

**GRAY CHARTER SCHOOL**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**JUNE 30, 2015**

**PREPARED BY**  
**GRAY CHARTER SCHOOL**

**GRAY CHARTER SCHOOL**

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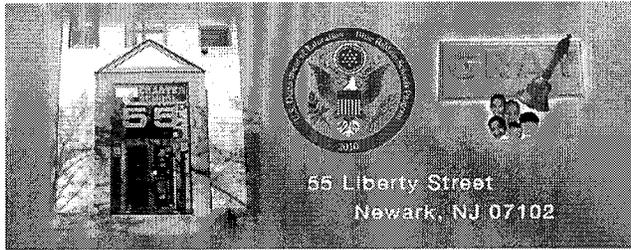
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## **INTRODUCTORY SECTION**

## **INTRODUCTORY SECTION**



December 10, 2015

Commissioner

New Jersey Department of Education  
100 Riverview Executive Plaza  
CN – 500  
Trenton, New Jersey 08625-0500

Dear Commissioner:

We hereby submit the Comprehensive Annual Financial Report of the Gray Charter School (the “Charter School”) for the fiscal period ended June 30, 2015. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Charter School. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to fairly present the financial position and result of operations of the various funds and account groups of the Charter School. All disclosures necessary to enable the reader to gain an understanding of the Charter School’s financial activities have been included.

The Comprehensive Annual Financial Report is presented in four sections: introductory, financial, statistical and single audit. The introductory section includes this transmittal letter, the Charter School’s organizational chart and a list of principal officials. The financial section includes the Management’s Discussion and Analysis, the basic financial statements, required supplementary information and other supplementary information, as well as the auditor’s report thereon. The statistical section includes three unaudited fiscal years of data. The Charter School is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget Circular A-133, “*Audits of States, Local Governments and Non-Profit Organizations*”, and the New Jersey OMB Circular Letter 04-04, “*Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*”. Information related to this single audit, including the auditor’s report on internal control and compliance with applicable laws and regulations and findings and recommendations are included in the single audit section of this report.

**New Jersey Department of Education  
Commissioner**

**1) REPORTING ENTITY AND ITS SERVICES**

The Gray Charter School (“GCS”) is an independent reporting entity within the criteria adopted by the Government Accounting Standards Board (“GASB”) as established by GASB Statement No. 14. All funds and account groups of the Charter School are included in this report. The Charter School provides a full range of educational services appropriate for Kindergarten through grade 8. These services include regular, as well as special instruction in basic skills. The students are afforded educational opportunities through the implementation of various instructional ideologies that are aligned with the New Jersey Common Core Standards. In addition, the comprehensive curriculum is complemented with the teaching of music and violin. Tutorial opportunities are provided on a daily basis for individuals and small groups.

Clear, student-centered goals focused on staff professional development has resulted in significant gains in achievement during the 2014-2015 school academic year. Communications to parents are offered through regular parent-teacher conferences; the Parent Academy Program and monthly meetings. The school completed the 2014-2015 school year with an enrollment of 329 students.

The following details the changes in student enrollment of the school over the last six years:

<u>Fiscal Year</u>	<u>Student Enrollment</u>	<u>Percentage Change</u>
2014-2015	329	0.10%
2013-2014	299	0.09%
2012-2013	274	-1.08%
2011-2012	277	0.04%
2010-2011	266	-5.00%
2009-2010	280	3.45%

**2) ECONOMIC CONDITION AND OUTLOOK**

The city of Newark’s proximity to New York City and easy access via major highways are attractive features that made it a choice for many companies that conduct business in the metropolitan New York area. In addition, the city's close proximity to the Port of New York/New Jersey and Newark International airport make it a desirable business location and transportation hub. The City is the largest city in the state. It serves as the county seat for Essex County, State and Federal Courts as well as State’s public utility and

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governmental offices attracting a large number of law firms and small businesses to the central business district.

**2) ECONOMIC CONDITION AND OUTLOOK**

The City of Newark is the financial capital of the state, harboring financial institutions like Prudential Insurance Company, Horizon Blue Cross Blue Shield of New Jersey as well the State's largest public utility, Public Service Electric and Gas Company (PSEG). The City has experienced a surge of large scale economy in the recent years by way of development projects initiated by the Private Sector in partnership with the City including a professional ice hockey team, "New Jersey Devils" and the Panasonic Corporation located its U.S. Headquarter in Downtown Newark in 2014. However, poverty remains a consistent problem in Newark, despite its revitalization in recent years.

The City of Newark is obliged to perform a revaluation of property holdings. Among the concerns voiced in conjunction with this change is the potential effect of any redistribution of property tax burden on economic activity and on the ability of local government to maintain and improve services including its tax contribution for public school purposes.

The City has experienced a surge of large-scale economic development projects initiated by the private sector over the last decade. The increasing number of businesses relocating to the area is expected to result in an increase in employment level, which could result in an increased tax base, both residential and industrial, and an increase in annual daily enrollment. The period of economic development and expansion is expected to continue, which suggests that the Charter School will prosper.

**2) Major initiatives:**

The Charter School has developed a comprehensive strategic plan to support its mission and vision and serves as a blueprint for the achievement of its goals. The plan includes objectives, such as pupil achievement as measured by standardized tests and teacher assessment instruments; formal professional development for the certified and non-certified staff; and the implementation of a technology plan in all classrooms.

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Commissioner**

**4) INTERNAL ACCOUNTING CONTROLS**

Management of the Charter School is responsible for establishing and maintaining a system of internal controls designed to ensure that the assets of the Charter School are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). The system of internal controls 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 responsible for ensuring that adequate internal controls are in place to comply with applicable laws and regulations related to those programs. Internal control is also subject to periodic evaluation by the Charter School's Board of Trustees.

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

**5) BUDGETARY CONTROLS**

In addition to internal accounting controls, the Charter School maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the voters of the municipality. Annual appropriated budgets are adopted for the General Fund and Special Revenue Fund. The final budget amount as amended for the fiscal year is reflected in the financial section.

**5) ACCOUNTING SYSTEM AND REPORT**

The Charter School's accounting records reflect Generally Accepted Accounting Principles (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB). The accounting system of the Charter School is organized on the basis of funds and account groups. These funds and account groups are explained in "Notes to the Financial Statements", Note 1. We are currently using Info fund accounting application for the school's fiscal operations to deliver and establish a complete program including encumbrances, general ledger, accounts payable, accounts receivable, budgetary accounts

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Commissioner**

and Board Secretary's monthly report. This system is a core component of our internal control system and has helped with the accountability of our financial structure.

