

***PATERSON ARTS AND SCIENCE CHARTER SCHOOL***

***COMPREHENSIVE ANNUAL  
FINANCIAL REPORT***

***FISCAL YEAR ENDED JUNE 30, 2018***

***PATERSON ARTS AND SCIENCE  
CHARTER SCHOOL***

***Paterson Arts and Science Charter School  
Board of Trustees  
Elmwood Park, New Jersey***

***Comprehensive Annual Financial Report  
For The Fiscal Year Ended June 30, 2018***

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT  
OF THE  
PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
ELMWOOD PARK, NEW JERSEY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

***Prepared by***

***Paterson Arts and Science Charter School  
Finance Department***

***And***

***Barre & Company LLC, CPAs***

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***INTRODUCTORY SECTION***

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**465 MOLA BOULEVARD**  
**ELMWOOD PARK, NEW JERSEY 07407**

January 28, 2019

Honorable President and  
Members of the Board of Trustees  
Paterson Arts and Science Charter School  
County of Passaic  
Elmwood Park, New Jersey

Dear Board Members:

The comprehensive annual financial report of the Paterson Arts and Science Charter School (the "Charter School") for the fiscal year ended June 30, 2018, 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 an understanding of the Charter School's financial activities have been included.

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

- The Introductory Section contains a table of contents, Letter of Transmittal, List of Principal Officials, and an Organizational Chart of the Charter School;
- The Financial Section begins with the Independent Auditors' Report and includes the Management's Discussion and Analysis, the Basic Financial Statements and Notes providing an overview of the Charter School's financial position and operating results, and other schedules providing detailed budgetary information;
- The Statistical Section includes selected economic and demographic information, financial trends, and the fiscal capacity of the Charter School, generally presented on a multi-year basis;
- The Single Audit Section — The Charter School is required to undergo an annual single audit in conformity with the provisions of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (U.S. Uniform Guidance) and New Jersey 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 appointed five member Board of Trustees (the “Board”) serves as the policy maker for the Charter School. The Board adopts an annual budget and directly approves all expenditures which serve as the basis for control over and authorization for all expenditures of Charter School tax money.

The Lead-Person is the chief executive officer of the Charter School, responsible to the Board for total educational and support operations. The School 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:** Paterson Arts and Science Charter School is an independent reporting entity within the criteria adopted by the Government Auditing Standards Board (GASB) as established by Statement No. 14. All funds and account groups of the school are included in this report. Paterson Arts and Science Charter School Board of Trustees constitutes the Charter School’s reporting entity.

Paterson Arts and Science Charter School provides a full range of educational services appropriate to Grades K-6. These services include regular, as well as special education and basic skills instruction. The Charter School completed the 2017-2018 school year with an enrollment of 683 students. The following details the student enrollment of the Charter School.

<u>Average Daily Enrollment</u>		
<u>Fiscal Year</u>	<u>Student Enrollment</u>	<u>Percent Change</u>
2017-2018	681	18.06%
2016-2017	558	14.87%
2015-2016	475	16.63%
2014-2015	396	18.94%

**2. ECONOMIC CONDITION AND OUTLOOK:** Paterson Arts and Science Charter School continues to experience a period of development and expansion that is expected to continue through the Twenty-First Century. The increasing number of businesses within the community results in an increase in the employment level which results in an increased tax base, both residential and industrial. This expansion is expected to continue which suggests Paterson Arts and Science Charter School will continue to prosper.

**3. MAJOR INITIATIVES:** The Paterson Arts and Science Charter School Mission is to provide the ideal environment for the intellectual and social development for its students by utilizing a combined effort of students, educators, families, and the community as a whole.

**MISSION AND EDUCATIONAL PROGRAM IN PRACTICE:** Paterson Arts and Science Charter School aims to provide the ideal environment for the intellectual and social development of its students, utilizing the combined effort of students, educators, families, and the community as a whole by providing boundless academic and co-curricular opportunities for individual skills and talents to develop. From the inception of the school, students have been provided a multitude of opportunities extended to them that have guided them on a path to success. Our mission and vision considers the educational goals that the New Jersey Department of Education has established for ***all*** students.

Our mission and vision is in direct alignment with the Science, Technology, Engineering, Arts, and Math (STEAM) philosophy. STEAM is an interdisciplinary educational philosophy that is strongly grounded in, and supported by, educational research. Through challenging, project-based learning experiences, core competencies are learned and evidenced by students. STEAM challenges our students to not only learn the content standards, but also to apply this new knowledge of 21<sup>st</sup> century skills and discoveries to tackle evolving real-world challenges.

The tenets of the Paterson ASCS mission statement focus on high academic achievement, to be supported by digital literacy and a variety of co-curricular activities, provided in healthy environment that encourages mutual respect and social responsibility, supported by the efforts of students, teachers, families, and the school community/community at large. Within the academic framework, the following explains key design elements and evidence of innovative practices:

1. ***Academic Achievement*** - concentration is placed on providing a multidimensional curriculum, research-based "best practices" instructional strategies, and student/program assessments. Literacy objectives within the CCSS must be met to better prepare students for PARCC assessments, college acceptance, and workforce readiness. Summary writing, analysis of rich and varied literature and non-fiction text, critical research skills, and opinions supported by text-based evidence are the cornerstone elements of the CCSS. In mathematics, lessons are aligned to the CCSS and the content prioritized and supported with online programs for student instruction and assignments. Teachers and students have access to rich, CCSS-aligned, engaging content, and embedded assessments with instant data.

2. ***Digital Learning Environment*** - concentration is placed on classroom organization, integration of technology, teacher development, and effective instructional programs. This allows the district to provide the most relevant, research-based educational experience to our students. The design of the program currently embraces technological literacy and integration, and in the absence of these resources, curricula cannot be delivered as designed. The rigors of the *New Jersey Student Learning Standards* coupled with the next-generation digital assessments require us to adjust both the method and mode of instruction to prepare our students for college and careers. The design of the program currently embraces technological literacy and integration; in the absence of technological resources, curricula cannot be delivered as designed. Student assessment data is used to evidence student growth as a result, in part, of digital instruction.

3. **Co-curricular Programs** - concentration is placed on academic and non-academic programs that are designed to meet the needs of the *whole child* (academically, socially and emotionally). Paterson Arts and Science Charter School has a vibrant arts education model, which includes multiple performances including full-length theatrical productions, concerts, cultural dances and festivals. The school is often the host location for a variety of educational presentations, educational guest speakers, science fairs and Olympiads, and math competitions. Additionally, the district participates with its sister schools, Bergen ASCS, Passaic ASCS, and Hudson ASCS in an annual summer learning institute, whereby all instructional staff come together in the form of a professional learning community in order to explore best practices in education.

4. **Community Involvement** - concentration is placed on parent programs, community outreach, and fostering school, family and community collaboration/involvement. The students of Paterson ASCS are afforded the benefits of partnerships currently established with local universities, businesses, and community leaders. Paterson ASCS recognizes a school as an anchor in a community; we believe the school is the anchor that this community needs. All children deserve the opportunity to be educated in a rich, nurturing environment that promotes inquiry-based learning and innovation in an equitable, culturally-sensitive atmosphere.

Paterson ASCS believes that family involvement is an integral component of our school culture. Our objective is to continue fostering close and positive relationships along with constant communication between school, family, and community. Our Parent-Teacher Organization (PTO) is a committee that maintains a strong presence at the school, and is vital to enriching the experience of students. The PTO makes the purchase of sports equipment, musical instruments, yearbooks, and classroom materials a reality for our Charter School. Additionally, the PTO organizes fundraisers to defray the cost of field trips for the students.

In the 2017-2018 academic year, Paterson ASCS reached out to both the parents and the community with myriad programs and activities to enhance the experience of the students and school community as a whole. A selection of these activities is provided below. Paterson ASCS believes that family involvement is an integral component of our school culture. Our objective is to continue fostering close and positive relationships and constant communication between school, family and community. PTO members 2016-2017 school year in order to ensure a successful joining of parent/family community with the school. This was the first year in Paterson that we have a parent advocacy group.

- PICTURE DAY
- BACK-TO-SCHOOL NIGHT
- VIP VISITS
- 4<sup>th</sup> ANNUAL FAMILY CARNIVAL PICNIC
- 9/11 MEMORIAL
- GRANDPARENT'S NIGHT
- HISPANIC HERITAGE MONTH CELEBRATION
- PARENT/TEACHER CONFERENCES
- PATERSON ASCS AWARDS CEREMONIES
- THANKSGIVING DINNER/FOOD DRIVE
- WINTER CONCERTS

- 4<sup>th</sup> ANNUAL MUFFINS WITH MOMS
- SCHOOL CHOICE WEEK
- SCHOOL CHOICE MOVIE NIGHT
- 4<sup>th</sup> ANNUAL DONUTS WITH DADS
- *MAKE THINGS HAPPEN!*
- SCIENCE OLYMPIAD
- SHREK JR. MUSICAL
- ART SHOWCASE
- CINCO DE MAYO CELEBRATION
- DRONE DAY
- GARDEN STATE INTERNATIONAL HERITAGE FESTIVAL
- PATHWAY TO COLLEGE
- PATERSON IDOL VOCAL COMPETITION
- ICE POP SALE
- KINDERGARTEN GRADUATION
- EIGHTH GRADE GRADUATION  
WINTER WONDERLAND
- COOKIE DOUGH FUNDRAISER
- WILDCAT MAGNET SALE
- BOOK FAIRS – TWICE PER YEAR
- YANKEE CANDLE SALE FUNDRAISER
- VALENTINE'S DAY CHOCOLATE SALE
- TRICKY TRAY
- GRADUATION DONATIONS

**PARTNERSHIP PROGRAMS:** Paterson ASCS has partnered with the organizations and institutions of higher learning listed below in order to improve teaching and learning across school campuses.

### **Rutgers University:**

In collaboration with Rutgers University, Paterson ASCS participated in the School Systems Improvement Project. This grant enabled school administrators and the school's Master Mentor Teacher to utilize an evaluation instrument that is highly specific and quantitative. Teachers received 3 formal CSS-O reports throughout the year. School administrators and teachers each completed 3 CSS-T and CSS-O forms, respectively

### **Grand Canyon University**

Through our partnership with Grand Canyon University, school administrators completed online courses in order to obtain supervisory certification. Tuition costs were reduced due to this partnership. 2 school administrators utilized this partnership in order to further their education.

## **Ramapo College**

Paterson ASCS coordinated and oversaw the Clinical Experience for the teachers from the Teacher Education program that will be placed on Paterson ASCS campuses. Through our partnership, students of Ramapo College participated in Student Teaching Internships, practicum, and observations at Paterson ASCS.

## **Fairleigh Dickinson University**

Founded in 1984, the Middle College program is now affiliated with more than 100 high schools throughout New Jersey, including Paterson ASCS. The university's Faculty Advisory Committee reviews submitted curricula and high school staff members for inclusion in the program. FDU's Middle College program gives college-bound juniors and seniors the opportunity to experience university-style learning before they graduate high school. Qualifying students are high school juniors and seniors in advanced and honors sections in subjects such as literature, science, art, mathematics and other courses.

## **Jefferson Awards Foundation**

Students-in-Action empowered students to think big, choose their own public service passion, engage their own school and broader communities, and create maximum impact. There are 3 pillars of Students-in-Action: Leadership, Engagement, and Impact. Students-in-Action comprised of middle school students who possess the leadership traits and eagerness to make a difference in the school and in the community at large.

**4. INTERNAL ACCOUNTING CONTROLS:** Management of the Board of Trustees is responsible for establishing and maintaining an internal control structure 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). The internal control structure is designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

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

As part of the Charter School's single audit described earlier, tests are made to determine the adequacy of the internal control structure, 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. Annual appropriated budgets are adopted for the general fund and the special revenue fund. The final budget amount as amended for the fiscal year is reflected in the financial section.

An encumbrance accounting system is used to record outstanding purchase commitments on a line item basis. Open encumbrances at year-end are either canceled or are included as re-appropriations of fund balance in subsequent year. Those amounts to be reappropriated are reported as reservations of fund balance at June 30, 2018.

6. **CASH MANAGEMENT:** The investment policy of the Charter School is guided in large part by state statute as detailed in “Notes to the Financial Statement” Note 3. 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 deposits 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, and fidelity bonds.

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 LLC, CPA’s, was appointed 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 Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”) and New Jersey’s Circular 15-08-OMB, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*. The auditors’ report on the basic financial statements and specific required supplemental information is included in the financial section of this report. The auditors’ reports, related specifically to the single audit, are included in the single audit section of this report.

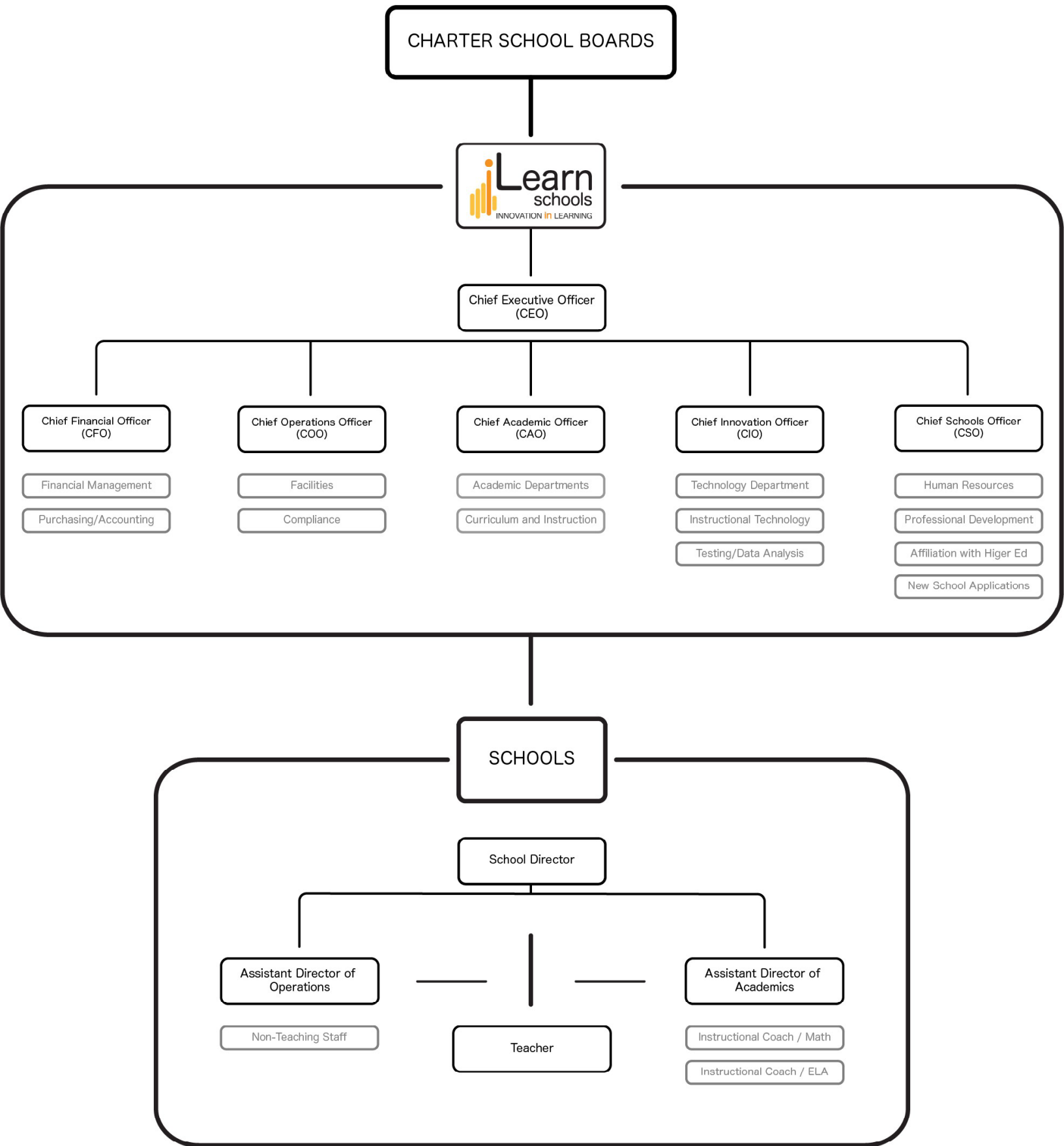
9. **ANTI-BULLYING:** On January 5, 2011, Governor Chris Christie signed into law P.L. 2010, Chapter 122, known as the Anti-Bullying Bill of Rights. The Anti-Bullying Bill of Rights Act (“Act”) requires initial and on-going training for all staff members, Anti-Bullying Specialists, Anti-Bullying Coordinators, administrative staff and Board members. N.J.S.A. 18A:37-22(d) requires every teacher to complete at least two hours of instruction on harassment, intimidation, and bullying prevention in each professional development period. In 2017-2018, training was provided for harassment, intimidation and bullying prevention to comply with the training requirements of the Act.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mustafa Coban". The signature is written in a cursive, flowing style.

