150100	IDEA - 6320 - 16	19,302	7/1/15	6/30/16	-	12,901	(19,302)	-	-	(6,401)	-	-
Total Individuals with Disabilities Cluster				19,302				12,901	(19,302)			(6,401)		
Total Special Revenue Fund				76,940				56,292	(86,940)			(20,648)		
U.S. Department of Agriculture														
Passed-through State Department of Agriculture														
Enterprise Fund:														
Food Distribution Program	10.550		N/A	8,399	7/1/15	6/30/16		8,399	(8,399)			(640)		
School Breakfast Program	10.553	16161NJ304N1099	N/A	10,762	7/1/15	6/30/16		10,122	(10,762)					
National School Lunch Program	10.555	16161NJ304N1099	N/A	21,443	7/1/14	6/30/15	(2,117)	2,117	(43,895)			(3,230)		
National School Lunch Program	10.555	16161NJ304N1099	N/A	43,895	7/1/15	6/30/16	(3,941)	40,665	(43,895)					
National School Lunch Program	10.555	16161NJ304N1099	N/A	43,187	7/1/14	6/30/15		3,941						
Total Enterprise Fund				136,886			(6,058)	65,244	(106,056)			(3,870)		
Sub-Total Federal Financial Awards				193,926			(6,058)	121,536	(209,996)			(24,518)		

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

DISCOVERY CHARTER SCHOOL
Schedule of Expenditures of State Financial Assistance
For the Fiscal Year Ended June 30, 2016

State Grantor/Program Title	Grant or State Project Number	Program or Award Amount	Grant Period		Balance at June 30, 2015		Cash Received	Adjustments/Repayment of Prior Year's Balance	Balance at June 30, 2016		MEMO		
			From	To	Deferred Revenue (Accounts Receivable)	Due to Grantor			Deferred Revenue/ Interfund Payable	Due to Grantor		Budgetary Receivable	Cumulative Total Expenditures
State Department of Education													
General Fund:													
State Aid-Public Cluster:													
Equalization Aid-State Share/Charter School Aid	16-495-034-5120-078	\$ 1,046,662	7/1/15	6/30/16	\$ -	\$ -	\$ 972,497	\$ (1,046,662)	\$ -	\$ (74,165)	\$ -	\$ 74,165	\$ 1,046,662
Special Education Categorical Aid	16-495-034-5120-089	43,388	7/1/15	6/30/16	-	-	43,388	(43,388)	-	-	-	-	43,388
Security Aid	16-495-034-5120-084	44,920	7/1/15	6/30/16	-	-	44,920	(44,920)	-	-	-	-	44,920
Total State Aid-Public Cluster							1,060,815	(1,134,980)	-	(74,165)	-	74,165	1,134,980
Other General Funds:													
TPAF Post-Retirement Medical Contributions	16-495-034-5094-001	45,076	7/1/15	6/30/16	-	-	45,076	(45,076)	-	-	-	-	45,076
On-Behalf TPAF Pension Contributions	16-495-034-5094-006	37,856	7/1/15	6/30/16	-	-	37,856	(37,856)	-	-	-	-	37,856
Reimbursed TPAF - Social Security	16-495-034-5094-003	28,087	7/1/15	6/30/16	-	-	28,084	(28,087)	(1,253)	-	-	1,253	28,087
Reimbursed TPAF - Social Security	15-495-034-5095-002	25,655	7/1/14	6/30/15	(1,078)	-	1,078	(1,078)	(1,253)	-	-	1,253	111,019
Total Other General Funds							110,844	(111,019)	-	(1,253)	-	1,253	111,019
Total General Fund							1,171,659	(1,245,999)	-	(75,418)	-	75,418	1,245,999
State Department of Agriculture													
Enterprise Fund:													
National School Lunch Program (State Share)	16-100-010-3350-023	856	7/1/15	6/30/16	(75)	-	794	(856)	-	(62)	-	62	856
National School Lunch Program (State Share)	15-100-010-3350-023	816	7/1/14	6/30/15	(75)	-	75	-	-	-	-	-	816
Total Enterprise Fund							869	(856)	-	(62)	-	62	856
Total State Financial Assistance							1,172,528	(1,246,855)	-	(75,480)	-	75,480	1,246,855
State Financial Assistance Not Subject to Major Program Determination:													
General Fund:													
TPAF Post-Retirement Medical Contributions	16-495-034-5094-001	45,076	7/1/15	6/30/16	-	-	(45,076)	45,076	-	-	-	-	(45,076)
On-Behalf TPAF Pension Contributions	16-495-034-5094-006	37,856	7/1/15	6/30/16	-	-	(37,856)	37,856	-	-	-	-	(37,856)
Total On-Behalf TPAF Pension Contributions							(82,932)	82,932	-	-	-	-	(82,932)
Total State Financial Assistance Subject to Major Program Determination							1,089,596	(1,163,923)	-	(75,480)	-	75,480	1,163,923

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

DISCOVERY CHARTER SCHOOL
Notes to Schedules of Expenditures of Awards and Financial Assistance
June 30, 2016