**6) FINANCIAL STATEMENT INFORMATION AT FISCAL YEAR-END**

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 schedule presents a summary of the general fund, and special revenue funds for the fiscal years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>% change</u>
<u>Revenue</u>				
Local Sources	\$ 304,861	\$ 558,742	\$ (253,881)	-45.44%
State Sources	4,468,124	3,876,063	592,061	15.27%
Federal Sources	317,512	264,439	53,073	20.07%
Total	<u>\$ 5,090,497</u>	<u>\$ 4,699,244</u>	<u>\$ 391,253</u>	

The amount of monies received from local sources is determined by the per pupil cost of the Newark Public School District. We received 90% of this cost in accordance with current statute. GCS received monies from federal and state sources attributable to grants and aids for instruction and administrative expenses for fiscal year ended June 30, 2015. The federal funds consisted of "No Child Left Behind" (NCLB), including Title I and II, as well as IDEA Part B for students identified with special needs.

The following schedule presents a summary of general fund and special revenue expenditures for the fiscal years ended June 30, 2015 and 2014.

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<u>Expenditures</u>				
Instruction	\$ 1,935,163	\$ 1,947,668	\$ (12,505)	-1%
Undistributed	-	-	-	-
Expenditures	2,449,381	2,949,518	(500,137)	-17%
Capital Outlay	13,510	25,690	(12,180)	-47%
Total	<u>\$ 4,398,054</u>	<u>\$ 4,922,876</u>	<u>\$ (524,822)</u>	

The increase in cost in 2015 over 2014 was primarily due to the doubling of our student population. For the year ending June 30, 2015, the significant portion of our expenditures

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Commissioner**

were based upon 1 Executive Director/Principal, 1 Vice Principal, 1 Chief Financial Officer/SBA, , 3 administrative7 support staff, and 29 instructional staff.

**7) CASH MANAGEMENT**

The investment policy of the Charter School is guided in large part by state statute as detailed in "Notes to the Financial Statements", Note 2. The Charter School has adopted a cash management plan which 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 loss of funds on deposit with a failed banking institution in New Jersey.

The law requires governmental units to deposit public funds in public depositories located in New Jersey, where the funds are secured in accordance with the Act. Our funds are presently deposited in PNC Bank N.J, in compliance with the state and federal regulations.

**8) RISK MANAGEMENT**

The Board carries various forms of insurance, including, but not limited, to general liability, automobile liability, hazard and theft insurance on property and contents, fidelity bonds, worker's compensation and student insurance.

**9) OTHER INFORMATION**

**Independent Audit**

State statute requires an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Ilori CPA LLC was appointed by the Charter School's Board of Trustees. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Single Audit Act Amendment of 1996 and the related OMB Circular A-133 and New Jersey OMB Circular Letter 04-04. The auditor's report on the general-purpose financial statements, combining and individual fund statements, and schedules are included in the financial section of this report. The auditor's reports related specifically to the single audit are included in the single audit section of this report.

**10) 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

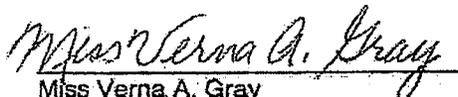
**New Jersey Department of Education  
Commissioner**

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. During 2014-2015, on-going training was provided for harassment, intimidation and bullying prevention to comply with the training requirements of the Act.

**11) ACKNOWLEDGEMENTS**

We would like to express our appreciation to the members of the Gray Charter School Board of Trustees for their concern in providing fiscal accountability to the citizens and taxpayers of the Charter School and Newark Public School district and thereby contributing their full support to the development and maintenance of our financial operations.

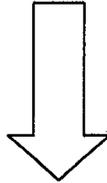
Respectfully submitted,

  
Miss Verna A. Gray  
Executive Director/Principal

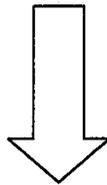
  
School Business Administrator

The Gray Charter School  
Organizational Chart  
2014-2015

Board of Trustees



Executive Director



Teachers ----- Other Staff



Aides

# GRAY CHARTER SCHOOL

## ROSTER OF OFFICIALS JUNE 30, 2015

### Members of the Board of Education

Mrs. Nicaury Miller, President

Ms. Shawanda, Jones-Velez, Member

Mr. Compton Chester, Member

Mr. Ade Afolabi, Member

Miss Verna A. Gray (ex-officio)

Mr. Brian A. Albanese (ex-officio)

### Other Officials

Miss Verna A. Gray, Executive Director/Principal

Karen Milteer, School Business Administrator/Board Secretary

**GRAY CHARTER SCHOOL  
CONSULTANTS AND ADVISORS**

**Attorney**

**Adams, Gutierrez & Lattiboudere, LLC  
The legal Center  
1037 Raymond Boulevard Suite 900  
Newark, NJ 07102**

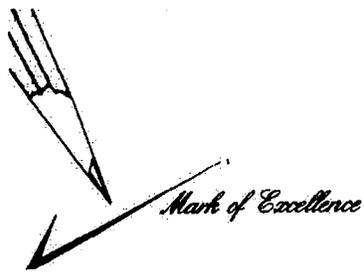
**Audit Firm**

**Ilori CPA LLC  
24 Commerce Street Suite 1427  
Newark, NJ 07102**

**Official Depository**

**TD Bank  
Newark, NJ 07103**

## **FINANCIAL SECTION**



ILORI CPA LLC  
CERTIFIED PUBLIC ACCOUNTANTS  
& MANAGEMENT CONSULTANTS  
Member of AICPA, NJCPA & MACPA

24 COMMERCE STREET SUITE 1427  
NEWARK, NEW JERSEY 07102  
Telephone (973)-621-5780  
Fax (973) 404- 8858

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Gray Charter School, Inc., (the "Charter School") in the County of Essex, State of New Jersey, as of and for the fiscal year ended June 30, 2015, which collectively comprise the Charter School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

### **Management's Responsibility for the Financial Statements**

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

### **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 audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 school'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.

## INDEPENDENT AUDITOR'S REPORT- CONTINUED

### Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Charter School, as of June 30, 2015, and the respective changes in financial positions and cash flows, where applicable for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### Emphasis of a Matter

As discussed in Note 7 to the financial statements, the effects of the Charter School's adoption of the provisions of GASB Statement Nos. 68, "Accounting and Financial Reporting for Pensions" and 71, "Pensions Transition for Contributions Made Subsequent to the Measurement Date." Our opinion is 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 and budgetary comparison information on pages 14 and 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *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 introductory section, combining and individual fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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 them.

The accompanying schedules of expenditures of federal awards and state financial assistance are also presented for purposes of additional analysis as required by the U.S. office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and New Jersey OMB's Letter Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* respectively, and are not also a required part of the basic financial statements.

## INDEPENDENT AUDITOR'S REPORT- CONTINUED

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements.

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

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2015, on our consideration of the Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting 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* in considering the Charter School's internal control over financial reporting and compliance.

**Ilori CPA LLC**

*Kunleilori*

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Kunle B. Ilori, CPA  
Licensed Public School Accountant  
No. 20CS00233100

*Ilori CPA LLC*

December 10, 2015  
Newark, New Jersey

**REQUIRED SUPPLEMENTARY INFORMATION  
PART I**

**MANGEMENT DISCUSSION AND ANALYSIS**

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

## GRAY CHARTER SCHOOL

### MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2015**

The discussion and analysis of Gray Charter School's financial performance provide an overview of the School's financial activities for the fiscal year ended June 30, 2015. The objective of this overview and analysis is to examine the District's financial performance as a whole and to disclose important financial commentary that will provide overall understanding of the District's financial position. However, readers of this document are encouraged to review the CAFR's Letter of Transmittal in the Introductory Section, and the Basic Financial Statements and Notes to Financial Statements in the Financial Section to enhance their understanding of the Board's financial performance.