Mustafa Coban  
School Business Administrator/Board Secretary



**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
ELMWOOD PARK, NEW JERSEY**

**ROSTER OF OFFICIALS  
JUNE 30, 2018**

**Members of the Board of Trustees**

**Position**

Juan Infante

President

Nilda Pardo

Vice President

David Yurt

Trustee

Jennifer Yashiro

Trustee

Ismail Oral

Trustee

**Other Officials**

Nihat Guvercin

Lead Person

Mustafa Coban

Business Administrator/  
Board Secretary

Christopher Lessard

Treasurer

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
ELMWOOD PARK, NEW JERSEY**

**CONSULTANTS AND ADVISORS**

***Audit Firm***

Barre & Company LLC  
Certified Public Accountants  
2204 Morris Avenue, Suite 206  
Union, NJ 07083

***Attorney***

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Morristown, NJ 07962

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**Independent Auditor's Report**

Honorable President  
Members of the Board of Trustees  
Paterson Arts and Science Charter School  
465 Mola Boulevard  
County of Passaic  
Elmwood Park, New Jersey

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Paterson Arts and Science Charter School (Charter School), in the County of Passaic, State of New Jersey, as of and for the fiscal year ended June 30, 2018, 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 in compliance with audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, each major fund, and the aggregate remaining fund information of the Paterson Arts and Science Charter School, in the County of Passaic, State of New Jersey, as of June 30, 2018, 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.

### ***Emphasis of Matter***

As discussed in Note V to the basic financial statements, the Charter School implemented Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the fiscal year ended June 30, 2018. Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, following this report, and pension and post-employment benefit schedules in Exhibits L-1 through L-3, and M-1, and the related notes and budgetary comparison information in Exhibits C-1 through C-3 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 non-major fund financial statements and the schedules of expenditures of federal and state awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; and New Jersey's OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, 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 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 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 January 28, 2019 on our consideration of the Paterson Arts and Science Charter School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



Handwritten signature of Barre & Company LLC in cursive script.

BARRE & COMPANY LLC  
Certified Public Accountants  
Public School Accountants



Handwritten signature of Richard M. Barre in cursive script.

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

Union, New Jersey  
January 28, 2019

***REQUIRED SUPPLEMENTARY INFORMATION – PART I***

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
ELMWOOD PARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED**

The discussion and analysis of Paterson Arts and Science Charter School's financial performance provides an overall review of the Charter School's financial activities for the fiscal year ended June 30, 2018. 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 (2017-2018) and the prior year (2016-2017) is required to be presented in the MD&A.

**Financial Highlights**

Key financial highlights for 2018 are as follows:

- ❖ General revenues accounted for \$10,992,129 in revenue or 98% percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$175,500 or 2% of total revenues of \$11,167,629.
- ❖ The Charter School had \$10,956,775 in expenses; \$175,500 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$10,992,129 were adequate to provide for these programs.
- ❖ Among governmental funds, the General Fund had \$9,557,857 in revenues and \$9,047,848 in expenditures. The General Fund's fund balance increased \$510,009 over 2017. This increase 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 Paterson Arts and Science 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.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
ELMWOOD PARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(CONTINUED)**

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

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 Paterson Arts and Science Charter School, the General Fund is by far the most significant fund.

**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 2018?" 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 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 distinct kinds of activities:

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

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
ELMWOOD PARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(CONTINUED)**

**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 transaction. The Charter School's governmental funds are the General Fund and Special Revenue Fund.

**Governmental Funds**

The Charter School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future years. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Charter School's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net 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 40 of this report.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
ELMWOOD PARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(CONTINUED)**

**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 \$1,150,705 for 2018 and \$983,572 for 2017.

**Governmental Activities**

The Charter School's total revenues were \$11,167,629 for 2018 and \$8,373,168 for 2017, this includes \$500,042 for 2018 of state reimbursed TPAF social security and pension contributions and \$382,944 for 2017 of state reimbursed TPAF social security and pension contributions.

The total cost of all program and services was \$10,956,775 for 2018 and \$7,427,687 for 2017. Instruction comprises 40% for 2018 and 37% for 2017 of Charter School expenses.

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

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

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

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

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
ELMWOOD PARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(CONTINUED)**

**Business-Type Activities**

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

- ❖ Proprietary Fund operating expenditures exceeded operating revenues by \$26,828 for 2018 and operating revenues exceeded operating expenditures by \$19,137 for 2017.
- ❖ Charges for services represent \$58,901 for 2018 and \$14,814 for 2017. This represents amounts paid by patrons.
- ❖ Federal and state reimbursements for meals, including payments for free and reduced lunches were \$418,610 for 2018 and \$334,777 for 2017.

**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 \$10,267,126 for 2018 and \$8,373,168 for 2017 and expenditures were \$9,757,117 for 2018 and \$7,300,188 for 2017. The net change in fund balance for fiscal years 2018 and 2017 was most significant in the general fund, an increase of \$510,009 in 2018 and a decrease of \$817,982 in 2017.

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, 2018.

<u>Revenues</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase/ (Decrease) From 2017</u>	<u>Percent of Increase/ (Decrease)</u>
Local Sources	\$ 1,097,475	10.69%	\$ 329,539	42.91%
Intermediate Sources	7,038,953	68.56%	\$ 7,038,953	0.00%
State Sources	1,421,429	13.84%	33,161	2.39%
Federal Sources	709,269	6.91%	225,151	46.51%
 Total	 <u>\$10,267,126</u>	 <u>100.00%</u>	 <u>\$ 7,626,804</u>	



**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
ELMWOOD PARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(CONTINUED)**

**The Charter School's Funds (Continued)**

The following schedule represents a summary of general fund and special revenue fund expenditures for the fiscal year ended June 30, 2018.

<u>Expenditures</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase/ (Decrease) From 2017</u>	<u>Percent of Increase/ (Decrease)</u>
Instruction	\$ 3,664,805	37.56%	\$ 890,875	32.12%
Administration	3,145,545	32.24%	416,635	15.27%
Support Services	2,753,611	28.22%	1,449,500	111.15%
Capital Outlay	<u>193,156</u>	<u>1.98%</u>	<u>(43,818)</u>	-18.49%
Total	<u>\$ 9,757,117</u>	<u>100.00%</u>	<u>\$ 2,713,192</u>	

**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.

**Capital Assets (Net of Depreciation)**

The Charter School had \$97,121 invested in machinery and equipment at the end of the fiscal year 2018 and \$14,926 for 2017.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
ELMWOOD PARK, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
UNAUDITED  
(CONTINUED)**

**For the Future**

The Paterson Arts and Science 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, Paterson Arts and Science Charter School has committed itself to financial stability 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 Mr. Nihat Guvercin, CEO at iLearn Schools, 465 Mola Boulevard, Elmwood Park, New Jersey 07407.

## **SECTION A - BASIC 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.***

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
Statement of Net Position  
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 1,371,630	\$ 126,960	\$ 1,498,590
Interfund Receivables	156,866		156,866
Receivables	302,748	69,315	372,063
Inventories		5,325	5,325
Prepaid Expenses	100,000		100,000
Deferred Bond Issuance Costs, Net	-		-
Capital Assets, Net	80,228	20,188	100,416
<b>Total Assets</b>	<b>2,011,472</b>	<b>221,788</b>	<b>2,233,260</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Pensions	1,442,893		1,442,893
<b>Total Deferred Outflows of Resources</b>	<b>1,442,893</b>	<b>-</b>	<b>1,442,893</b>
<b>LIABILITIES:</b>			
Interfund Payable	1,967	128,666	130,633
Payable to District	6,744		6,744
Accounts Payable	34,184		34,184
Noncurrent Liabilities:			
Pensions	1,960,385		1,960,385
<b>Total Liabilities</b>	<b>2,003,280</b>	<b>128,666</b>	<b>2,131,946</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Pensions	393,502		393,502
<b>Total Deferred Inflows of Resources</b>	<b>393,502</b>	<b>-</b>	<b>393,502</b>
<b>NET POSITION (DEFICIT):</b>			
Net Investment in Capital Assets	14,926		14,926
Unassigned	1,042,657	93,122	1,135,779
<b>Total Net Position (Deficit)</b>	<b>\$ 1,057,583</b>	<b>\$ 93,122</b>	<b>\$ 1,150,705</b>

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

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**

Statement of Activities  
For The Fiscal Year Ended June 30, 2018

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
<b>GOVERNMENTAL ACTIVITIES:</b>								
Instruction	\$ 3,674,209	\$ 681,408	\$ -	\$ 175,500	\$ -	\$ (4,180,117)	\$ -	\$ (4,180,117)
Administration	3,446,376	118,309				(3,564,685)		(3,564,685)
Support Services	2,763,018	181,305				(2,944,323)		(2,944,323)
Capital Outlay	77,408					(77,408)		(77,408)
Unallocated Depreciation	14,742					(14,742)		(14,742)
<b>Total Governmental Activities</b>	<b>9,975,753</b>	<b>\$ 981,022</b>	<b>-</b>	<b>175,500</b>	<b>-</b>	<b>(10,781,275)</b>	<b>-</b>	<b>(10,781,275)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>								
Food Service	504,339		58,901	418,610	-	-	(26,828)	(26,828)
Total Business-Type Activities	504,339		58,901	418,610	-	-	(26,828)	(26,828)
Total Primary Government	\$ 10,480,092		\$ 58,901	\$ 594,110	\$ -	\$ (10,781,275)	\$ (26,828)	\$ (10,808,103)
<b>GENERAL REVENUES</b>								
Federal and State Aid Not Restricted			\$	10,965,839	\$	-	\$	10,965,839
Tuition								-
Miscellaneous Income				26,290				26,290
Total General Revenues				10,992,129				10,992,129
Change in Net Position				210,854		(26,828)		184,026
Net Position - Beginning				846,729		119,950		966,679
Net Position - Ending				\$ 1,057,583	\$	93,122	\$	1,150,705

***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***

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**

Governmental Funds

Balance Sheet

June 30, 2018

	General Fund	Special Revenue Fund	Total
<b>ASSETS:</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,430,698	\$ -	\$ 1,430,698
Cash - Restricted	75,000		75,000
Receivables:			
Interfund Receivables	156,866		156,866
Receivables From Other Governments	14,656	159,033	173,689
Other Receivables	13,055		13,055
Receivables, Net	116,004		116,004
Security Deposits	100,000		100,000
<b>Total Assets</b>	<b><u>\$ 1,906,279</u></b>	<b><u>\$ 159,033</u></b>	<b><u>\$ 2,065,312</u></b>
<b>LIABILITIES AND FUND BALANCES:</b>			
Liabilities:			
Current Liabilities:			
Cash Overdraft	\$ -	\$ 134,068	\$ 134,068
Interfund Payables	-	1,967	1,967
Payable to Other Districts	6,744		6,744
Accounts Payable	11,186	22,998	34,184
<b>Total Liabilities</b>	<b><u>17,930</u></b>	<b><u>159,033</u></b>	<b><u>176,963</u></b>
Fund Balances:			
Assigned To:			
Encumbrances	400		400
Unassigned:			
General Fund	1,887,949		1,887,949
<b>Total Fund Balances</b>	<b><u>1,888,349</u></b>	<b><u>-</u></b>	<b><u>1,888,349</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 1,906,279</u></b>	<b><u>\$ 159,033</u></b>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of the assets is \$167,770 and the accumulated depreciation is \$70,649.	97,121
Net pension liability of \$1,960,385, deferred inflows of resources of \$393,502 less deferred outflows of resources of \$1,442,893 related to pensions are not reported in the governmental funds	<u>(910,994)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 1,074,476</u></b>

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



**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
 Governmental Funds  
 Statement of Revenues, Expenditures and Changes in Fund Balance  
 For the Fiscal Year Ended June 30, 2018

	General Fund	Special Revenue Fund	Total
<b>REVENUES:</b>			
Local Sources:			
Local Tax Levy	\$ 1,071,185	\$ -	\$ 1,071,185
Miscellaneous	26,290		26,290
<b>Total Local Sources</b>	<b>1,097,475</b>		<b>1,097,475</b>
Intermediate Sources	7,038,953	-	7,038,953
State Sources	1,421,429		1,421,429
Federal Sources		709,269	709,269
<b>Total Revenues</b>	<b>9,557,857</b>	<b>709,269</b>	<b>10,267,126</b>
<b>EXPENDITURES:</b>			
Current:			
Instruction	3,279,157	385,648	3,664,805
Administration	3,145,545		3,145,545
Support Services	2,507,399	246,212	2,753,611
Capital Outlay	115,747	77,409	193,156
<b>Total Expenditures</b>	<b>9,047,848</b>	<b>709,269</b>	<b>9,757,117</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>510,009</b>		<b>510,009</b>
<b>FUND BALANCES, JULY 1</b>	<b>1,378,340</b>		<b>1,378,340</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 1,888,349</b>	<b>\$ -</b>	<b>\$ 1,888,349</b>