NOTE 1. GENERAL

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

NOTE 2. BASIS OF ACCOUNTING

The accompanying schedules of expenditures of awards and financial assistance are presented on the budgetary basis of accounting with the exception of programs recorded in the food service fund, which are presented using the accrual basis of accounting. These bases of accounting are described in Note 1 to the board's basic financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and New Jersey OMB's 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 presentation of, the basic financial statements. This does not apply to charter schools as districts are not permitted to defer the June payments to charter schools.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

The general fund is presented in the accompanying schedules on the modified accrual basis with the exception of the revenue recognition of the one or more deferred June state aid payments in the current budget year, which is mandated pursuant to *N.J.S.A. 18A:22-44.2*. For GAAP purposes payments are not recognized until the subsequent budget year due to the state deferral and recording of the one or more June state aid payments in the subsequent year. 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. The special revenue fund also recognizes the one or more June state aid payment in the current budget year, consistent with *N.J.S.A. 18A:22-4.2*.

DISCOVERY CHARTER SCHOOL
Notes to Schedules of Expenditures of Awards and Financial Assistance
June 30, 2016

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS (CONTINUED)

The net adjustment to reconcile from the budgetary basis to the GAAP basis is none for the general fund and none for the special revenue fund. See Notes to the Required Supplementary Information for a reconciliation of the budgetary basis to the modified accrual basis of accounting for the general and special revenue funds. Awards and financial assistance revenues are reported in the board's basic financial statements on a GAAP basis as presented below:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
General Fund	\$ -	1,163,066	\$ 1,163,066
Special Revenue Fund	76,940	-	76,940
Food Service Fund	63,056	856	63,912
Total Awards & Financial Assistance	<u>\$ 139,996</u>	<u>\$ 1,163,922</u>	<u>\$ 1,303,918</u>

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

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

NOTE 5. FEDERAL AND STATE LOANS OUTSTANDING

Discovery Charter School has no loan balances outstanding at June 30, 2016.

NOTE 6. OTHER

Revenues and expenditures reported under the Food Distribution Program represent current year value received and current year distributions respectively. The amount reported as TPAF Pension Contributions represents the amount paid by the state on behalf of the charter school for the year ended June 30, 2016. TPAF Social Security Contributions represents the amount reimbursed by the state for the employer's share of social security contributions for TPAF members for the year ended June 30, 2016.

DISCOVERY CHARTER SCHOOL
Notes to Schedules of Expenditures of Awards and Financial Assistance
June 30, 2016

NOTE 7. ON-BEHALF PROGRAMS NOT SUBJECT TO STATE SINGLE AUDIT

On-behalf State Programs for TPAF Pension and Post-Retirement Medical Benefits Contributions payments 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 basic financial statements and the amount subject to State single audit and major program determination.

NOTE 8. SCHOOLWIDE PROGRAM FUNDS

Schoolwide programs are not separate federal programs as defined in the Uniform Guidance; amounts used in schoolwide programs are included in the total expenditures of the program contributing the funds in the Schedule of Expenditures of Federal Awards. The following funds by program are included in schoolwide programs in the charter school for the 2015-2016 school year.

Program	Total
Title I, Part A: <i>Grants to Local Education Agencies</i>	<u>\$ 52,658</u>
Total	<u><u>\$ 52,658</u></u>

DISCOVERY CHARTER SCHOOL
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Section I – Summary of Auditor’s Results

Financial Statements

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

State Awards

Dollar threshold used to distinguish between Type A and Type B programs:		\$750,000
Auditee qualified as low-risk auditee?	<u> X </u> Yes	_____ No
Internal control over major programs:		
1) Material weakness(es) identified?	_____ Yes	<u> X </u> No
2) Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	None Reported <u> X </u>
Type of auditors’ report issued on compliance for major programs		<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with NJOMB Circular Letter 15-08?	_____ Yes	<u> X </u> No
Identification of major state programs:		

GMIS Number(s)	Name of State Program
_____	_____ State Aid-Public Cluster:_____
_____ 16-495-034-5120-078 _____	_____ Equalization Aid-State Share-Charter School Aid _____
_____ 16-495-034-5120-089 _____	_____ Special Education Categorical Aid _____
_____ 16-495-034-5120-084 _____	_____ Security Aid _____

DISCOVERY CHARTER SCHOOL
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* requires reporting in an Uniform Guidance audit. See paragraphs 13.15 and 13.35.

Finding

There were no matters reported.

DISCOVERY CHARTER SCHOOL
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

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

This section identifies audit findings required to be reported by NJOMB Circular Letter 15-08.

STATE AWARDS

Findings

There were no matters reported.

DISCOVERY CHARTER SCHOOL
Summary Schedule of Prior Year Audit Findings
And Questioned Costs As Prepared by Management
For the Fiscal Year Ended June 30, 2016

STATUS OF PRIOR-YEAR FINDINGS

This section identifies the status of prior year findings related to the basic financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards*, Uniform Guidance (.511(a)(b)) and NJOMB's Circular 15-08.

FINDINGS:

There were no matters reported.