The Management's Discussion and Analysis (MD&A) as a required Supplementary Information Specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* issued in June 1999; GASB Statement No. 37, *Basic Financial Statement – and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued in June 2001, and; in GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

The Charter School conforms to GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in February 2009. GASB Statements No. 54 abandons the reserved and unreserved classifications of fund balance and replaces them with five new classifications: nonspendable, restricted, committed, assigned and unassigned. An explanation of these classifications is detailed in Note 1Q, Fund Balance and Equity in the Notes to Financial Statements section of this report.

The Charter School also implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously reported as Assets and Liabilities*, in the fiscal year ending June 30, 2014. In accordance with GASB Statement No. 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. The school adopted and implemented GASB 68 in fiscal year ended June 30, 2015 as disclosed on page 36 of the financial statements disclosures as prelude to the detailed disclosures under the heading "Pension Plan"

# GRAY CHARTER SCHOOL

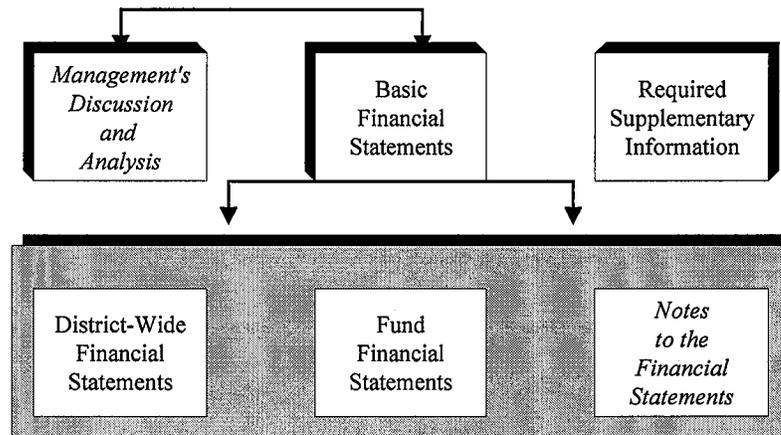
## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

### Overview of the Financial Statements

This annual report consists of six parts—*management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, *other supplementary information*, the *statistical section*, and the *single audit section*.

Table A-1. Required Components of the School's Annual Financial Report



The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are Charter School *financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the district-wide statements.
  - *Governmental funds* statements tell how *basic* services such as regular and special education were financed in the *short term* as well as what remains for future spending.
  - *Proprietary funds* statements offer *short-term* and *long-term* financial information about the activities the government operates *like businesses*, such as food service.
  - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain certain information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Table A-1 shows how the required parts of this annual report are arranged and related to one another.

**GRAY CHARTER SCHOOL**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**JUNE 30, 2015**

Table A-2 Major Features of the School-Wide and Fund Financial Statements				
	School-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School (except Fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as special education and building maintenance	Activities the School operates similar to private businesses: Food Service Fund and Extended Day Program	Instances in which the School administers resources on behalf of someone else, such as state unemployment insurance, payroll and payroll agency and student activities
Required financial statements	*Statements of Net Position *Statements of Activities	*Balance Sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of Net Position *Statement of revenues, expenditures and changes in fund Net Position *Statement of cash flows	*Statement of Fiduciary Net Position *Statement of changes in fiduciary Net Position
Accounting Basis and Measurement Focus	Actual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both financial and capital, short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid	All additions and dedications during the year; regardless of when cash is received or paid

Table A-2 summarizes the major features of the School’s financial statements, including the portion of the School’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements. The basic financial statements include two kinds of statements that present different views of the School:

- Charter School-wide Statements
- Fund Financial Statements

## GRAY CHARTER SCHOOL

### MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

#### Charter School-wide Statements

The School-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two School-wide statements report the School's *Net Position* and how they have changed. Net Position is the difference between the School's assets and liabilities is one way to measure the School's financial health or *position*.

- Over time, increases or decreases in the School's Net Position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School, you need to consider additional non-financial factors such as changes in the School's property tax base and the condition of school buildings and other facilities.

The School-wide financial statements of the School are divided into two categories:

- *Governmental activities* – Most of the School's basic services are included here, such as regular and special education, instruction, extracurricular activities, curriculum and staff development, health services, operations and maintenance of plant and administration. Property taxes and state grants finance most of these activities.
- *Business-type activities* – The School charges fees to customers to help it cover the costs of certain services it provides. The School's Food Service Fund and Extended Day Program Fund are included here.

#### Fund Financial Statements

The fund financial statements provide more detailed information about the School's most significant *funds*-not the School as a whole. Funds are accounting devices that the School uses to keep track of specific sources of funding and spending for particular programs. The School considers all Governmental and Proprietary funds to be major funds in accordance with requirements of the Division of Finance, Department of Education, of the State of New Jersey.

## GRAY CHARTER SCHOOL

### MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

#### Fund Financial Statements Cont'd

The School has three kinds of funds:

- *Governmental funds* – Most of the School's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds* – Services for which the School charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the School-wide statements, provide both long- and short-term financial information. In fact, the School's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The School's Enterprise Fund includes the Food Service Program and the Extended Day Program.
- *Fiduciary funds* – The School is the trustee, or *fiduciary*, for assets that belong to others such as the state unemployment insurance, payroll, and student activity funds. The School is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the School's fiduciary activities are reported in a separate statement of fiduciary Net Position and a statement of changes in fiduciary Net Position. We exclude these activities from the School's School-wide financial statements because the School cannot use these assets to finance its operations.

#### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the School-wide and fund financial statements and can be found starting on page 38 of this report. In addition to the basic financial statements and accompanying notes, this report also includes required supplementary information.

## **GRAY CHARTER SCHOOL**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2015**

#### **FINANCIAL ANALYSIS OF THE CHARTER SCHOOL AS A WHOLE**

The perspective of the Statement of Net Position is 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.

##### **Government Activities**

The Charter School's total revenues amounted to \$5,411,075 and \$4,870,189 for the years ended June 30, 2015 and 2014 which included non-budgeted state on half reimbursement of contributions of \$320,578 and \$282,629, respectively.

The total cost of all programs and services amounted to \$4,994,398 and \$3,984,940 for the years ended June 30, 2015 and 2014.

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 interactions between teacher and student, including extracurricular activities.

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

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

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

## GRAY CHARTER SCHOOL

### MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

#### Business-Type Activities

Revenue for the Charter School's business-type activity "Food Service Program" for the years ended June 30, 2015 and 2014 amounted to \$126,899 and \$99,551, respectively. Gray Charter School is solely responsible for the management and fiscal accountability of the food program.