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

**PATERSON ARTS AND SCIENCE 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, 2018

Total net change in fund balances - governmental fund (from B-2)	\$	510,009
<p>Amounts reported for governmental activities in the statement of activities (A-2) which are different:</p> <p>Capital outlays are reported in governmental funds as expenditures. However, on the statement of activities, the cost of those assets which are capitalized are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current fiscal year.</p>		
Depreciation Expense	\$	(33,553)
Capital Outlay		<u>115,748</u>
		82,195
<p>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.</p>		
		<u>(381,350)</u>
Change in net position of governmental activities	\$	<u><u>210,854</u></u>

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

***PROPRIETARY FUNDS***

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
 Proprietary Fund  
 Statement of Fund Net Position  
 June 30, 2018

	Business-Type Activities - Enterprise Fund			
	Food Service	Summer Enrichment	After Care	Total
<b>ASSETS:</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 115,114	\$ 273	\$ 11,573	\$ 126,960
Intergovernmental Accounts Receivable:				
Federal	68,635			68,635
State	680			680
Inventories	5,325			5,325
<b>Total Current Assets</b>	<u>189,754</u>	<u>273</u>	<u>11,573</u>	<u>201,600</u>
Noncurrent Assets:				
Machinery and Equipment	44,690			44,690
Less Accumulated Depreciation	(24,502)			(24,502)
<b>Total Noncurrent Assets</b>	<u>20,188</u>	<u>-</u>	<u>-</u>	<u>20,188</u>
<b>Total Assets</b>	<u>\$ 209,942</u>	<u>\$ 273</u>	<u>\$ 11,573</u>	<u>\$ 221,788</u>
<b>LIABILITIES AND NET POSITION</b>				
Liabilities:				
Current Liabilities:				
Interfund Accounts Payable	\$ 128,465	\$ -	\$ 201	\$ 128,666
<b>Total Current Liabilities</b>	<u>128,465</u>	<u>-</u>	<u>201</u>	<u>128,666</u>
Net Position:				
Unassigned	\$ 81,477	\$ 273	\$ 11,372	\$ 93,122
<b>Total Net Position</b>	<u>81,477</u>	<u>273</u>	<u>11,372</u>	<u>93,122</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 209,942</u>	<u>\$ 273</u>	<u>\$ 11,573</u>	<u>\$ 221,788</u>

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

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
Proprietary Fund  
Statement of Revenues, Expenses, and Changes in Net Position  
For the Fiscal Year Ended June 30, 2018

	Business-Type Activities - Enterprise Fund			
	Food Service	Summer Enrichment	After Care	Total
<b>OPERATING REVENUES:</b>				
Charges for Services:				
Daily Sales Reimbursable Program	\$ 11,424	\$ -	\$ -	\$ 11,424
Daily Sales Non-Reimbursable Program	104		47,373	47,477
<b>Total Operating Revenues</b>	<b>11,528</b>	<b>-</b>	<b>47,373</b>	<b>58,901</b>
<b>OPERATING EXPENSES:</b>				
Salaries	147,464		36,001	183,465
Management Fees	8,670			8,670
Supplies and Materials	15,658			15,658
Depreciation Expense	8,938			8,938
Cost of Sales - Reimbursable Program	168,747			168,747
Cost of Sales - Non-Reimbursable Program	1,045			1,045
Miscellaneous Expenses	117,816			117,816
<b>Total Operating Expenses</b>	<b>468,338</b>	<b>-</b>	<b>36,001</b>	<b>504,339</b>
<b>OPERATING (LOSS)</b>	<b>(456,810)</b>	<b>-</b>	<b>11,372</b>	<b>(445,438)</b>
<b>NONOPERATING REVENUES:</b>				
State Source:				
State School Breakfast/Lunch Program	5,133			5,133
Federal Source:				
National School Breakfast/Lunch/Snack Program/FFVP	385,761			385,761
USDA Commodities	27,716			27,716
<b>Total Nonoperating Revenues</b>	<b>418,610</b>	<b>-</b>	<b>-</b>	<b>418,610</b>
<b>CHANGE IN NET POSITION</b>	<b>(38,200)</b>	<b>-</b>	<b>11,372</b>	<b>(26,828)</b>
<b>TOTAL NET POSITION, JULY 1</b>	<b>119,677</b>	<b>273</b>	<b>-</b>	<b>119,950</b>
<b>TOTAL NET POSITION, JUNE 30</b>	<b>\$ 81,477</b>	<b>\$ 273</b>	<b>\$ 11,372</b>	<b>\$ 93,122</b>

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

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
Proprietary Fund  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2018

	Business-Type Activities - Enterprise Fund			
	Food Service	Summer Enrichment	After Care	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash Received from Customers	\$ (29,118)	\$ -	\$ 47,373	\$ 18,255
Cash Payments to Suppliers and Employees	(372,234)		(35,800)	(408,034)
Net Cash Used In Operating Activities	(401,352)	-	11,573	(389,779)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Cash Received From State And Federal Reimbursements	390,894			390,894
USDA Commodities	27,716			27,716.00
Net Cash Provided By Noncapital Financing Activities	418,610	-	-	418,610
Net Increase In Cash And Cash Equivalents	17,258	-	11,573	28,831
Cash And Cash Equivalents, Beginning Of Year	97,856	273	-	98,129
Cash And Cash Equivalents, End Of Year	<u>\$ 115,114</u>	<u>\$ 273</u>	<u>\$ 11,573</u>	<u>\$ 126,960</u>
<b>Reconciliation of Operating Loss to Net Cash Used by</b>				
<b>Operating Activities:</b>				
Operating (Loss) Used for Operating Activities	\$ (456,810)	\$ -	\$ 11,372	\$ (445,438)
Depreciation	8,938			8,938
<b>Change In Assets And Liabilities:</b>				
(Decrease) In Receivables	(40,646)			(40,646)
(Increase) Decrease In Inventories	(1,589)			(1,589)
Increase (Decrease) In Interfund Payable	88,755		201	88,956
Net Cash Used In Operating Activities	<u>\$ (401,352)</u>	<u>\$ -</u>	<u>\$ 11,573</u>	<u>\$ (389,779)</u>

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

***FIDUCIARY FUNDS***

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
 Fiduciary Funds  
 Statement of Fiduciary Net Position  
 June 30, 2018

	Agency Fund
<b>ASSETS:</b>	
Cash and Cash Equivalents	\$ 25,074
Total Assets	\$ 25,074
<b>LIABILITIES:</b>	
Interfund Accounts Payable	\$ 11,946
Due to Student Groups	13,128
Total Liabilities	\$ 25,074

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



***NOTES TO THE FINANCIAL STATEMENTS***

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The financial statements of Paterson Arts and Science 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. In its accounting and financial reporting, the Charter School follows the pronouncements of the Governmental Accounting Standards Board (GASB). The more significant accounting policies of the Charter School are described below.

For fiscal year 2018, the Charter School implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68." GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources and expense/expenditure.

**B. Reporting Entity**

The Charter School is a non-profit corporation organized under the laws of the State of New Jersey, established in 2002 to operate and maintain a public school under a charter granted by the State of New Jersey. The Charter School consists of seven members and must comply with the Charter School Program Act of 1995 and regulations promulgated thereunder.

The primary criterion for including activities within the Charter School's reporting entity are set forth in Statement No. 14 of the Governmental Accounting Standards Board entitled "The Financial Reporting Entity" (GASB 14) as codified in Section 2100 of the GASB *Codification of Governmental Accounting and Financial Reporting Standards*. Under GASB Statement No. 14, the financial reporting entity is determined by the degree of oversight responsibility maintained by the Charter School. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds and account groups of the Charter School over which it exercises operating control.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reporting Entity (continued)**

The operations of the Paterson Arts and Science Charter School includes one school a Grade K-5. 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.

**C. Basic Financial Statements – Government-Wide 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 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. Governmental activities generally are financed through taxes, 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 activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities 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. Indirect expenses are allocated to the functions using an appropriate allocation method or association with the specific function. Indirect expenses include health benefits, employer's share of payroll taxes, compensated absences and tuition reimbursements.

Program revenues include (a) 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 government function or business segment is self-financing or draws from the general revenues of the Charter School.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Basic Financial Statements – Fund Financial Statements**

The financial transactions of the Charter School are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Charter School:

Governmental Fund Types

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Charter School.

General Fund – The general fund is the general operating fund of the Charter School. It is used to account for all financial resources except those required to be accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or noninstructional 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. Generally accepted accounting principles as they pertain to governmental entities state that General Fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues.

Resources for budgeted capital outlay purposes are normally derived from State of New Jersey Aid, charter school taxes 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 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)

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basic Financial Statements – Fund Financial Statements (Continued)**

and local appropriations that are legally restricted to expenditures for specified purposes.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds). The financial resources are derived from temporary notes or serial bonds that are specifically authorized by the voters as a separate question on the ballot either during the annual election or at a special election.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of principal and interest on bonds issued to finance major property acquisition, construction and improvement programs.

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

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

Governments should establish a policy that defines operating revenues and expenses that is appropriate to the nature of the activity being reported, and use it consistently from period to period. Transactions for which cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities normally would not be reported as components of operating income.

The Charter School's Enterprise Fund are comprised of the Food Service Fund operations.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basic Financial Statements – Fund Financial Statements (Continued)**

Depreciation of all exhaustive fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

Food Service Fund:	
Equipment	12 Years
Light Trucks and Vehicle	4 Years
Heavy Trucks and Vehicle	6 Years

In its accounting and financial reporting, the Charter School follows the pronouncements of the GASB and the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessor organizations issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The Charter School's business-type activities and enterprise funds have elected not to apply the standards issued by the FASB after November 30, 1989.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements; however, interfund services provided and used are not eliminated in the process of consolidation.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Charter School enterprise funds are charges for daily sales of food, special functions and miscellaneous receipts. Operating expenses for proprietary funds include the cost of sales, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basic Financial Statements – Fund Financial Statements (Continued)**

Fiduciary Fund Types - Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Charter School programs. The reporting focus is on net position and changes in net position and are reported using accounting principles similar to proprietary funds.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expense of either fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

The District's fiduciary funds are presented in the fiduciary fund financial statements by type (Unemployment Compensation and Agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Trust Funds – The unemployment compensation fund is used to account for contributions from the Charter School and employees and interest earned on the balance as well as payments to the State for reimbursement of unemployment claims. Although there is no formal trust agreement, the State of New Jersey requires charter schools to include the unemployment compensation trust as a private-purpose trust fund in the fiduciary fund. The principal and income deposited into this fund are for the sole benefit of the specific individuals or former employees. The management of the Charter School is not involved in determining the amounts current employees contribute to the fund or amounts paid out by the fund. That determination is made by the State of New Jersey. The Unemployment Compensation Fund is recorded as a trust fund because there is no debt issued related to unemployment compensation claims.

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

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basic Financial Statements – Fund Financial Statements (Continued)**

In accordance with GASB Statement 34, fiduciary funds are not included in the government-wide financial statements.

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

The government-wide proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Charter School gives (or receives) value without directly receiving (or giving) equal value in exchange, include state and federal aid, property taxes, grants, entitlements and donations.

Government 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.

The Charter School considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. 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.

**F. Budgets/Budgetary Control**

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles with the exception of legally mandated revenue recognition of the last state aid payment for budgetary purposes only and 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.



**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgets/Budgetary Control (Continued)**

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

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

Total Revenues & Expenditures (Budgetary Basis)	\$ 709,269
Adjustments:	
Less Encumbrances at June 30, 2018	-
Plus Encumbrances at June 30, 2017	-
Total Revenues and Expenditures (GAAP Basis)	\$ 709,269

The General Fund budgetary revenue differs from GAAP revenue due to a difference in recognition of the June state aid payments for the current year. Since the State is recording the June state aid payments in the subsequent fiscal year, the Charter School cannot recognize these payments on the GAAP financial statements.

The reconciliation of the general and special revenue funds from the budgetary basis of accounting to the GAAP basis of accounting is presented on Note A in the Required Supplementary Information Section.

The Capital Projects Fund budgetary revenue differs from GAAP revenue due to a difference in the recognition of SDA grants receivable. SDA grants are recognized on the budgetary basis in full when they are awarded but are recognized on the GAAP basis as they are expended and requested for reimbursement.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Assets, Liabilities, Deferred Outflow/Inflows of Resources, Net Position and Fund Equity –**

1. Deposits and Investments

Deposits are cash and cash equivalents including petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Other than Certificates of Deposit, deposits with maturities of greater than three months are considered to be Investments. U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey charter schools are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statute 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey charter schools.

Additionally, the Charter School had adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provision of the Governmental Unit Deposit Protection Act (GUDPA). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey.

2. Short-term Interfund Receivables/Payables

Short-term interfund receivables/payables represents amounts that are owed, other than charges for goods or services rendered to/from a particular fund in the Charter School and that are due within one year.

3. Inventories

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

4. Capital Assets

Capital assets purchased or acquired with an original cost of \$2,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities, Deferred Outflow/Inflows of Resources, Net Position and Fund Equity (Continued)**

Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on the following assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Machinery and Equipment	5-10 years
Land Improvements	10-20 years
Other Infrastructure	10-50 years

Land and Construction in Progress are not depreciated.

GASB No. 34 requires the Charter School to report and depreciate new infrastructure assets include roads, parking lots, underground pipe, etc. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The Charter School has included all infrastructure assets in the current fiscal year.

**5. Fund Equity**

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent plans for future use of financial resources.

**6. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reports, amounts and disclosures. Accordingly, actual results could differ from those estimates.

**7. Net Position/Fund Balance**

The Charter School implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the current fiscal year. This statement defines net position as the residual of all other elements presented in statement of financial position. It is the difference between (1) assets and deferred outflows of resources and (2) liabilities and deferred inflows of resources. This Statement provides guidance for reporting net position within a framework that includes deferred outflows

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

of resources and deferred inflows of resources, in addition to assets and liabilities.

In the Government-Wide Statements, there are three classes of net position:

Net Investment in Capital Assets – consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets or related debt also should be included.

Assigned Net Position – reports net position when constraints placed on the residual amount of noncapital assets are either imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Unassigned Net Position – any portion of net position not already classified as either net investment in capital assets or net position-restricted.

**H. Fund Balance Reserves**

In the fund financial statements, governmental funds report the following classifications of fund balance:

Unassigned – Includes amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund. The Charter School reports all amounts that meet the unrestricted General Fund Balance Policy described below as unassigned:

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Charter School considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balance are available, the Charter School considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Impact of Recently Issued Accounting Principles**

During fiscal year 2018, the District adopted the following GASB statements as required:

- In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations. Statement 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The provisions in Statement No. 83 are effective for reporting periods beginning after June 15, 2018. The School is assessing if GASB 83 will have any impact on its financial statements.

**Other accounting standards that the District is currently reviewing for applicability and potential impact on the financial statements include:**

- GASB No. 84, Fiduciary Activities, will be effective with the fiscal year ending June 30, 2020. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement established criteria for identifying fiduciary activities of all state and local governments.
- GASB No. 85, Omnibus 2017, will be effective with the fiscal year ending June 30, 2018. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (pensions and other postemployment benefits (OPEB)).

GASB No. 86, Certain Debt Extinguishment Issues, will be effective with the fiscal year ending June 30, 2018. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impact of Recently Issued Accounting Principles**

and notes to financial statements for debt that is defeased in substance.

- GASB No. 87, Leases, will be effective with the fiscal year ending June 30, 2021. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract
- In March 2018, the GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, which is effective for fiscal years beginning after June 15, 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The School is assessing if GASB 88 will have any impact on its financial statements.
- In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, which is effective for fiscal years beginning after December 15, 2019. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The School is assessing if GASB 89 will have any impact on its financial statements.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. 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.

**NOTE II: DETAILED DISCLOSURE REGARDING ASSETS AND REVENUES**

**A. Deposits and Investments**

**Deposits**

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation (FDIC), the Savings Association Insurance Fund or by any other agencies of the United States that insure deposits or the State of New Jersey Cash Management Fund.

N.J.S.A. 17:9-41 et. Seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act. Public depositories include savings and loan institutions, banks (both state and national banks) and savings banks of which the deposits are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

As of June 30, 2018, cash and cash equivalents of the Charter School consisted of the following:

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE II: DETAILED DISCLOSURE REGARDING ASSETS AND REVENUES  
(CONTINUED)**

Deposits and Investments (Continued)

Deposits (Continued)

	General Fund	Special Revenue	Proprietary Funds	Fiduciary Funds	Total
Operating Account	\$ 1,505,698	\$ (134,068)	\$ 126,960	\$ 25,074	\$ 1,523,664

The Charter School had no investments at June 30, 2018.

The carrying amount of the Board's cash and cash equivalents at June 30, 2018 was \$1,523,664 and the bank balance was \$1,823,728. All bank balances were covered by federal depository insurance (FDIC) and/or by a collateral pool maintained by the banks as required by GUDPA.

Pursuant to GASB Statement No. 40, *Deposit and Investment Risk Disclosures* ("GASB 40"), the Charter School's operating cash accounts are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty the Charter School would not be able to recover the value of its deposits and investments). Deposits are considered to be exposed to Custodial Credit Risk if they are: uncollateralized (securities not pledged to the depositor), collateralized with securities held by a pledging financial institution, or collateralized with securities held by the financial institution's trust department or agent but not in the government's name.

As of June 30, 2018, none of the cash and cash equivalents for Paterson Arts and Science Charter School were exposed to custodial credit risk.

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

Investments

New Jersey statutes (N.J.S.A.18A:20-37) permit the Charter School to purchase the following types of securities:

- a. When authorized by resolution adopted by a majority vote of all its board members, the Charter School may use moneys which may be in hand for the purchase of the following types of securities, which, if suitable for registry, may be registered in the name of the Charter School;



**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE II: DETAILED DISCLOSURE REGARDING ASSETS AND REVENUES  
(CONTINUED)**

Deposits and Investments (Continued)

Investments (Continued)

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest no dependent on any index or other external factor;
- (4) Bonds or other obligations of the charter school or bonds or other obligations of local unit or units within which the charter school is located;
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by charter schools;
- (6) Local government investment pools; Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4) or
- (7) Agreements for the repurchase of fully collateralized securities, if:
  - a. the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a;
  - b. the custody of collateral is transferred to a third party;
  - c. the maturity of the agreement is not more than 30 days; and
  - d. the underlying securities are purchased through a public depository as defined in Section 1 of P.L. 1970, c.236 (C.17:9-41) and for which a master repurchase agreement providing for the custody and security of collateral is executed.

Credit Risk: The Charter School does not have an investment policy regarding the management of credit risk. GASB 40 requires that disclosures be made as to the credit rating of all debt security investments except for obligations of the U.S. government or investments guaranteed by the U.S. government. The Charter School did not have any investments at June 30, 2018.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE II: DETAILED DISCLOSURE REGARDING ASSETS AND REVENUES  
(CONTINUED)**

Deposits and Investments (Continued)

Investments (Continued)

*Interest Rate Risk:* The Charter School does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Charter School did not have any investments at June 30, 2018.

*Concentration of Credit Risk:* The Charter School places no limit on the amount they may invest in any one issuer. The Charter School did not have any investments at June 30, 2018.

Receivables

Receivables at June 30, 2018, 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	\$ 275,037	\$ 275,717
Other	27,711	27,711
Gross Receivables	302,748	372,063
Less: Allowance for Uncollectibles	-	-
Total Receivables, Net	<u>\$ 302,748</u>	<u>\$ 372,063</u>

A. Interfund Receivables and Payables

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, 2018:

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE II: DETAILED DISCLOSURE REGARDING ASSETS AND REVENUES  
(CONTINUED)**

Deposits and Investments (Continued)

Receivables

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 156,866	\$ -
Special Revenue Fund		1,967
Proprietary Fund		128,666
Fiduciary Fund		11,946
Total	<u>\$ 156,866</u>	<u>\$ 142,579</u>

**A. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<b>Governmental Activities:</b>				
<i>Capital Assets Being Depreciated:</i>				
Site Improvements	-	-	-	-
Building and Building Improvements	\$ -	\$ 73,712	\$ -	\$ 73,712
Machinery and Equipment	\$ 52,022	42,036	\$ -	\$ 94,058
Total Capital Assets Being Depreciated	52,022	115,748	-	167,770
<i>Less Accumulated Depreciation For:</i>				
Site Improvements	-	-	-	-
Building and Building Improvements		14,742	-	14,742
Machinery and Equipment	37,096	18,811	-	55,907
Total Accumulated Depreciation	37,096	33,553	-	70,649
Total Capital Assets Being Depreciated, Net of Accumulated Depreciation	14,926	82,195	-	97,121
Government Activity Capital Assets, Net	\$ 14,926	\$ 82,195	\$ -	\$ 97,121

Depreciation expense of \$10,404 was charged as follows:

Instructional	\$ 9,404
Support	9,407
Unallocated	14,742
Total	<u>\$ 33,553</u>

On January 11, 2001, the NJ State Department of Education announced that effective July 1, 2001, the capitalization threshold used by charter schools in the State of New Jersey is increased to \$2,000. The previous threshold was \$500. Applying the higher capitalization threshold retroactively (removal of old assets from the General Fixed Assets Account Group) will be permitted by the State regulations in situations where (1) the assets have been fully where (1) the assets have been fully depreciated, or (2) the assets have

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE II: DETAILED DISCLOSURE REGARDING ASSETS AND REVENUES  
(CONTINUED)**

Deposits and Investments (Continued)

Receivables (Continued)

exceeded their useful lives. The retirement of machinery and equipment is due to the retroactive application of the higher threshold of equipment capitalization. That is, the Charter School has removed from their records assets with a historical cost greater than \$500 but not greater than \$2,000 that were fully depreciated or had exceeded their useful lives.

**NOTE III: DETAILED DISCLOSURES REGARDING LIABILITIES AND EXPENSES/  
EXPENDITURES**

Rental Leases

The school leases classroom and office space at 183-229 Grand Street, Paterson, New Jersey. The lease commenced on September 1, 2017 whereas the initial lease term is for five (5) years at an annual rent of \$1,540,000. There are three (3) additional five (5) year renewals. The first and second renewal periods carry an annual rent of \$1,540,000 with the third renewal period carrying the following annual rents:

<u>Year Ended June 30,</u>	<u>Amount</u>
2033	\$ 1,586,200
2034	1,633,786
2035	1,682,800
2036	1,733,284
2037	<u>1,785,282</u>
Total future minimum lease payments	<u>\$ 8,421,352</u>

Rent expense for the year ending June 30, 2018 was \$1,434,889.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE IV: 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](http://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:

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

Service retirement benefits of 1/55<sup>th</sup> 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 1/60<sup>th</sup> 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.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE IV: PENSION PLANS (CONTINUED)**

**Benefits Provided (continued)**

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 50 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.

**Basis of Presentation**

The schedule of employer allocations and the schedule of pension amounts by employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of PERS or its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of PERS or the participating employers. The accompanying Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of PERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

**Allocation Methodology and Reconciliation to Financial Statements**

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, requires participating employers in PERS to recognize their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources and collective pension expense. The employer allocation percentages presented in the schedule of employer allocations and applied to amounts presented in the schedule of pension amounts by employer are based on the ratios of the contributions of an individual employer to the total contributions to PERS during the measurement period July 1, 2016 through June 30, 2017. Employer allocation percentages have been rounded for presentation purposes, therefore amounts presented in the schedule of pension amounts by employer may result in immaterial differences.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE IV: PENSION PLANS (CONTINUED)**

**Allocation Methodology and Reconciliation to Financial Statements  
(continued)**

Although the Division administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarially determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each individual employer of the State and local groups of the plan.

To facilitate the separate (sub) actuarial valuations, the Division maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer allocations are applied to amounts presented in the schedule of pension amounts by employer. The allocation percentages for each group as of June 30, 2017 are based on the ratio of each employer's contributions to total employer contributions of the group for the fiscal year ended June 30, 2017.

**Contributions**

The contribution policy for PERS is set by N.J.S.A. 43:15A 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 2017, the State's pension contribution was less than the actuarial determined amount. 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 the normal and accrued liability contribution

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE IV: PENSION PLANS (CONTINUED)**

**Contributions (Continued)**

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.

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 \$ 83,364 for fiscal year 2018.

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

At June 30, 2018, the Charter School reported a liability of \$ 1,960,385 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2016 which was rolled forward to June 30, 2017. 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, 2017, the Charter School's proportion was 0.008421478%, which was an increase of 0.00084583% from its proportion measured as of June 30, 2016.

For the fiscal year ended June 30, 2017, the Charter School recognized 83,364 pension expense. At June 30, 2017, the Charter School reported deferred outflows of resources and deferred related to pensions from the following sources.



**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE IV: PENSION PLANS (CONTINUED)**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	\$ 394,950	\$ 393,502
Difference Between Expected and Actual Experience	46,160	
Changes in Proportions	974,664	
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	13,349	-
	\$ 1,429,123	\$ 393,502

*Changes in Proportion*

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5.48, 5.57, 5.72 and 6.44 years for the 2017, 2016, 2015, and 2014 amounts, respectively.

**Actuarial Assumptions**

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017. The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuations as of July 1, 2016. This actuarial valuations used the following actuarial assumptions, applied to all periods in the measurement.

Inflation Rate	2.25%
Salary Increases:	
Through 2026	1.65-4.15% based on age
Thereafter	2.65-5.15% based on age
Investment Rate of Return	7.00%

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE IV: PENSION PLANS (CONTINUED)**

**Actuarial Assumptions (Continued)**

Pre-retirement mortality rates were based on the RP-2000 Employees Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 2 years for males and females and addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combines Healthy male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for the future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rated used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is like 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.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE IV: PENSION PLANS (CONTINUED)**

**Long Term Expected Rate of Return**

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and the actuaries. The long term expected future real rates of return (expected returns, net of pension plan investments expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 are summarized in the following table:

Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public High Yield Bonds	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE IV: PENSION PLANS (CONTINUED)**

**Discount Rate**

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. The single blended discount rate was based on the long-term expected rate of return on pension plan investment of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 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 rates and that contributions from employers will be made based on the contributions rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their 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 investments was applied to projected benefit payment through 2040. Therefore the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE IV: 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 Charter School's proportionate share of the collective net pension liability as of June 30, 2017 calculated using the discount rate as disclosed below, as well as what the Charter School's proportionate share of the 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, 2017			
	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
Charter School's proportionate share of the Net Pension Liability	\$ 2,431,991	\$ 1,960,385	\$ 1,567,479

Fiscal Year Ended June 30, 2016			
	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
Charter School's proportionate share of the Net Pension Liability	\$ 2,749,381	\$ 2,243,690	\$ 1,826,199

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE IV: PENSION PLANS (CONTINUED)**

**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](http://www.state.nj.us/treasury/pensions/annrpts.shtml).

**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, member's beneficiaries are entitled to full interest credited to the member's accounts. The following represents the membership tiers for TPAF:

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

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE IV: PENSION PLANS (CONTINUED)**

**Benefit Provided (Continued)**

Service retirement benefits of 1/55<sup>th</sup> of final average salary for each year of service credit is available to Tier 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching 62. Service retirement benefits of 1/60<sup>th</sup> 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 Tier 1 and 2 members before reaching age 60, to Tier 3 and 4 before age 62 with 25 or more years of service credit and Tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age of which a member can receive full early retirement benefits in accordance with their 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.

**Allocation Methodology**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires participating employers in TPAF to recognize their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows in resources and collective pension expense excluding that attributable to employer-paid member contributions. The employer and nonemployer allocation percentages presented in the schedule of employer and nonemployer allocations and applied to amounts presented in the schedule of pension amounts by employer and nonemployer are based on the ratio of the State's actual contributions made as an employer and nonemployer adjusted for unpaid early retirement incentives to total contributions to TPAF during the year ended June 30, 2017. Employer and nonemployer allocation percentages have been rounded for presentation purposes, therefore amounts presented in the schedule of pension amounts by employer and nonemployer may result in immaterial differences.

The contributions 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 2017, the State's pension contribution was less than the actuarial determined

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE IV: PENSION PLANS (CONTINUED)**

**Special Funding Situation**

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. However, the notes to the financial statements of the local participating employers must disclose the portion of the nonemployer contributing entities' total proportionate share of the net pension liability that is associated with the local participating employer was less than the actuarial determined amount.

This note discloses the portion of the Charter School total proportionate share of the net pension liability that is associated with the Charter School. During the fiscal year ended 2018, the State of New Jersey contributed 29,961 to the TPAF for normal pension benefits on behalf of the Charter School, which is less than the contractually required contribution of 210,518 .

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

As June 30, 2018, the State's proportionate share of the net pension liability associated with the Charter School was\$ 12,640,257 The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017.



**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE IV: PENSION PLANS (CONTINUED)**

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

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, 2017, Charter School's proportion was \$0.0084215%, which was a decrease of -0.0014765% from its proportion measured as of June 30, 2016.