#### **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. The fund balance for the years 2015 and 2014 in the amount of \$474,138 and (\$68,305), respectively, is very significant as it presents the school residual interest after all financial obligations have been met. 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 years ended June 30, 2015 and 2014.

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
<u>Revenue</u>				
Local Sources	\$ 304,861	\$ 732,687	\$ (427,826)	-58.39%
State Sources	4,468,124	3,873,063	595,061	15.36%
Federal Sources	317,512	264,439	53,073	20.07%
Total	<u>\$ 5,090,497</u>	<u>\$ 4,870,189</u>	<u>\$ 220,308</u>	

#### **Governmental Activities**

The Statement of Activities reflects the cost of program services and the charges for services and operating grants and contributions offsetting those services. The table below, for government activities, indicates the total cost of services and the net cost of services.

# GRAY CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

### Governmental Activities- Continued

It identifies the cost of these services supported by unrestricted state entitlements for the fiscal years ended June 30, 2015 and 2014.

	<u>2015</u> <u>Net Cost of</u> <u>Services</u>	<u>2014</u> <u>Net Cost of</u> <u>Services</u>	<u>Increase</u> <u>(Decrease)</u>	<u>% Change</u>
Instruction	\$ 1,627,964	\$ 2,408,814	\$ (780,850)	-32.4%
Support Services:				
Administrative expenses	1,372,031	730,681	641,350	87.8%
Other support services	1,537,615	1,114,804	422,811	37.9%
Unallocated depreciation	2,702	25,690	(22,988)	100.0%
Total Expenses	<u>\$ 4,540,312</u>	<u>\$ 4,279,989</u>	<u>\$ 260,323</u>	

Changes in expenditures were the results of varying factors. Current expense increased due to addition of a new grade and all the requisite costs associated with it and increased health benefit and utility costs.

### General Fund Budgeting Highlights

The Charter School's budget is prepared according to New Jersey law, and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. Over the course of the year, the Charter School revised the annual operating budget several times. Revisions in the budget were made to recognize revenues that were not anticipated and to realign the budget to actual expenditures in accordance with state law.

# GRAY CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2015**

### Business-Type Activity

The business-type activity of the Charter School is the food service operation food program revenue comprised charges for services totaling \$10,011 and \$7,286 and federal and state reimbursements grossing \$116,888 and \$92,265 for fiscal years ended June 30, 2015 and 2014, respectively. In addition, the school also received nominal fees for its aftercare program in the amount of \$33,420 and \$15,090 for the years ended June 30, 2015 and 2014, respectively as illustrated in the accompanying Comprehensive Annual Financial Report (CAFR) Exhibits G-2.

Table 1 provides a summary of Charter School's net position at June 30.

TABLE 1  
NET POSITION

	Governmental		Business-Type		Total		Change	Change
	Activities		Activities					
	2015	2014	2015	2014	2015	2014		
<b>Assets:</b>								
Current and								
Other Assets	\$1,066,615	\$ 615,628	\$ 45,436	\$ 20,828	\$ 1,112,051	\$ 636,456	\$ 475,595	74.73%
Capital Assets	10,808	-	-	-	10,808	-	10,808	100.00%
<b>Total Assets</b>	<b>1,077,423</b>	<b>\$ 615,628</b>	<b>\$ 45,436</b>	<b>\$ 20,828</b>	<b>\$ 1,122,859</b>	<b>\$ 636,456</b>	<b>\$ 486,403</b>	<b>76.42%</b>
<b>Liabilities:</b>								
other Liabilities	0	\$ 683,933	\$ 44,768	\$ 160,485	44,768	844,418	\$ (82,927)	-9.82%
<b>Total Liabilities</b>	<b>0</b>	<b>\$ 683,933</b>	<b>\$ 44,768</b>	<b>\$ 160,485</b>	<b>\$ 44,768</b>	<b>\$ 844,418</b>	<b>\$ (82,927)</b>	<b>-9.82%</b>
<b>Net Position:</b>								
Net Investment in								
Capital Assets	10,808	\$ -	0	0	10,808	\$ -	\$ 25,690	100.00%
Unrestricted (deficit)	1,066,615	(68,305)	668	(139,657)	1,067,283	(207,962)	543,640	-261.41%
<b>Total Net Position</b>	<b>\$ 1,077,423</b>	<b>\$ (68,305)</b>	<b>\$ 668</b>	<b>\$ (139,657)</b>	<b>\$ 1,078,091</b>	<b>\$ (207,962)</b>	<b>\$ 517,950</b>	

The Charter School's combined net position of (207,962) on June 30, 2015, results in a decrease of \$154.72% from the prior year.

## **GRAY CHARTER SCHOOL**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2015**

#### **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 of all the funds is the general fund as it provides resources for all other funds on a need basis. The Charter School uses state-aid and other revenue sources. The budgeting systems are designed to tightly control total budget, but provide flexibility for Charter School management teams to modify if there is need to. During the course of fiscal 2014-2015, the Charter School amended its general fund budget as needed.

For General Fund, the final budgeted revenues and "other financing sources" were \$4,475,726 and \$4,294,239, which included a local share of \$605,759 and \$618,808 for the years ended June 30, 2015 and 2014. Expenditures and "other financing uses" were budgeted at \$4,499,824 and \$4,294,239 for the years ended June 30, 2015 and 2014. The State of New Jersey provided state aid in the amount of \$4,468,124 and \$4,431,805 for the fiscal years ended June 30, 2015 and 2014, respectively. In addition, in 2015 and 2014 the state provided \$118,271 and \$120,177 for the employer's share of social security contributions for Teachers Pension Annuity Fund (TPAF) members. This unbudgeted amount is included in both revenues and expenditures of the CAFR.

#### **Capital Assets**

At the end of fiscal year 2015 the Charter School expended \$316,350 on various components of site improvement and had recorded depreciation in the amount of \$75,034 for the fiscal year ended June 30, 2015.

**GRAY CHARTER SCHOOL**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**JUNE 30, 2015**

**Capital Assets (net of depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Actviies</u>		<u>Total Charter school</u>		<u>Total Percentage change</u>
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	
Building and Improvement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0
Equipment/Computer	10,808	0	0	0	10,808	0	784.27%
Furniture	0	0	0	0	0	0	0
<b>Total</b>	<u>\$ 10,808</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,808</u>	<u>\$ -</u>	

**Long-term debt and capitalized lease obligations**

At June 30, 2015 and 2014, the Charter School had no long-term debt or mortgages on the school buildings as the school is currently under a lease agreement.

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

The State of New Jersey continues to face serious budgetary constraints. This has impacted the amount of state aid allocated to charter schools. This reality was taken into account when adopting the general fund budget for 2014- 2015. Every effort was directed to providing quality education to the community. The budget was prepared to ensure that all students have the textbooks, materials supplies, equipment and programs needed to meet New Jersey’s Core Curriculum Content Standards.

**GRAY CHARTER SCHOOL**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2015**

**Contacting the Charter School's Financial Management**

This financial report is designed to provide our citizens, taxpayers and investors with a general overview of the Charter School's finances and to reflect the Charter School's accountability for the monies it received during the course of the fiscal year. If you have questions about this report or require additional financial information, contact the business office.