Charter School's Proportionate Share of the Net Pension Liability	\$	-
State's Proportionate Share of the Net Pension Liability Associated with the Charter School		12,640,257
Total	\$	12,640,257

For the fiscal year ended June 30, 2017, the State recognized pension expense on behalf of the Charter School in the amount of \$ 210,518 and the Charter School recognized pension expense and revenue for that same amount in the fiscal year ended June 30, 2018 financial statements.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE IV: 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in Assumptions	\$ 13,378,255,364	\$ 11,684,858,458
Difference Between Expected and Actual Experience	441,116,389	115,381,203
Changes in Proportion and differences between employer contributions and proportionate share of contributions	192,581,778	192,581,778
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	<u>341,507,504</u>	
	<u>\$ 14,353,461,035</u>	<u>\$ 11,992,821,439</u>

The \$14,353,461,035 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 \$11,992,821,439 reported as a deferred inflow of resources resulting from the difference between projected and actual.

<u>Fiscal Year Ending June 30,</u>	<u>Total</u>
2018	\$ 740,341,056
2019	1,175,650,200
2020	983,008,137
2021	551,152,948
2022	624,850,883
Thereafter	<u>(1,714,363,628)</u>
	<u>\$ 2,360,639,596</u>

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE IV: PENSION PLANS (CONTINUED)**

**Actuarial Assumptions**

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement.

Inflation Rate	2.25%
Salary Increases:	
2012-2021	varies based on experience
Thereafter	varies based on experience
Investment Rate of Return	7.00%

Pre-retirement, post-retirement and disabled mortality rates were based on the experience of TPAF members on a generational basis based on a 60-year average of Social Security data from 1953 to 2013.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2015.

**Long Term Expected Rate of Return**

In accordance with State statute, the long-term expected rate of return on pension investments (7.00% at June 30, 2017) 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 weighing 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, 2017 is summarized in the following table:

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE IV: 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>
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public High Yield Bonds	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

**Discount Rate**

The discount rate used to measure the total pension liability was 4.25% as of June 30, 2017. The single blended discount rate was based on the long-term expected rate of return on pension plan investment of 7.00% and a municipal bond rate of 3.58% as of June 30, 2016 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 contributions rate in the most recent fiscal year. The State employer contributed 40% of the 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 2036. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2036 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE IV: 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, 2017 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:

For the Fiscal Year Ended June 30, 2017			
	1% Decrease (3.25%)	Current Discount Rate (4.25%)	1% Increase (5.25%)
Charter School's proportionate share of the Net Pension Liability	\$ 6,770,391	\$ 5,698,832	\$ 4,816,077

For the Fiscal Year Ended June 30, 2016			
	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
Charter School's proportionate share of the Net Pension Liability	\$ 9,341,549	\$ 7,822,279	\$ 6,581,599

**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

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE IV: PENSION PLANS (CONTINUED)**

**Defined Contribution Retirement Program (DCRP) (Continued)**

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.

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, 2018. There were no employee contributions to DCRP for the fiscal year ended June 30, 2018.

**NOTE V: POST-RETIREMENT BENEFITS**

**General Information about the OPEB Plan**

**Plan Description and Benefits Provided**

The school is in a "special funding situation, as described in GASB Statement No. 75 in that OPEB contributions and expense are legally required to be made by and are the sole responsibility of the State of New Jersey.

The State of New Jersey reports a liability as a result of its statutory requirements to pay other postemployment (health) benefits for State Health Benefit Local Education Retired Employees Plan. The State Health Benefit Local Education Retired Employees Plan is a multiple-employer defined benefit OPEB plan that is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions*. The State Health Benefit Local Education Retired Employees Plan provides medical,

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE V: POST-RETIREMENT BENEFITS (CONTINUED)**

prescription drug, and Medicare Part B reimbursement to retirees and their covered dependents of local education employers.

The employer contributions for the participating local education employers are legally required to be funded by the State of New Jersey in accordance with N.J.S.A 52:14-17.32f. According to N.J.S.A 52:14- 17.32f, the State provides employer-paid coverage to employees who retire from a board of education or county college with 25 years or more of service credit in, or retires on a disability pension from, one or more of the following plans: the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS), the Police and Firemen Retirement System (PFRS), or the Alternate Benefit Program (ABP). Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

The total nonemployer OPEB liability does not include certain other postemployment benefit obligations that are provided by the local education employers. The reporting of these benefits are the responsibility of the individual local education employers.

*Employees covered by benefit terms:*

At June 30, 2017, the following employees were covered by the benefit terms:

TPAF participant retirees:

As of June 30, 2017, there were 112,966 retirees receiving post-retirement medical benefits, and the State contributed \$1.39 billion on their behalf.

PERS participant retirees:

The State paid \$238.9 million toward Chapter 126 benefits for 20,913 eligible retired members in Fiscal Year 2017.

Total Nonemployer OPEB Liability

The total nonemployer OPEB liability as of June 30, 2017 was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. The total nonemployer OPEB liability as of June 30, 2016 was determined by an actuarial valuation as of June 30, 2016.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE V: POST-RETIREMENT BENEFITS (CONTINUED)**

Actuarial Assumptions and Other Inputs

The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation Rate	2.50%	<u>TPAF/ABP</u>	<u>PERS</u>	<u>PFRS</u>
Salary Increases Through 2026		1.55% to 4.55% based on years of service	2.15% to 4.15% based on age	2.10% to 8.98% based on age
Rate thereafter		2.00% to 5.45% based on years of service	3.15% to 5.15% based on age	3.15% to 9.98% based on age

Preretirement mortality rates were based on the RP-2014 Headcount-Weighted Healthy Employee Male/Female mortality table with fully generational mortality improvement projections from the central year using the MP-2017 scale. Postretirement mortality rates were based on the RP-2014 Headcount-Weighted Healthy Annuitant Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2014 Headcount-Weighted Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies for the periods July 1, 2012 - June 30, 2015, July 1, 2010 - June 30, 2013, and July 1, 2011 - June 30, 2014 for TPAF, PFRS and PERS, respectively

Health Care Trend Assumptions

For pre-Medicare preferred provider organization (PPO) medical benefits, this amount initially is 5.9% and decreases to a 5.0% long-term trend rate after nine years. For self-insured post-65 PPO medical benefits, the trend rate is 4.5%. For health maintenance organization (HMO) medical benefits, the trend rate is initially 5.9% and decreases to a 5.0% long-term trend rate after nine years. For prescription drug benefits, the initial trend rate is 10.5% decreasing to a 5.0% long-term trend rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0%. The Medicare Advantage trend rate is 4.5% and will continue in all future years.



**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE V: POST-RETIREMENT BENEFITS (CONTINUED)**

Discount rate

The discount rate for June 30, 2017 and 2016 was 3.58% and 2.85%, respectively. This represents the municipal bond return rate as chosen by the Division. The source is 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.

Changes in the State's Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2016	\$ 57,831,784,184
Service cost	2,391,878,884
Interest on Total OPEB Liability	1,699,441,736
Effect of Changes of Assumptions	(7,086,599,129)
Contributions - Employee	45,748,749
Gross Benefits Paid by the State	(1,242,412,566)
Net Changes	(4,191,942,326)
Balance at June 30, 2017	53,639,841,858

Sensitivity of Total Nonemployer OPEB Liability to Changes in the Discount Rate:

The following presents the total nonemployer OPEB liability as of June 30, 2017 and 2016, respectively, calculated using the discount rate as disclosed above as well as what the total nonemployer OPEB liability would be if it was 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, 2017		
	At 1%	At current	At 1%
	Decrease (2.58%)	discount rate (3.58%)	Increase (4.58%)
Total OPEB Liability	\$ 63,674,362,200	\$ 53,639,841,858	\$ 45,680,364,953

	Fiscal Year Ended June 30, 2016		
	At 1%	At current	At 1%
	Decrease (1.58%)	discount rate (2.58%)	Increase (3.58%)
Total OPEB Liability	\$ 69,383,705,084	\$ 57,831,784,184	\$ 48,817,654,566

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE V: POST-RETIREMENT BENEFITS (CONTINUED)**

Sensitivity of Total Nonemployer OPEB Liability to Changes in the  
Healthcare Trend Rate:

The following presents the total nonemployer OPEB liability as of June 30, 2017 and 2016, respectively, calculated using the healthcare trend rate as disclosed above as well as what the total nonemployer OPEB liability would be if it was calculated using a healthcare trend rate that is 1- percentage point lower or 1-percentage point higher than the current rate:

	Fiscal Year Ended June 30, 2017		
	At 1% decrease	Trend Rate	At 1% Increase
Total OPEB Liability	\$ 44,113,584,560	\$ 53,639,841,858	\$ 66,290,599,457

	Fiscal Year Ended June 30, 2016		
	At 1% decrease	Trend Rate	At 1% Increase
Total OPEB Liability	\$ 47,452,589,164	\$ 57,831,784,184	\$ 71,707,778,970

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of  
Resources Related to OPEB

For the fiscal year ended June 30, 2018 the Charter School recognized OPEB expense of \$900,503 as determined by the State of New Jersey Division of Pensions and Benefits. This expense and the related offsetting revenue are for benefits provided by the State through a defined benefit OPEB plan that meets the criteria in GASB Statement 75, in which there is a special funding situation.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE V: POST-RETIREMENT BENEFITS (CONTINUED)**

In accordance with GASB Statement 75, as the Charter School's proportionate share of the OPEB liability is \$-0, there is no recognition of the allocation of the proportionate share of the deferred inflows and outflows of resources. At June 30, 2017 the State had deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between Actual and Expected Experience	\$ -	\$ -
Net Difference between Expected and Actual Earnings on OPEB Plan Investments	-	-
Assumption Changes	-	(6,343,769,032)
Sub Total	-	(6,343,769,032)
Contributions Made in Fiscal Year 2018 after June 30, 2017 Measurement Date	1,190,373,242	N/A
Total	1,190,373,242	(6,343,769,032)

Amounts reported as deferred outflows of resources and deferred inflows of resources related OPEB will be recognized in OPEB expense as follows:

Fiscal Year ending June 30		
2018	\$	742,830,097
2019	\$	742,830,097
2020	\$	742,830,097
2021	\$	742,830,097
2022	\$	742,830,097
Total Thereafter	\$	2,629,618,547
	\$	6,343,769,032

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE VI: 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.

The Charter School is a member of the New Jersey School Boards Association Insurance Group, Educational Risk and Insurance Consortium (the Consortium). The Consortium is both an insured and self-administered group of school districts established for the purpose of providing certain low-cost workers' compensation, employees' liability, automobile and equipment liability, general liability and boiler and machinery insurance coverage for member school districts in order to keep local property taxes at a minimum. The Charter School pays an annual assessment to the Consortium and should it be determined that payments received by the Consortium are deficient, additional assessments may be levied. Additionally, the Consortium maintains a contract of excess insurance with a commercial re-insurer to secure the payment of benefits.

The Charter School continues to carry commercial insurance coverage for all other risks of loss, including health and accident insurance. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

**New Jersey Unemployment Compensation Insurance**

The Charter School has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method." Under this plan, the Charter School is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Charter School is billed quarterly for amounts due to the State.

**NOTE VII: DETAILED DISCLOSURE REGARDING FUND EQUITY**

**General Fund**

General Fund balance at June 30, 2018, is \$1,887,949 and unassigned.

**NOTE VIII: SUBSEQUENT EVENTS**

The Paterson Arts and Science 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 audit which is January 28, 2019.

***REQUIRED SUPPLEMENTARY INFORMATION – PART II***

***SECTION C – BUDGETARY COMPARISON SCHEDULE***

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
General Fund  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2018

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>REVENUES:</b>					
Local Levy Budget:					
Equalization Aid- Local Share	982,778	88,407	\$ 1,071,185	1,071,185	\$ -
Total Local Levy Budget	982,778	88,407	1,071,185	1,071,185	-
Categorical Aid:					
Equalization Aid- State Share	7,166,299	(127,346)	7,038,953	7,038,953	
Special Education Categorical Aid	200,820	(25,320)	175,500	175,500	-
Security Aid	282,973	(1,439)	281,534	281,534	
Other State Aid	301,870	(41,272)	260,598	260,598	-
Total Categorical Aid	7,951,962	(195,377)	7,756,585	7,756,585	-
Revenues From Other Sources:					
Miscellaneous Revenue				26,290	26,290
On Behalf TPAF					
Pension Contributions - Normal Costs				312,196	312,196
Post Retirement Medical Contributions				201,640	201,640
Long Term Disability Insurance Contribution				2,115	2,115
Reimbursed TPAF Social Security Contributions (Non-Budgeted)				187,846	187,846
Total Revenues From Other Sources	-	-	-	730,087	730,087
Total Revenues	8,934,740	(106,970)	8,827,770	9,557,857	730,087
<b>EXPENDITURES:</b>					
Instruction:					
Salaries of Teachers	2,847,970	(233,141)	2,614,829	2,351,833	262,996
Other Salaries for Instruction	174,792	231,840	406,632	377,134	29,498
Purchased Prof/Tech Services	569,259	(555,416)	13,843	1,896	11,947
Other Purchased Services	46,740	(2,450)	44,290	40,828	3,462
General Supplies	298,747	180,758	479,505	428,120	51,385
Textbooks	62,838	(16,579)	46,259	46,259	
Miscellaneous	48,126	(5,154)	42,972	33,087	9,885
Total Instruction	4,048,472	(400,142)	3,648,330	3,279,157	369,173
Administration:					
Salaries - General Administration	224,025	177,516	401,541	401,541	
Salaries of Secretarial/Clerical Assistants	131,698	(56,555)	75,143	72,275	2,868
Total Benefits Cost	1,055,419	(118,268)	937,151	895,195	41,956
Purchases Prof/Tech Services	394,589	635,222	1,029,811	1,017,277	12,534
Communications/Telephone	71,502	(36,414)	35,088	30,658	4,430
Travel	1,000		1,000	838	162
Supplies and Materials	35,500	(26,891)	8,609	8,034	575
Miscellaneous Expenses	14,600	3,287	17,887	15,930	1,957
Total Administration	1,928,333	577,897	2,506,230	2,441,748	64,482

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

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
General Fund  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2018