**School Business Administrator/ Board Secretary**

Gray Charter School

Newark, New Jersey 07102

## **BASIC FINANCIAL STATEMENTS**

The basic financial statements provide a financial overview of the Charter School's operation. These financial statements present the financial position and operating results of all funds and account groups as of June 30, 2015.

## **CHARTER SCHOOL-WIDE FINANCIAL STATEMENTS**

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

**GRAY CHARTER SCHOOL**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 471,774	\$ 25,955	\$ 497,729
Receivables- State	6,298	382	6,680
Receivables-federal	234,499	19,099	253,598
Interfund receivable	303,989		303,989
Other receivable	50,055		50,055
Depreciated capital assets			-
Less Accumulated depreciation	10,808	-	10,808
Total Assets	<u>1,077,423</u>	<u>45,436</u>	<u>1,122,859</u>
<b>Deferred outflows of resources</b>			
Pension deferred outflows	44,516	-	44,516
Total assets and deferred outflows of resources	<u>\$ 1,121,939</u>	<u>\$ 45,436</u>	<u>\$ 1,167,375</u>
<b>LIABILITIES</b>			
Accounts payable	339,643	725	340,368
Payable - state	8,280	-	8,280
Interfund payable	244,554	44,043	288,597
Net Pension Liability	1,415,653		1,415,653
	<u>2,008,130</u>	<u>44,768</u>	<u>2,052,898</u>
<b>Deferred inflows of resources</b>			
Pension deferred inflows	261,074	-	261,074
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	10,808		10,808
	-	-	-
Unrestricted	<u>(1,158,073)</u>	<u>668</u>	<u>(1,157,405)</u>
<b>Total net position</b>	<u>\$ (1,147,265)</u>	<u>\$ 668</u>	<u>\$ (1,146,597)</u>

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

**GRAY CHARTER SCHOOL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Instruction	\$ 1,935,163	\$ -	\$ 307,199	\$ -	(1,627,964)	\$ -	\$ (1,627,964)
Support services:							
Student & instruction related services	1,372,031	-	-	-	(1,372,031)	-	(1,372,031)
School administrative services	1,397,928	-	10,313	-	(1,387,615)	-	(1,387,615)
Capital outlay	-	-	-	-	-	-	-
Miscellaneous	150,000	-	-	-	(150,000)	-	(150,000)
Unallocated depreciation	2,702	-	-	-	(2,702)	-	(2,702)
Total governmental activities	<u>4,857,824</u>	<u>-</u>	<u>317,512</u>	<u>-</u>	<u>(4,540,312)</u>	<u>-</u>	<u>(4,540,312)</u>
Business-type activities:							
Food service	136,574	10,011	116,888	-	-	(9,675)	(9,675)
Total business-type activities	<u>136,574</u>	<u>10,011</u>	<u>116,888</u>	<u>-</u>	<u>-</u>	<u>(9,675)</u>	<u>(9,675)</u>
Total primary government	<u>\$ 4,994,398</u>	<u>\$ 10,011</u>	<u>\$ 434,400</u>	<u>\$ -</u>	<u>\$ (4,540,312)</u>	<u>\$ (9,675)</u>	<u>\$ (4,549,987)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes, net					\$ 605,759	\$ -	\$ 605,759
Taxes levied for debt service					-	-	-
Federal and State aid not restricted					4,167,226	-	4,167,226
Other sources					320,578	-	320,578
Transfers					-	150,000	150,000
Total general revenues, special items, extraordinary items and transfers					<u>5,093,563</u>	<u>150,000</u>	<u>5,243,563</u>
Change in Net Assets B-3					553,251	140,325	693,576
Net position—Beginning					(68,305)	(139,657)	(207,962)
Adjustment - Pension					(1,632,211)	-	(1,632,211)
Adjusted Net position—Beginning					<u>(1,700,516)</u>	<u>(139,657)</u>	<u>(1,840,173)</u>
Net position—Ending A-1					<u>\$ (1,147,265)</u>	<u>\$ 668</u>	<u>\$ (1,146,597)</u>

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

**FUND FINANCIAL STATEMENTS**

**GRAY CHARTER SCHOOL  
GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>Receivables</b>			
Cash and cash equivalents	\$ 471,774	\$ -	\$ 471,774
Receivables- state	6,298	-	6,298
Receivables- federal	-	234,499	234,499
Interfund receivable	303,989	-	303,989
Receivables-other	40,000	10,055	50,055
Total assets	<u>822,061</u>	<u>244,554</u>	<u>1,066,615</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	339,643	-	339,643
Payable to state or district	8,280	-	8,280
Interfund payable	-	244,554	244,554
Total liabilities	<u>347,923</u>	<u>244,554</u>	<u>592,477</u>
Fund Balances:			
<b>Unreserved, reported in:</b>			
General fund	474,138	-	474,138
Total Fund balances	<u>474,138</u>	<u>-</u>	<u>474,138</u>
Total liabilities and fund balances	<u>\$ 822,061</u>	<u>\$ 244,554</u>	

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

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

Total Aquisition Cost	13,510	
Less Accumulated Depreciation	<u>(2,702)</u>	10,808

Deferred Outflows related to pension contributions subsequent to the Net Pension Liability measurement date and other deferred items are not current financial resources and therefore are not reported in the fund statements. (See Note 7)	-
	44,516

Deferred Inflows related to pension actuarial gains from experience and differences in actual return and assumed returns and other deferred items are not reported as liabilities in the fund statements. (See Note 7)	(261,074)
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Long-term liabilities, including Net Pension Liability, are not due and payable in the current period and therefore are not reported as liabilities in the funds (see Note 7)	(1,415,653)
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<b>Net position of governmental activities- A-1</b>	<u><u>\$ (1,147,265)</u></u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

**GRAY CHARTER SCHOOL**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2015**

Exhibit B-2

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>Revenue</b>			
Local sources:			
"Local levy" local share	\$ 605,759	\$ -	\$ 605,759
Private donations	304,861		304,861
Miscellaneous	-	-	-
Total - Local Sources	<u>910,620</u>	<u>-</u>	<u>910,620</u>
State sources	3,862,365	-	3,862,365
Other sources	320,578		320,578
Federal sources	-	317,512	317,512
Total revenues	<u>5,093,563</u>	<u>317,512</u>	<u>5,411,075</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	1,627,964	307,199	1,935,163
Undistributed Expenditures:			
Administrative cost	1,372,031	-	1,372,031
Support services	1,067,037	10,313	1,077,350
TPAF reimbursed	320,578	-	320,578
Capital outlay	13,510	-	13,510
Total expenditures	<u>4,401,120</u>	<u>317,512</u>	<u>4,718,632</u>
Excess (Deficiency) of revenues over expenditures	<u>692,443</u>	<u>-</u>	<u>692,443</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	-
Transfers out	(150,000)	-	(150,000)
Total other financing sources and uses	<u>(150,000)</u>	<u>-</u>	<u>(150,000)</u>
Net change in fund balances	542,443	-	542,443
Fund balance—July 1	(68,305)	-	(68,305)
Fund balance—June 30	<u>\$ 474,138</u>	<u>\$ -</u>	<u>\$ 474,138</u>

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

**GRAY CHARTER SCHOOL  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

**Total net change in fund balances - governmental funds (from B-2)** **\$ 542,443**

Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets are allocated over their useful lives as depreciation expense  
This is the amount by which the capital outlays exceeded depreciation expense in the period.

	2,702	
Depreciation expense	2,702	
Assets additions	13,510	
		10,808

**Change in net assets of governmental activities A-2** **\$ 553,251**

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

**PROPRIETARY FUND FINANCIAL STATEMENTS**

**GRAY CHARTER SCHOOL  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2014**

**ASSETS**

Current assets:

Cash and cash equivalents	\$	25,955
Government grants receivable-federal		19,099
Government grants receivable-state		382
Interfund receivable		-
Total current assets		45,436

Total assets		45,436
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**LIABILITIES**

Current liabilities:

Accounts payable		725
Interfund payable		44,043
Total liabilities		44,768

**NET POSITION**

Invested in capital assets net		-
Unrestricted n		668
Total net position	\$	668

Total Laibilities and Net Position		45,436
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**GRAY CHARTER SCHOOL**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2015**

Operating revenues:

Charges for services:

Daily sales - non-reimbursable programs	\$ 5,000
Miscellaneous revenue	5,011
Total operating revenues	<u>10,011</u>

Operating expenses:

Cost of sales	-
Other purchased services	126,271
Bank charges	
Supplies	8,852
Miscellaneous	1,451
Postage	-
Technology supplies	-
Total Operating Expenses	<u>136,574</u>
Operating loss	<u>(126,563)</u>

Nonoperating revenues:

**State sources:**

State school lunch program	2,335
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**Federal sources:**

National school breakfast program	-
National school lunch program	114,553
Healty Hunger Free Kids Act	
Federal snack	-
Total nonoperating revenues	<u>116,888</u>

Loss before transfers	(9,675)
Transfers in (out)	<u>150,000</u>
Change in net position	140,325
Total net position-beginning	<u>(139,657)</u>
Total net position-ending	<u>\$ 668</u>

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

**GRAY CHARTER SCHOOL**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 10,011
Payments to suppliers	<u>9,597</u>
Net cash used for operating activities	<u>19,608</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Payment to vendors	136,574
Cash received from State and Federal reimbursements	-
Other receipts	<u>-</u>
<b>Decrease in Cash and Cash Equivalents</b>	<b>19,608</b>
Balances-beginning of year	<u>6,347</u>
Balances-end of year	<u><u>25,955</u></u>
<b>Reconciliation of operating income (loss) to net cash provided</b>	
<b>(used) by operating activities:</b>	
Operating income (loss)	140,325
Adjustments to reconcile operating income (loss) to net cash provided by	
Increase in receivable -Federal	(4,906)
Increase in receivable -State	(94)
Account payable	(8,830)
Interfund payable	(106,887)
Net cash used for operating activities	<u><u>\$ 19,608</u></u>

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

**FIDUCIARY FUNDS  
DETAIL STATEMENTS**

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

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

At June 30, 2015, there was no non-expendable trust fund utilized by the Charter School.

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

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

**GRAY CHARTER SCHOOL**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2015**

**Exhibit B-7**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 13,920
Other current assets	1,472
Interfund Receivable	-
Total assets	<u>\$ 15,392</u>
<b>LIABILITIES</b>	
Payable to the state unemployment	-
Interfund payable	\$ 15,392
Payroll payable	-
Total liabilities	<u>\$ 15,392</u>
<b>NET ASSETS</b>	
Held in trust for unemployment claims and other purposes	

**The accompanying Notes to Financial Statements are an integral part o**

**GRAY CHARTER SCHOOL**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**Exhibit B-8**

	Unemployment Compensation Trust
<b>ADDITIONS</b>	
Contributions:	
Plan member	
Contributions to SUI	\$ 10,295
Other	-
Total Contributions	10,295
Total additions	10,295
<b>DEDUCTIONS</b>	
Quarterly contribution reports	10,295
Administrative expenses	-
Total deductions	10,295
Change in net assets	-
Net position—beginning of the year	-
Net position—end of the year	\$ -

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

**NOTES TO FINANCIAL STATEMENTS**

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A Reporting Entity:**

The Charter School was incorporated in the State of New Jersey on June 30, 1999, as a not-for-profit corporation for the purpose of operating and maintaining a public school under a charter granted by the State of New Jersey, which promotes comprehensive educational reform by infusing innovation into the public education system. The Board of Trustees (the "Board") consists of not less than three nor more than eight trustees, who each serve three year terms, and is responsible for the fiscal control of the Charter School.

The Charter School is an instrument of the State of New Jersey, established to function as an educational institution. Its mission is to establish a charter school to serve as a neighborhood resource and as a model for other similar schools. The Charter School is committed to achieving the New Jersey Common Core Standards and producing high academic achievement by all students. The Charter School will integrate a holistic curriculum, utilize learner center techniques, family and caregiver centered approaches, comprehensive community involvement, cutting edge technology and an intimate nurturing environment that will enhance positive self-images.

The Charter School receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. The primary criterion for including activities within the Charter School's reporting entity is the degree of oversight responsibility maintained by the Charter School's management. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, and ability to significantly influence operations and accountability for fiscal matters. The financial statements include all funds of the Charter School.

The Charter School has no component units that are required to be included within the reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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

**Component Units**

The primary criterion for including activities within the Charter School's reporting entity, as set forth in Section 2100 of the GASB's Codification of Governmental Accounting and Financial Reporting Standards is the degree of oversight responsibility maintained by the Charter School management.

**B New Accounting Standards:**

During fiscal year 2014, the Charter School adopted the following GASB statements:

- GASB 66, Technical Corrections 2012, an Amendment of GASB Statements 10 and 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.
- GASB 67, Financial Reporting for Pension Plans, an Amendment of GASB 25. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures, as related to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria*. This Statement had no impact on the Charter School's financial statements.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B New Accounting Standards: (continued)**

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

- The Charter School adopted GASB 68, *Accounting and Financial Reporting for Pensions* effective beginning with the year ending June 30, 2015. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, Pension Disclosures, as related to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.
- GASB 69, *Government Combinations and Disposals of Government Operations* will be effective beginning with the fiscal year ending June 30, 2015. The objective of this Statement is to establish accounting and financial reporting standards for mergers, acquisitions, and transfers of operations (i.e., government combinations). The Statement also provides guidance on how to determine the gain or loss on a disposal of government operations. This Statement applies to all state and local governmental entities. The Charter School does not expect this statement to impact its financial statements.

**C Basis of Presentation:**

The Charter School's basic financial statements include the Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C Basis of Presentation: (continued)**

**Charter School-Wide Statements:**

The Statement of Net Position and the Statement of Activities display information about the Charter School as a whole. These statements include the financial activities of the Charter School, except for fiduciary funds.