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
(Continued from Prior Page)					
Support Services:					
Salaries	\$ 827,739	\$ (60,269)	\$ 767,470	\$ 726,108	\$ 41,362
Purchased Prof/Ed Services	41,531	(17,366)	24,165	12,830	11,335
Purchased Prof/Tech Services	60,395	7,178	67,573	56,374	11,199
Maintenance Services	218,500	(136,834)	81,666	62,933	18,733
Rental of Land and Buildings	1,751,000	(240,380)	1,510,620	1,434,889	75,731
Other Purchased Services	25,000	19,729	44,729	321	44,408
Transportation-Other Than To/From School	30,000	-	30,000	23,303	6,697
Insurance for Property, Liability and Fidelity	41,657	9,323	50,980	50,980	
Supplies and Materials	113,000	(37,628)	75,372	69,134	6,238
Energy Costs (Heat and Electricity)	125,000	(37,000)	88,000	62,987	25,013
Travel	3,500	-	3,500	-	3,500
Miscellaneous Expenses	5,050	2,584	7,634	7,540	94
<b>Total Support Services</b>	<b>3,242,372</b>	<b>(490,663)</b>	<b>2,751,709</b>	<b>2,507,399</b>	<b>244,310</b>
Capital Outlay:					
Instructional Equipment	63,857	(19,132)	44,725	44,725	
Non-Instructional Equipment	195,000	(123,677)	71,323	71,022	301
Miscellaneous Expenses	75,000	(72,797)	2,203		2,203
<b>Total Capital Outlay</b>	<b>333,857</b>	<b>(215,606)</b>	<b>118,251</b>	<b>115,747</b>	<b>2,504</b>
On-Behalf TPAF (Non-Budget)					
Reimbursed TPAF Pension					
Pension Contributions - Normal Cost				312,196	(312,196)
Post Retirement Medical Contributions				201,640	(201,640)
Long Term Disability Insurance Contribution				2,115	(2,115)
Reimbursed TPAF Social Security Contributions (Non-Budgeted)				187,846	(187,846)
<b>Total Expenditures</b>	<b>9,553,034</b>	<b>(528,514)</b>	<b>9,024,520</b>	<b>9,047,848</b>	<b>492,623</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(618,294)	421,544	(196,750)	510,009	706,759
<b>FUND BALANCE, JULY 1</b>	<b>1,378,340</b>		<b>1,378,340</b>	<b>1,378,340</b>	<b>-</b>
<b>FUND BALANCE, JUNE 30</b>	<b>\$ 760,046</b>	<b>\$ 421,544</b>	<b>\$ 1,181,590</b>	<b>\$ 1,888,349</b>	<b>\$ 706,759</b>
Recapitulation of Excess (Deficiency) of Revenues Over (Under) Expenditures Budgeted Fund Balance	\$ 760,046	\$ 421,544	\$ 1,181,590	\$ 1,888,349	\$ 706,759
<b>Total</b>	<b>\$ 760,046</b>	<b>\$ 421,544</b>	<b>\$ 1,181,590</b>	<b>\$ 1,888,349</b>	<b>\$ 706,759</b>

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



**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
Special Revenue Fund  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2018

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>REVENUE SOURCES:</b>					
Local					
Federal	711,571	913	712,484	709,269	(3,215)
<b>Total Revenues</b>	<b>711,571</b>	<b>913</b>	<b>712,484</b>	<b>709,269</b>	<b>(3,215)</b>
<b>EXPENDITURES:</b>					
Instruction:					
Salaries	52,396	9,423	61,819	61,819	
Other Salaries for Instruction	89,283	(779)	88,504	88,504	
Purchased Prof/Tech Services	24,073	5,504	29,577	29,577	
Other Purchased Services	35,097	(16,254)	18,843	16,343	2,500
General Supplies	202,831	(13,411)	189,420	189,405	15
<b>Total Instruction</b>	<b>403,680</b>	<b>(15,517)</b>	<b>388,163</b>	<b>385,648</b>	<b>2,515</b>
Support Services:					
Personal Services - Employee Benefits	21,501	4,491	25,992	25,992	
Purchased Technical Services	68,293		68,293	68,293	
Other Purchased Services	20,770	(8,000)	12,770	12,770	
Supplies and Materials	114,817	25,040	139,857	139,157	700
<b>Total Support Services</b>	<b>225,381</b>	<b>21,531</b>	<b>246,912</b>	<b>246,212</b>	<b>700</b>
Facilities Acquisition and Construction Services:					
Instructional Equipment	82,510	(5,101)	77,409	77,409	-
<b>Total Facilities Acquisition and Construction Services</b>	<b>82,510</b>	<b>(5,101)</b>	<b>77,409</b>	<b>77,409</b>	<b>-</b>
<b>Total Expenditures</b>	<b>711,571</b>	<b>913</b>	<b>712,484</b>	<b>709,269</b>	<b>3,215</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

***NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION***

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**

Required Supplementary Information

Budgetary Comparison Schedule

Note to RSI

Fiscal Year Ended June 30, 2018

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>
<b>Sources/Inflows of Resources</b>		
Actual amounts (budgetary) "revenues" from the budgetary comparison schedules	[C-1] \$ 9,557,857	[C-2] \$ 709,269
 Difference - Budget to GAAP		
Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized	<hr/>	<hr/>
Total revenues as reports on the statement of revenues, expenditures and changes in fund balance - governmental funds.	[B-2] \$ <u>9,557,857</u>	[B-2] \$ <u>709,269</u>
 <b>Uses/Outflows of resources</b>		
Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	[C-1] \$ 9,047,848	[C-2] \$ 709,269
 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.	<hr/>	<hr/>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	[B-2] \$ <u>9,047,848</u>	[B-2] \$ <u>709,269</u>

***REQUIRED SUPPLEMENTARY INFORMATION – PART III***

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

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES**  
**SCHEDULE OF THE CHARTER SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**LAST FIVE FISCAL YEARS**  
**UNAUDITED**

	Fiscal Year Ending June 30,				
	2014	2015	2016	2017	2018
Charter School's proportion of the net pension liability	N/A	N/A	N/A	0.007575651%	0.008421478%
Charter School's proportionate share of the net pension liability	N/A	N/A	N/A	\$ 2,243,690	\$ 1,960,385
Charter School's covered employees payroll	N/A	N/A	N/A	\$ 1,056,281	\$ 1,291,072
Charter School's proportionate share of the net pension liability as a percentage of it's covered employee payroll	N/A	N/A	N/A	212%	152%
Plan fiduciary net position as a percentage of the total pension liability	N/A	N/A	N/A	45.37%	45.37%

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

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES**  
**SCHEDULE OF THE CHARTER SCHOOL CONTRIBUTIONS**  
**PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**LAST FIVE FISCAL YEARS**  
**UNAUDITED**

	Fiscal Year Ending June 30,				
	2014	2015	2016	2017	2018
Contractually required contribution	N/A	N/A	\$ 33,775	\$ 33,775	\$ 83,364
Contributions in relation to the contractually required contribution	N/A	N/A	(33,775)	(33,775)	(83,364)
Contribution deficiency/(excess)	N/A	N/A	\$ -	\$ -	\$ -
Charter School's covered employee payroll	N/A	N/A	N/A	\$ 1,056,281	\$ 1,291,072
Contributions as a percentage of covered employee payroll	N/A	N/A	N/A	3.20%	6.46%

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

**PATERSON ARTS AND SCIENCE 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 FIVE FISCAL YEARS**  
**UNAUDITED**

	Fiscal Year Ending June 30,				
	2014	2015	2016	2017	2018
State's proportion of the net pension liability attributable of the Charter School	N/A	N/A	0.0098980%	0.0098980%	0.00842148%
State's proportionate share of the net pension liability attributable to the Charter School	N/A	N/A	\$ -	\$ 7,786,395	\$ 12,640,257
CS / District's covered employees payroll	N/A	N/A	\$ 2,199,018	\$ 2,199,018	\$ 2,859,577
Charter School's proportionate share of the net pension liability as a percentage of it's covered employee payroll	N/A	N/A	N/A	354.09%	442.03%
Plan fiduciary net position as a percentage of the total pension liability	N/A	N/A	N/A	28.71%	22.33%

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



***SCHEDULE M – SCHEDULES RELATED TO ACCOUNTING AND REPORTING FOR  
POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS***

**Paterson Arts and Science Charter School**  
**Required Supplementary Information Schedules**  
**Schedule of Changes in the Charter School's Net OPEB Liability and Related Ratios**  
**Last Two Fiscal Years**  
**(Unaudited)**

	Fiscal Years Ending	
	June 30, 2017	June 30, 2018
OPEB Liability at Beginning of Measurement Period		\$ 2,889,549
Service cost		802,421
Interest on Total OPEB Liability		104,240
Effect on Changes of Benefit Terms	NOT AVAILABLE	-
Effect of Changes of Assumptions		(619,158)
Contributions - Employee		2,651
Gross Benefits Paid by the State		(71,981)
		<hr/>
Net Change in Total OPEB Liability		218,173
OPEB Liability at Beginning of Measurement Period	NOT AVAILABLE	2,889,549
		<hr/>
Total OPEB Liability at End of Measurement Period	<u>2,889,549</u>	<u>3,107,722</u>
The Charter School's Proportionate Share of the Total OPEB Liability	\$ 3,255,299	\$ 4,150,649
Charter School's Covered-Employee Payroll	0.00%	0.01%
Total Charter School's OPEB liability as a percentage of covered-employee payroll	88.76%	74.87%
Charter School's Contribution	None	None

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

**Notes to Schedule:**

*Changes in benefit terms:* None

*Changes in assumptions:*

The increase in the liability from June 30, 2016 to June 30, 2017 is due to the increase in the assumed discount rate from 2.85% as of June 30, 2016 to 3.58% as of June 30, 2017

***NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PART III***

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**FOR FISCAL YEAR ENDED JUNE 30, 2018**

**A. Benefit Changes**

There were none.

**B. Changes in Assumptions**

The discount rate changed from 3.98% as of June 30, 2016 to 5.00% as of June 30, 2017 in accordance with Paragraph 44 of GASB Statement No. 67.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**TEACHER'S PENSION AND ANNUITY FUND**  
**FOR FISCAL YEAR ENDED JUNE 30, 2018**

**A. Benefit Changes**

There were none.

**B. Changes in Assumptions**

The discount rate changed from 3.22% as of June 30, 2016 to 4.25% as of June 30, 2017 in accordance with Paragraph 44 of GASB Statement No. 67.

***OTHER SUPPLEMENTAL INFORMATION***

**SECTION E – SPECIAL REVENUE FUND**

*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.*

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**

Special Revenue Fund  
 Combining Schedule of Program Revenues and Expenditures - Budgetary Basis  
 For the Fiscal Year Ended June 30, 2018

	NCLB Title I	NCLB Title III	I.D.E.A. Part B	I.D.E.A. Preschool	NCLB Title II Part A	NCLB Title IV	Other Federal Projects	Grand Total
<b>REVENUE SOURCES:</b>								
Federal	396,787	9285	115,026	1,787	17,639	18,745	150,000	709,269
Total Revenues	396,787	9,285	115,026	1,787	17,639	18,745	150,000	709,269
<b>EXPENDITURES:</b>								
Instruction:								
Salaries	60,423			1,396				61,819
Other Salaries for Instruction	9,400	6,922	63,182			9,000		88,504
Purchased Prof/Tech Services	29,577	-	-	-		-	-	29,577
Other Purchased Services		-	-	-	3,500	-	12,843	16,343
General Supplies	179,285	1,063				9,057		189,405
Total Instruction	278,685	7,985	63,182	1,396	3,500	18,057	12,843	385,648
Support Services:								
Personal Services - Employee Benefits	19,550	530	4,833	391		688		25,992
Other Purchased Prof/Tech Services	19,143		47,011		2,139			68,293
Other Purchased Services	-	770			12,000			12,770
Supplies and Materials	2,000	-	-	-	-	-	137,157	139,157
Total Support Services	40,693	1,300	51,844	391	14,139	688	137,157	246,212
Facilities Acquisition and Construction Services:								
Instructional Equipment	77,409							77,409
Total Facilities Acquisition and Construction Services	77,409							77,409
Total Expenditures	396,787	9,285	115,026	1,787	17,639	18,745	150,000	709,269
Total Outflows	396,787	9,285	115,026	1,787	17,639	18,745	150,000	709,269
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



**SECTION G – PROPRIETARY FUNDS**

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

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

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

## **SECTION H – FIDUCIARY FUNDS**

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

***Unemployment Insurance Compensation Trust Fund – This expendable trust fund is used to account for deduction from employee’s salaries which are utilized to pay unemployment compensation claims as they arise.***

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

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

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

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
 Fiduciary Funds  
 Combining Statement of Fiduciary Net Position  
 As of June 30, 2018

	Agency			Total
	Payroll Agency	Net Payroll	Student Activities	Agency Fund
<b>CURRENT ASSETS:</b>				
Cash and Cash Equivalents	\$ 471	11,475	\$ 13,128	\$ 25,074
<b>Total Current Assets</b>	<b>\$ 471</b>	<b>\$ 11,475</b>	<b>\$ 13,128</b>	<b>\$ 25,074</b>
<b>LIABILITIES</b>				
Liabilities:				
Interfund Accounts Payable	\$ 471	\$ 11,475	\$ -	\$ 11,946
Due to Student Activity			13,128	13,128
<b>Total Liabilities</b>	<b>\$ 471</b>	<b>\$ 11,475</b>	<b>\$ 13,128</b>	<b>\$ 25,074</b>

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
 Fiduciary Funds  
 Student Activity Agency Fund  
 Schedule of Receipts and Disbursements  
 For the Fiscal Year Ended June 30, 2018

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 4,742	\$ 30,468	\$ 22,082	\$ 13,128
Other Accounts Receivable	1,224		1,224	-
<b>Total Assets</b>	<b><u>\$ 5,966</u></b>	<b><u>\$ 30,468</u></b>	<b><u>\$ 23,306</u></b>	<b><u>\$ 13,128</u></b>
<b>LIABILITIES:</b>				
Due to Student Activity	\$ 5,966	\$ 30,468	\$ 23,306	\$ 13,128
<b>Total Liabilities</b>	<b><u>\$ 5,966</u></b>	<b><u>\$ 30,468</u></b>	<b><u>\$ 23,306</u></b>	<b><u>\$ 13,128</u></b>

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
 Fiduciary Funds  
 Payroll Agency Fund  
 Schedule of Receipts and Disbursements  
 For the Fiscal Year Ended June 30, 2018

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
<b>ASSETS:</b>				
Cash and Cash Equivalents	\$ 4,052	\$ 1,658,329	\$ 1,661,910	\$ 471
<b>Total Assets</b>	<u>\$ 4,052</u>	<u>\$ 1,658,329</u>	<u>\$ 1,661,910</u>	<u>\$ 471</u>
<b>LIABILITIES:</b>				
Interfund Accounts Payable	\$ 4,052	\$ -	\$ 3,581	\$ 471
Payroll Deductions and Withholdings		1,658,329	1,658,329	-
<b>Total Liabilities</b>	<u>\$ 4,052</u>	<u>\$ 1,658,329</u>	<u>\$ 1,661,910</u>	<u>\$ 471</u>

**STATISTICAL SECTION  
(UNAUDITED)**

***Paterson Arts and Science Charter School has been in operation for five (5) years. GASB requires that ten years of statistical data be presented. State law usually grants charters for less than ten years. Therefore, only statistical data for five (5) years is available and has been presented. 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 changed over time.