These statements distinguish between the governmental and business-type activity of the Charter School. Governmental activities generally are financed through local tax levy, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D Fund Financial Statements:**

During the fiscal year, the Charter School segregates transactions related to certain school functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate financial statements are provided for Governmental Funds, Proprietary Funds, and Fiduciary Funds. The New Jersey Department of Education (NJ DOE) has elected to require New Jersey schools to treat each Governmental Fund as a major fund in accordance with the option noted in GASB No. 34, paragraph 76. The NJ DOE believes that the presentation of all funds as major is important for public interest and to promote consistency among school financial reporting models

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

The Charter School segregates transactions related to certain Charter School functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Charter School at a more detailed level.

**E Governmental Funds:**

**General Fund** – The General Fund is the primary operating fund of the Charter School and is always classified as a major fund. It is used to account for all financial resources except those that are legally or administratively required to be accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or non-instructional equipment which are classified in the Capital Outlay sub-fund.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E Governmental Funds: (continued)**

As required by the New Jersey Department of Education, the Charter School included budgeted capital outlay in this fund. Generally Accepted Accounting Principles as they pertain to governmental entities state that General Fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues.

Resources for budgeted capital outlay purposes are normally derived from State of New Jersey aid and appropriated fund balance. Expenditures are those that result in the acquisition of or additions to fixed assets for land, existing buildings.

Improvement of ground, construction of buildings, additions to or remodeling of buildings and the purchase of built-in equipment. These resources can be transferred from and to current expense by board resolution.

**Special Revenue Fund** – The Special Revenue Fund is used to account for the proceeds of specific revenue from State and Federal Government, (other than major Capital Projects, Debt Service or the Enterprise Funds) and local appropriations that 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. As of June 30, 2015, there was no Capital Projects Fund.

**Debt Service Fund** –The Debt Service Fund is used to account for the accumulation of resources for, and the payment of principal and interest on, bonds issued to finance major property acquisitions, construction, and improvement programs. As of June 30, 2015 there was no debt service fund.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F     Proprietary Funds:**

The focus of Proprietary Funds' measurement is upon determination of net income, changes in Net Position, financial position and cash flows. The Generally Accepted Accounting Principles applicable are those similar to business in the private sector. The following is a description of the Proprietary Funds of the Charter School.

**G     Enterprise Funds:**

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

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

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

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

**Fiduciary Funds**

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

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G Enterprise Funds: (continued)**

**Expendable Trust Funds** – Expendable Trust Funds are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable Trust Funds account for assets where both the principal and interest may be spent. At June 30, 2015, the school has no expendable trust fund.

**Nonexpendable Trust Funds** – Nonexpendable Trust Funds are used to account for assets held under the terms of a formal trust agreement, whereby the Charter School is under obligations to maintain the trust principal. At June 30, 2015, the school has no nonexpendable Trust Fund.

**Agency Funds** – Agency funds are used to account for the assets that the Charter School holds on behalf of others as their agent. Agency funds are custodial in nature and do not involve measurement of results of operations. Agency funds include payroll and student activities funds.

**H Measurement Focus and Basis of Accounting**

**Measurement Focus** –The measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. On the government-wide statements of Net Position and the statement of activities, both governmental and business-like activities are presented using the economic resources measurement focus.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statement of these funds present increases (i.e., revenues and other financing sources), and decreases (i.e. Expenditures and other finances uses) during a given period. These funds use fund balance as their measure of available spend able financial resources at the end of the period.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H Measurement Focus and Basis of Accounting: (continued)**

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

**Basis of accounting**

In the Charter School – wide statement of Net Position and statements of activities, both governmental and business like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting revenues are recognized when earned and expenses are recognized when the liability, resulting from exchange and exchange like transactions, is incurred (i. e. the exchange takes place).

In the fund financial statements, governmental fund and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. “Measurable” means the amount of the transaction can be determine and “available” means collectible with the current period or soon enough thereafter to be used to pay liabilities of the current period. State equalization monies are recognized as revenue during the period in which they are appropriated. A one-year availability period is used for revenue recognition for all other governmental funds revenues.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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

**I Budgets/Budgetary Control**

Annual appropriated budgets are prepared prior to July 1, for the General Fund. The budget is prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A. 2(m)1. All budget amendments must be approved by the State Department of Education. Formal budgetary integration into the accounting system is employed as a management control device during the year. For Governmental Funds, there are no substantial differences between the budgetary basis of accounting and Generally Accepted Accounting Principles, with the exception of the Special Revenue Fund as noted below.

Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental funds types. Unencumbered appropriations lapse at fiscal year end.

The accounting records of the special revenue fund are maintained on the grant accounting budgetary basis. The grant accounting budgetary basis differs from GAAP in that the grant accounting budgetary basis recognized encumbrances as expenditures and also recognized 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 budgetary basis of accounting to the GAAP basis of accounting:

<u>Budget/Budgetary Control:</u>	<b>2015</b>
Total revenues and expenditures (budgetary basis)	\$ 317,512
Adjustments:	
Plus: Encumbrances at June 30, 2014	-
Less: Encumbrances at June 30, 2015	<hr/>
Total revenue and expenditures (GAAP basis)	<u>\$ 317,512</u>

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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

**J Cash, Cash Equivalent and Investments**

Cash and cash equivalents include petty cash, change funds, cash in banks and all highly liquid investment with a maturity of three months or less at the time of purchases and are stated at cost plus accrued interest. US Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchases are stated at cost. All other investment is stated at fair value.

New Jersey Charter Schools are limited as to the types of the investments and types of financial institution they may invest in. New Jersey statute 18A:20-37 provides a list of permissible investment that may be purchased by New Jersey Charter Schools. Additionally, the Charter School has adopted a cash management plan that requires it to deposit public 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 Governmental Units from loss funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-41 et. Seq. established 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 Act. Public depositories include Savings and Loan Institutions, banks (both state and national banks) and saving banks the deposits of which 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 deposit of Governmental Units, if a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

**K Tuition Payable**

The Charter School did not send any of its students to any other Charter Schools during the fiscal year ended June 30, 2015.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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

**L Inventories and Prepaid Expenses**

Inventories and Prepaid expenses, which benefit future periods, other than those recorded in the enterprise fund are recorded as expenditure during the year of purchase. Inventories in the Proprietary Funds are valued at cost, which approximates market, using the first-in-first-out (FIFO) Method. Prepaid expenses in the Enterprise Fund represent payments made to vendors for services that will benefit periods beyond June 30, 2015.

**M Interfund Assets/Liabilities**

On the fund financial statement, receivable and payables resulting from short-term Inter-fund loans are classified as Inter-fund Receivable/Payable. Inter-fund balances within governmental activities and within business-type activities are eliminated on the Government-wide Statements of Net Position.