**Revenue Capacity (Not Applicable To Charter School)**

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

**Debt Capacity**

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

**Demographic and Economic Information**

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

**Operating Information**

These schedules contain service and infrastructure data to help the reader understand how the information in the charter school's financial report relates to the services the district 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, 2008; schedules presenting charter school-wide information include information beginning in that year.*

***FINANCIAL TRENDS***



**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
 Net Position by Component  
*(Accrual Basis of Accounting)*  
 (Unaudited)  
 Last Five Fiscal Years

	2018	2017	2016	2015	2014
Governmental Activities					
Net Investment in Capital Assets	\$ 14,926	\$ 25,330	\$ 30,318	\$ 37,119	\$ -
Unassigned (Deficit)	1,042,657	838,292	(78,402)	164,429	189,023
Total Governmental Activities Net Position (Deficit)	<u>\$ 1,057,583</u>	<u>\$ 863,622</u>	<u>\$ (48,084)</u>	<u>\$ 201,548</u>	<u>\$ 189,023</u>
Business-Type Activities					
Unassigned	\$ 93,122	\$ 119,950	100,813	64,228	34,644
Total Business-Type Activities Net Position	<u>\$ 93,122</u>	<u>\$ 119,950</u>	<u>\$ 100,813</u>	<u>\$ 64,228</u>	<u>\$ 34,644</u>
Charter School-wide					
Net Investment in Capital Assets	\$ 14,926	\$ 25,330	\$ 30,318	\$ 37,119	\$ -
Unassigned	1,135,779	958,242	22,411	228,657	223,667
Total Charter School Net Position	<u>\$ 1,150,705</u>	<u>\$ 983,572</u>	<u>\$ 52,729</u>	<u>\$ 265,776</u>	<u>\$ 223,667</u>

Source: Comprehensive Annual Financial Report

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**

Changes in Net Position  
(Accrual Basis of Accounting)  
(Unaudited)  
Last Five Fiscal Years

	2018	2017	2016	2015	2014
<b>Expenses</b>					
Governmental Activities:					
Instruction	\$ 4,355,617	\$ 3,367,608	\$ 2,982,045	\$ 2,426,866	\$ 1,949,067
Administration	3,564,685	659,573	1,700,202	1,465,342	889,144
Support Services	2,944,323	1,973,922	2,786,745	2,058,874	1,153,921
Capital Outlay	77,408	236,974	82,238	17,521	195,859
Total Governmental Activities Expenses	<u>10,956,775</u>	<u>6,238,077</u>	<u>7,551,230</u>	<u>5,968,603</u>	<u>4,187,991</u>
Business-Type Activities:					
Food Service and Before & After School Care	504,339	330,454	260,231	255,499	141,339
Total Business-Type Activities Expenses	<u>504,339</u>	<u>330,454</u>	<u>260,231</u>	<u>255,499</u>	<u>141,339</u>
Total Charter School Expenses	<u>\$ 11,461,114</u>	<u>\$ 6,568,531</u>	<u>\$ 7,811,461</u>	<u>\$ 6,224,102</u>	<u>\$ 4,329,330</u>
<b>Program Revenues</b>					
Governmental Activities:					
Operating Grants and Contributions	\$ 175,500	\$ 112,531	\$ 111,178	75,525	61,783
Total Governmental Activities Program Revenues	<u>175,500</u>	<u>112,531</u>	<u>111,178</u>	<u>75,525</u>	<u>61,783</u>
Business-Type Activities:					
Charges for Services	58,901	14,814	74,833	63,351	90,856
Operating Grants and Contributions	418,610	334,777	221,983	221,417	85,127
Total Business-Type Activities Program Revenues	<u>477,511</u>	<u>349,591</u>	<u>296,816</u>	<u>284,768</u>	<u>175,983</u>
	<u>\$ 653,011</u>	<u>\$ 462,122</u>	<u>\$ 407,994</u>	<u>\$ 360,293</u>	<u>\$ 237,766</u>
<b>Net (Expense)/Revenue</b>					
Governmental Activities	\$ (10,781,275)	\$ (6,125,546)	\$ (7,440,052)	\$ (5,893,078)	\$ (4,126,208)
Business-Type Activities	(26,828)	19,137	36,585	29,269	34,644
Total Charter School-wide Net Expense	<u>\$ (10,808,103)</u>	<u>\$ (6,106,409)</u>	<u>\$ (7,403,467)</u>	<u>\$ (5,863,809)</u>	<u>\$ (4,091,564)</u>
<b>General Revenues and Other Changes in Net Position</b>					
Governmental Activities:					
Federal and State Aid Not Restricted	\$ 10,965,839	\$ 7,162,517	7,128,941	5,898,533	4,299,003
Tuition		25,890	35,671	600	
Miscellaneous Income	26,290	13,568	25,808	6,470	16,228
Total Governmental Activities	<u>10,992,129</u>	<u>7,201,975</u>	<u>7,190,420</u>	<u>5,905,603</u>	<u>4,315,231</u>
Total Charter School-wide	<u>\$ 10,992,129</u>	<u>\$ 7,201,975</u>	<u>\$ 7,190,420</u>	<u>\$ 5,905,603</u>	<u>\$ 4,315,231</u>
<b>Change in Net Position</b>					
Governmental Activities	\$ 210,854	\$ 1,076,429	\$ (249,632)	\$ 12,525	\$ 189,023
Business-Type Activities	(26,828)	19,137	36,585	29,269	34,644
Total Charter School	<u>\$ 184,026</u>	<u>\$ 1,095,566</u>	<u>\$ (213,047)</u>	<u>\$ 41,794</u>	<u>\$ 223,667</u>

Source: Comprehensive Annual Financial Report

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
Fund Balances - Governmental Funds  
*(Modified Accrual Basis of Accounting)*  
(Unaudited)  
Last Five Fiscal Years

	Fiscal Year Ending June 30,				
	2018	2017	2016	2015	2014
General Fund					
Assigned	\$ 400	\$ -	\$ -	\$ 9,565	\$ 11,750
Unassigned	1,887,949	1,378,340	49,097	161,665	140,154
Total General Fund	<u>\$ 1,888,349</u>	<u>\$ 1,378,340</u>	<u>\$ 49,097</u>	<u>\$ 171,230</u>	<u>\$ 151,904</u>

**Source: Comprehensive Annual Financial Report**

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
 Changes in Fund Balances - Governmental Funds  
 (Modified Accrual Basis of Accounting)  
 (Unaudited)  
 Last Five Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Revenues:</b>					
Local Sources:					
Local Tax Levy	\$ 1,071,185	\$ 726,513	\$ 690,506	\$ 634,639	\$ 450,698
Tuition	-	25,890	35,671	600	-
Miscellaneous	26,290	15,533	71,621	6,470	16,228
Intermediate Sources	7,038,953	5,732,846			-
State Sources	1,421,429	1,388,268	5,767,481	5,010,157	3,746,721
Federal Sources	709,269	484,118	736,319	329,262	163,367
Total Revenues	<u>10,267,126</u>	<u>8,373,168</u>	<u>7,301,598</u>	<u>5,981,128</u>	<u>4,377,014</u>
<b>Expenditures:</b>					
Instruction	3,664,805	2,773,930	2,885,466	2,291,167	1,752,828
Administration	3,145,545	2,728,910	1,892,189	1,655,361	1,246,586
Support Services	2,753,611	1,304,111	2,558,838	1,995,274	1,030,837
Capital Outlay	193,156	236,974	87,238	20,000	194,859
Total Expenditures	<u>9,757,117</u>	<u>7,043,925</u>	<u>7,423,731</u>	<u>5,961,802</u>	<u>4,225,110</u>
Net Change in Fund Balance	<u>\$ 510,009</u>	<u>\$ 1,329,243</u>	<u>\$ (122,133)</u>	<u>\$ 19,326</u>	<u>\$ 151,904</u>

Source: Comprehensive Annual Financial Report

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
 General Fund - Other Local Revenue by Source  
*(Modified Accrual Basis of Accounting)*  
 (Unaudited)  
 Last Five Fiscal Years

Fiscal Year Ending June 30,	Donations	Tuition	Prior Year Refunds	Miscellaneous Revenue	Annual Total
2018	\$ -	\$ -	\$ 4,583	\$ 21,707	\$ 26,290
2017	330	25,890	1,476	13,727	41,423
2016	-	35,671	-	71,621	107,292
2015	1,200	-	-	5,270	6,470
2014	330	-	-	15,898	16,228

**Source: Charter School records**

***OPERATING INFORMATION***

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
 Full-Time Equivalent Charter School Employees by Function  
 (Unaudited)  
*Last Five Fiscal Years*

<u>Function</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Instruction	69	57	46	33	22
Administrative	6	7	7	4	3
Support Services	<u>15</u>	<u>12</u>	<u>5</u>	<u>29</u>	<u>14</u>
Total	<u><u>90</u></u>	<u><u>76</u></u>	<u><u>58</u></u>	<u><u>66</u></u>	<u><u>39</u></u>

**Source: Charter School Personnel Records**

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**

Operating Statistics  
(Unaudited)

Last Five Fiscal Years

Fiscal Year	Enrollment	Operating Expenditures <sup>a</sup>	Cost Per Pupil	Percentage Change	Teaching Staff <sup>b</sup>	Pupil/Teacher Ratio	Average Daily Enrollment (ADE) <sup>c</sup>	Average Daily Attendance (ADA) <sup>c</sup>	Percent Change in Average Daily Enrollment	Student Attendance Percentage
2018	683	\$ 9,563,961	\$ 14,003	11.09%	69	10:1	681	660	18.06%	100.00%
2017	540	6,806,951	12,605	-18.39%	57	9:1	558	558	14.87%	100.00%
2016	475	7,336,493	15,445	7.88%	46	10:1	475	475	16.63%	100.00%
2015	415	5,941,802	14,318	17.23%	33	13:1	396	396	18.94%	0.00%
2014	330	4,030,251	12,213	0.00%	22	15:1	321	321	0.00%	100.00%

**Sources: Charter School records**

**Note:** Enrollment based on annual final 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).



**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
 School Building Information  
 (Unaudited)  
*Last Five Fiscal Years*

<b><u>Charter School Building</u></b>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b><u>Elementary</u></b>					
Square Feet	70,000	70,000	70,000	23,963	23,963
Capacity (students)	700	540	480	420	330
Enrollment	683	540	475	415	330

Number of Schools at June 30, 2018  
 Elementary/Middle School = 1 (Grades K-7)

**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.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**

Insurance Schedule  
June 30, 2018  
Last Two Fiscal Years

	Coverage	Deductible
<b>PACKAGE POLICY - G.R. MURRAY INSURANCE</b>		
<b>Property</b>		
Real and Personal Property	\$ 350,000,000	\$ 1,000
Extra Expense	50,000,000	1,000
Valuable Papers & Records	10,000,000	1,000
Demolition and Increased Cost of Construction	10,000,000	
Loss of Business Income/Tuition	1,000,000	
Fire Department Service Charge	10,000	
Arson Reward	10,000	
Pollutant Cleanup and Removal	250,000	
Sublimits: Special Flood Hazard Area Flood Zones	15,000,000	500,000
Accounts Receivable	250,000	
All Flood Zones	75,000,000	10,000
Earthquake	50,000,000	
Terrorism	1,000,000	
<b>EDP</b>		
Hardware/Software	250,000	1,000
Coverage Extensions:		
Loss of Income	10,000	
Transit	25,000	
Loss of Income	10,000	
Terrorism	Included in Property	
<b>Equipment Breakdown</b>		
Combined Single Limit per Accident for Property Damage and Business Income	100,000,000	
Sublimits:		
Off Premises Property Damage	100,000	
Extra Expense	10,000,000	
Service Interruption	10,000,000	
Perishable Goods	500,000	
Data Restoration	100,000	
Contingent Business Income	100,000	
Demolition	1,000,000	
Ordinance or Law	1,000,000	
Expediting Expenses	500,000	
Hazardous Substances	500,000	
Newly Aquired Locations (120 days notice)	250,000	
Terrorism	Included	

Source: Charter School's Records

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**

Insurance Schedule  
 June 30, 2018  
 Last Two Fiscal Years

	Coverage	Deductible
<b>Crime</b>		
Public Employee Dishonesty with Faithful Performance	250,000	1,000
Theft, Disappearance and Destruction - Loss of Money & Securities On or Off Premises	50,000	500
Theft, Disappearance and Destruction - Money Orders & Counterfeit Paper Currency	50,000	500
Forgery or Alteration	250,000	1,000
Computer Fraud - Deductible is for each coverage part	250,000	1,000
Public Officials Bond:		
Business Administrator	150,000	1,000
Treasurer	150,000	1,000
<b>Comprehensive General Liability</b>		
Bodily Injury and Property Damage	16,000,000	
Products/Completed Operations	16,000,000	
Sexual Abuse Per Occurrence	16,000,000	
Sexual Abuse Annual NJSIG Aggregate	17,000,000	
Personal & Advertising Injury	16,000,000	
Employee Benefits Liability	16,000,000	1,000
Premises Medical Payments - Per Accident	10,000	
Premises Medical Payments - Per Person	5,000	
Terrorism	1,000,000	
<b>Automobile</b>		
Hired & Non-Owned - Bodily Injury and Property Damage	16,000,000	
Terrorism	1,000,000	

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
 Charter School Performance Framework Financial Indicators  
 Fiscal Ratios  
 Last Three Fiscal Years

	2016	2017	2018	Source
	Audit	Audit	Audit	
Cash	\$ 157,992	\$ 1,143,064	\$ 1,498,590	Audit: Exhibit A-1
Current Assets (includes CASH)	539,313	1,737,247	2,132,844	Audit: Exhibit A-1
Total Assets	1,253,285	1,866,853	3,676,153	Audit: Exhibit A-1
Current Liabilities	304,811	2,511,773	171,561	Audit: Exhibit A-1
Total Liabilities	318,990	268,083	2,525,448	Audit: Exhibit A-1
Net Assets	52,414	983,572	1,150,705	Audit: Exhibit A-1
Total Revenue	7,426,089	8,722,759	11,645,140	Audit: Exhibit A-2
Total Expenses	7,639,451	7,758,141	11,461,114	Audit: Exhibit A-2
Change in Net Assets	(213,362)	964,618	184,026	Audit: Exhibit A-2
Depreciation Expense	9,988	10,404	33,553	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	396.00	475.00	681.00	DOE Enrollment Reports
March 30th Budgeted Enrollment	384	480	683	Charter School Budget

Near Term Indicators	RATIOS ANALYSIS...			Source:	Target
	2016	2017	2018		
1a. Current Ratio	1.77	0.69	12.43	Current Assets/Current Liabilities	> 1.1
1b. Unrestricted Days Cash	7.55	53.78	47.73	Cash/(Total Expenses/365)	30-60
1c. Enrollment Variance	103%	99%	100%	Average Daily Enrollment/Budgeted Enrollment	>95%
1d.* Default	N/A	N/A	N/A	Audit	not in default
<b>Sustainability Indicators</b>					
2a. Total Margin	-3%	11%	2%	Change in Net Assets/Total Revenue	positive
2b. Debt to Asset	0.25	0.14	0.69	Total Liabilities/Total Assets	<.9
2c.** Cash Flow	(93,863)	985,072	355,526	Net change in cash flow from prior years	3 yr cum positive
2d. Debt Service Coverage Ratio	N/A	N/A	N/A	(Change in Net Assets+Depreciation+Interest Expense)/(Principal & Interest Payments)	>1.10

\* Is school in default of loan covenant(s) and/or is delinquent with debt service payments? Yes or No  
 \*\* 2018 = 2018 Cash - 2017 Cash; 2017 = 2017 Cash - 2016 Cash; 2016 = 2016 Cash - 2015 Cash

Refer questions to [charterfinance@doe.state.nj.us](mailto:charterfinance@doe.state.nj.us)

***SINGLE AUDIT SECTION***

**BARRE & COMPANY LLC**  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**INDEPENDENT AUDITOR'S REPORT**

The Honorable President and  
Members of the Board of Trustees  
Paterson Arts and Science Charter School  
County of Passaic  
Elmwood Park, 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 Paterson Arts and Science Charter School (Charter School), in the County of Passaic, State of New Jersey, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements and have issued our report thereon dated January 28, 2019.

***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 a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses 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.

***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 audit requirements as prescribed by 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 LLO  
Certified Public Accountants  
Public School Accountants

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

Union, New Jersey  
January 28, 2019

**BARRE & COMPANY LLC**  
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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH UNIFORM GUIDANCE AND NEW JERSEY CIRCULAR 15-08 OMB**

**INDEPENDENT AUDITOR'S REPORT**

The Honorable President and  
Members of the Board of Trustees  
Paterson Arts and Science Charter School  
County of Passaic  
Elmwood Park, New Jersey

***Report on Compliance for Each Major Federal and State Program***

We have audited the Paterson Arts and Science Charter School's (Charter School) compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* and the New Jersey Circular 15-08 OMB *State Aid/Grant Compliance Supplement* that could have a direct and material effect on each of its major federal and state programs for the fiscal year ended June 30, 2018. The Charter School's major federal and 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 federal and state programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Charter School's major federal and 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) and the audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey; New Jersey Circular 15-08 OMB, *Single Audit Policy for Recipients of Federal Grants, State*



*Grants and State Aid.* Those standards, Uniform Guidance and New Jersey Circular 15-08 OMB 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 federal or state program occurred.

An audit includes examining, on a test basis, evidence about the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### ***Opinion on Each Major Federal and State Program***

In our opinion, the Paterson Arts and Science Charter School, in the County of Passaic, 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 federal and state programs for the year ended June 30, 2018.

### ***Report on Internal Control over Compliance***

Management of the Paterson Arts and Science 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 federal or 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 federal and state program and to test and report on internal control over compliance in accordance with Uniform Guidance and New Jersey Circular 15-08 OMB, 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 federal or state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or 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 federal or 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

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

***Purpose of this Report***

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 New Jersey Circular OMB 15-08. Accordingly, this report is not suitable for any other purpose.

  
BARRE & COMPANY LLC  
Certified Public Accountants  
Public School Accountants

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

Union, New Jersey  
January 28, 2019

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Federal FAIN Number	Grant or State Project Number	Program or Award Amount	Grant Period From To	Balance at June 30, 2017	Carryover/ (Walkover) Amount	Cash Received	Budgetary Expenditures	Adjustments	Repayment Of Prior Years' Balances	Balance at June 30, 2018	
												Accounts Receivable	Deferred Revenue
<b>U.S. Department of Education</b>													
<b>Passed-through State Department of Education</b>													
Special Revenue Fund:													
No Child Left Behind Cluster:													
Title I Part A	84.010A	S010A160030	NCLB - 6096 - 18	396,787	7/1/17	630/18	\$ -	\$ 312,014	\$ (386,787)	\$ -	\$ -	\$ (84,773)	\$ -
Title I Part B	84.010A	S010A160030	NCLB - 6096 - 17	318,847	7/1/16	630/17	(67,649)	67,649	(9,285)	-	-	(6,652)	-
Title III	84.365A	S365A160030	NCLB - 6096 - 18	10,000	9/1/17	831/18	(342)	3,975	(17,639)	-	-	(4,991)	-
Title II Part A	84.367A	S367B160027	NCLB - 6096 - 18	20,139	9/1/17	831/18	(1,383)	14,031	(18,745)	-	-	(15,748)	-
Title IV State & Drug Free	84.186A		NCLB - 6096 - 18	18,745	9/1/17	831/18	(69,374)	400,669	(442,456)	-	-	(111,161)	-
Total No Child Left Behind Cluster													
Special Education Cluster (IDEA):													
ID.E.A. Part B Basic	84.027	H027A160100	IDEA - 6096 - 18	115,026	7/1/17	630/18		68,024	(115,026)			(47,002)	
ID.E.A. Part B Basic Carryover	84.027		IDEA - 6096 - 17	96,506	9/1/16	831/17	(34,896)	34,896	(1,787)			(871)	
ID.E.A. Preschool	84.173	H173A160114	IDEA - 6096 - 18	1,787	9/1/17	831/18	(695)	916	(1,787)			(871)	
ID.E.A. Preschool Carryover	84.173		IDEA - 6096 - 17	1,563	9/1/16	831/17	(35,397)	695	(116,813)			(47,873)	
Total Special Education Cluster (IDEA)													
Other Special Revenue Funds:													
Public Charter Schools (CSP Grant)	84.282	U282A120015	N/A	150,000	9/1/17	831/18		150,000	(150,000)			-	
Total Other Special Revenue Funds								150,000	(150,000)			-	
Total Special Revenue Fund													
U.S. Department of Agriculture													
Passed-through State Department of Agriculture													
Enterprise Fund:													
School Breakfast Program	10.553	181N1304N1099	N/A	61,840	7/1/17	630/18		47,909	(61,840)			(13,931)	
School Breakfast Program	10.553	171N1304N1089	N/A	51,604	7/1/16	630/17	(4,825)	4,825	(276,339)			(48,656)	
National School Lunch Program	10.555	181N1304N1099	N/A	276,339	7/1/17	630/18		227,683	(276,339)			(48,656)	
National School Lunch Program	10.555	171N1304N1089	N/A	220,744	7/1/16	630/17	(20,996)	20,996	(16,000)			(2,261)	
Child Care Food Program	10.558	181N1304N1099	N/A	16,000	7/1/17	630/18		13,739	(16,000)			(2,261)	
Child Care Food Program	10.558	171N1304N1089	N/A	12,479	7/1/16	630/17	(685)	685	(31,582)			(3,787)	
Fresh Fruits and Vegetable Program	10.582	181N1304L1603	N/A	31,582	7/1/17	630/18		27,795	(31,582)			(3,787)	
Fresh Fruits and Vegetable Program	10.582	171N1304L1603	N/A	26,287	7/1/16	630/17	(1,763)	1,763	(385,761)			(68,635)	
Total Enterprise Fund													
Sub-Total Federal Financial Awards													
							\$ -	\$ 1,000,595	\$ (1,095,030)	\$ -	\$ -	\$ (227,669)	\$ -

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

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
Schedule of Expenditures of State Financial Assistance  
For the Fiscal Year Ended June 30, 2018

State Grantor/Program Title	Grant or State Project Number	Program or Activity Amount	Grant Period		Balance at June 30, 2017		Carryover/ (Waiver) Amount	Cash Received	Budgetary Expenditures	Adjustments/ Payable of Prior Year's Balance	Balance at June 30, 2018		Cumulative Total Expenditures	
			From	To	Blended Revenues (Accounts Receivable)	Blended Due to Grantor					Blended Payable	Due to Grantor		
<b>State Department of Education</b>														
General Fund:														
State Aid - Public Cluster														
Equalization Aid	18-495-034-5120-078	\$ 7,038,593	7/1/17	6/30/18	\$ -	\$ -	\$ 6,922,949	\$ (7,038,953)	\$ -	\$ -	\$ (116,004)	\$ -	\$ 115,644	\$ 7,038,953
Equalization Aid	17-495-034-5120-078	5,430,680	7/1/16	6/30/17	(34,237)	-	34,237	-	-	-	-	-	-	175,500
Special Education Categorical Aid	18-495-034-5120-089	175,500	7/1/17	6/30/18	-	-	175,500	(175,500)	-	-	-	-	-	281,534
Security Aid	18-495-034-5120-084	281,534	7/1/17	6/30/18	-	-	281,534	(281,534)	-	-	(8,073)	-	8,073	252,525
Adjustment Aid	18-495-034-5120-085	252,525	7/1/17	6/30/18	(34,237)	-	244,452	(252,525)	-	-	(124,077)	-	123,717	7,748,512
Other State Aid		8,073	7/1/17	6/30/18	-	-	7,698,672	(7,748,512)	-	-	-	-	-	8,073
Post-Retirement Medical Contributions	18-495-034-5120-078	201,640	7/1/17	6/30/18	-	-	8,073	(8,073)	-	-	-	-	-	201,640
Pension Benefit Contributions Normal Costs	18-495-034-5094-001	312,196	7/1/17	6/30/18	-	-	312,196	(312,196)	-	-	-	-	-	312,196
Long Term Disability Insurance Contributions	18-495-034-5094-004	2,115	7/1/17	6/30/18	-	-	2,115	(2,115)	-	-	-	-	-	2,115
Contributions to Social Security	18-495-034-5094-003	187,846	7/1/17	6/30/18	-	-	178,415	(187,846)	-	-	(9,419)	-	9,419	187,846
Reimbursed TPAF - Social Security	17-495-034-5094-003	172,072	7/1/16	6/30/17	(16,907)	-	16,907	-	-	-	-	-	-	167,846
Total General Fund					(51,144)	-	8,378,030	(8,460,382)	-	-	(133,486)	-	133,136	8,460,382
<b>State Department of Agriculture</b>														
Enterprise Fund:														
National School Lunch Program (State Share)	18-100-010-3350-023	5,133	7/1/17	6/30/18	(400)	-	4,453	(5,133)	-	-	(680)	-	680	5,133
National School Lunch Program (State Share)	17-100-010-3350-023	4,254	7/1/16	6/30/17	(400)	-	400	-	-	-	-	-	-	-
Total Enterprise Fund					(400)	-	4,853	(5,133)	-	-	(680)	-	680	5,133
Total All Funds					(51,544)	-	8,382,883	(8,465,515)	-	-	(134,176)	-	133,816	8,465,515
State Financial Assistance Not Required to Major Program Determination:														
General Funds:														
Post-Retirement Medical Contributions	18-495-034-5094-001	201,640	7/1/17	6/30/18	-	-	201,640	(201,640)	-	-	-	-	-	201,640
Long Term Disability Insurance Contributions	18-495-034-5094-004	2,115	7/1/17	6/30/18	-	-	2,115	(2,115)	-	-	-	-	-	2,115
On-Behalf TPAF Pension Contributions	18-495-034-5094-002	312,196	7/1/17	6/30/18	-	-	312,196	(312,196)	-	-	-	-	-	312,196
Total State Financial Assistance Subject to Single Audit					(51,544)	-	7,866,932	(7,945,564)	-	-	(134,176)	-	133,816	7,949,564

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**

Notes to the Schedules of Expenditures  
of Awards and Financial Assistance  
June 30, 2018

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**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, Paterson Arts and Science 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 basis 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 CFR 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the New Jersey OMB 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.

**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

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
Notes to the Schedules of Expenditures  
of Awards and Financial Assistance  
June 30, 2018

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

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:22-44.2*.

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	\$ -	\$ 1,421,429	\$ 1,421,429
Special Revenue Fund	709,269		709,269
Food Service Fund	385,761	5,133	390,894
Total Awards & Financial Assistance	<u>\$ 1,095,030</u>	<u>\$ 1,426,562</u>	<u>\$ 2,521,592</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**

Paterson Arts and Science Charter School has no loan balances outstanding at June 30, 2018.

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**

Notes to the Schedules of Expenditures  
of Awards and Financial Assistance  
June 30, 2018

**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, TPAF Post-Retirement Medical Benefits Contributions and TPAF Long-Term Disability Insurance represents the amount paid by the state on behalf of the Charter School for the year ended June 30, 2018. 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, 2018.

**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 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards*; 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.

Program	Total
Title I, Part A: <i>Grants to Local Education Agencies</i>	\$ 396,787
Title II, Part A: <i>Teacher and Principal Training and Recruiting</i>	17,639
Title III: <i>English Language Acquisition</i>	<u>9,285</u>
Total	<u>\$ 423,711</u>

**NOTE 8. DE MINIMIS INDIRECT COST RATE**

The school has elected not to use the 10 percent de minimis cost rate allowed under Uniform Guidance

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2018

**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	__X__ No
2) Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	None Reported __X__
Noncompliance material to basic financial statements noted?	_____ Yes	__X__ No

**Federal Awards**

Internal control over major programs:		
1) Material weakness(es) identified?	_____ Yes	__X__ No
2) Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	None Reported __X__
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 Uniform Guidance?	_____ Yes	__X__ No

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
_____ 84.010 _____	_____ Title I Part A _____
_____	

Dollar threshold used to distinguish between Type A and Type B programs:		\$750,000
Auditee qualified as low-risk auditee?	__X__ Yes	_____ No



**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2018

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

**State Awards**

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

Auditee qualified as low-risk auditee?  Yes  No

Internal control over major programs:

1) Material weakness(es) identified?  Yes  No

2) Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None Reported

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

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

Identification of major state programs:

<b>GMIS Number(s)</b>	<b>Name of State Program</b>
	STATE AID – PUBLIC CLUSTER
<u>18-495-034-5120-078</u>	<u>Equalization Aid</u>
<u>18-495-034-5120-089</u>	<u>Special Education Categorical Aid</u>
<u>18-495-034-5120-084</u>	<u>Security Aid</u>
<u>18-495-034-5120-085</u>	<u>Adjustment Aid</u>

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2018

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***Section II –Financial Statement Findings***

The section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the basic financial statements that are required to be reported in accordance with *Government Auditing Standards* and with audit requirements prescribed by the Division of Administration and Finance, Department of Education, State of New Jersey.

No Current Year Findings

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

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal and state programs as required by U.S. Uniform Guidance and New Jersey OMB's Circular Letter 15-08.

**CURRENT YEAR FEDERAL AWARDS**

No Current Year Findings

**CURRENT YEAR STATE AWARDS**

No Current Year Findings

**PATERSON ARTS AND SCIENCE CHARTER SCHOOL**  
Summary Schedule of Prior Year Audit Findings  
For the Fiscal Year Ended June 30, 2018

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**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 U.S. Uniform Guidance and New Jersey OMB's Circular 15-08, as amended.

NONE