**N Capital Assets**

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

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

The Charter School's capitalization policy is consistent with New Jersey State Department of Education. Thus, all acquisition costs over the threshold were added to capital assets and depreciated over their economic useful lives. In the fund financial statements, capital assets are accounted for as capital outlay expenditures in the governmental fund upon acquisition

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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

**N      Capital Assets – continued**

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

<b><u>Description</u></b>	<b><u>Estimated lives</u></b>
School Building if owned	50years
Building and Buildings Improvements	15 years
Furniture and Equipment	5 to 15 years
Computer and Related Technology	5 years
Vehicles	8 years

**O      Compensated Absences**

Compensated absences are those absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. The school policy is to pay as you go, thereby preventing accumulation of accrued sick leave or vacation beyond the current fiscal year. Compensated absences that are related to future services, or that are contingent on specific events that are outside the control of the Charter School and its employees, are accounted for in the period in which such service is rendered or in which such events take place. In governmental and similar trust funds, compensated absences that are expected to be liquidated with the expendable available financial resources are reported as expenditure and fund liability in the fund that will pay for the compensated absences. As of June 30, 2015, there were no accrued compensated absences at the Charter school.

**P      Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payable, accrued liabilities, and long term- obligations payable from the enterprises fund are reported and the enterprises fund financial statements.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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

**Q Accrued Liabilities and Long-Term Obligations**

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payments during the current year.

**R Fund Balance**

In the fund financial statements, governmental fund report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Reserves represent those portions of fund equity not available for appropriation for expenditure or legally segregated for specific future use. Designated fund balance represents plans for future use of financial resources.

**S Net Position**

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 a statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. This Statement provides guidance for reporting net position within a framework that includes deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities.

The School also implemented GASB No. 65, *Items previously reported as Assets and Liabilities*, during the current fiscal year. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

# GRAY CHARTER SCHOOL

## ESSEX COUNTY

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A deferred outflow of resources is a consumption of net position by the Charter School that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position by the Charter School that is applicable to a future reporting period. The Charter School had deferred inflows of resources at June 30, 2015 and 2014 in the amount of \$43,806 and \$350,891 respectively. The deferred outflow of resources at June 30, 2015 and 2014 were \$31,881 and \$100,122, expected to decrease the future net earnings. Net position is displayed in three components net investment in capital assets; restricted and unrestricted.

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

**The net investment in capital assets component of net position** consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also would be included in this component of net position.

**The restricted component of net position** consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

#### **Fund Balance Restrictions, Commitments and Assignments:**

The restricted fund balance category includes amounts that can be spent only for specific purposes stipulated by law, external resource providers or through enabling legislation. The committed fund balance classification includes amounts that can be used only for specific purposes determined for a formal action of the Charter School highest level of decision making authority. Amounts in the assigned fund balance classification are intended, to be used by the: government for specific purposes and if they do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the School's General Fund and it includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classifications should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts has been restricted, committed or assigned.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**T           Inter-fund Transactions**

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

**U           Use of Estimates**

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

**V           On-Behalf Payments**

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

**NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

**Deposits and Investments**

New Jersey statutes require that Charter Schools deposit public funds in public depositories located in New Jersey that are insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. Charter schools are also permitted to deposit public funds in the State of New Jersey Cash Management Fund (NJCMF), the New Jersey Arbitrage Rebate Management Fund (NJARM) and the M.B.I.A Class.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows: The market value of the collateral must equal at least 5% of the average daily balance of collected funds on deposit.

**GRAY CHARTER SCHOOL**

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**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**Deposits and Investments**

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%. All collateral must be deposited with the Federal Reserve Bank of New York, the Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

The Charter School's cash and cash equivalents are classified below to inform financial statement users about the extent to which the Charter School's deposits and investments are exposed to custodial credit risk cash and cash equivalents include petty cash, change funds and amounts on deposit with local banks, money market accounts and short term investment with maturities of three months or less. New Jersey statutes require that Charter School deposit public funds in public depositories located in New Jersey which is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account. As of June 30, 2015, cash and cash equivalents consisted of the following:

<u>General Fund</u>	<u>Food Program</u>	<u>Fiduciary Funds</u>	<u>2015 Total</u>
\$ 471,774	\$ 25,955	\$ 13,920	\$ 511,649
-	-	-	-
<u>\$ 471,774</u>	<u>\$ 25,955</u>	<u>\$ 13,920</u>	<u>\$ 511,649</u>

**Custodial credit risk**

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires that the School disclose bank deposits that are subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the School will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party. As of June 30, 2015, the School's bank balances amounted to \$511,649 and were not exposed to custodial credit risk since all deposits were insured by FDIC and GUPDA.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**Custodial credit risk**

In accordance with GASB statement No.40, the school is required to disclose the level of custodial credit risk assumed in its cash and cash equivalents and investments in different categories.

**Category 1-** Insured or collateralized with securities held by the Charter School or by its agent in the Charter School's name. The balance of \$511,649 is a category 1 as disclosed in the financial statements.

**Category 2 –** collateralized with securities held by the pledging public depository's trust department or agent in the Charter School's name.

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

**NOTE 3 CAPITAL ASSETS**

In the fund financial statements, fixed assets are accounted for as capital outlay expenditures in the Governmental fund upon acquisition. The following schedule is a summarization of the governmental activities changes in capital assets for the year ended June 30, 2015:

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

	<b>Beginning Balance</b>	<b>Net Additions (Deletions)</b>	<b>Ending Balance</b>
<b>Governmental activities</b>			
<b>Capital assets, being depreciated:</b>			
Equipment/ Computer	\$ 256,900	\$ 13,510	\$ 270,410
Site Improvement	-	-	-
Total capital assets being depreciated	<u>256,900</u>	<u>13,510</u>	<u>270,410</u>
Less accumulated depreciation for:			
Equipment/ Computer			-
Total accumulated depreciation	<u>256,900</u>	<u>2,702</u>	<u>259,602</u>
 Total capital assets net	 <u>\$ -</u>	 <u>\$ 10,808</u>	 <u>\$ 10,808</u>

**NOTE 4 OPERATING LEASES**

The Charter School rents its facility in Newark, New Jersey under an operating lease that provides for automatic three year renewal periods as long as the School Charter is renewed. The current lease renewal period is from July 1, 2014 to June 30, 2017. Basic rent payable by the Charter School for each renewal year shall be an annual increase of the greater of the CPI increase or three percent. Rent expense for the year ended June 30, 2015 was \$573,145. Future minimum rental payments under the operating lease are as follows:

<b>Year Ending June 30,</b>	<b>Amount</b>
2016	\$ 590,340
2017	<u>608,051</u>
Total	<u>\$ 1,198,391</u>

**GRAY CHARTER SCHOOL**

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**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 5 FEDERAL AND STATE AIDS**

Federal and State aids are generally subject to review by the responsible governmental agencies for compliance with the agencies' regulations governing the aids. In the opinion of the Charter School's management, any potential adjustments to the Federal or State aid recorded by the Charter School through June 30, 2015 resulting from a review by a responsible government agency will not have a material effect on the Charter School financial statements at June 30, 2015.

**NOTE 6 COMPENSATED ABSENCES**

Employees of the Charter School are not paid unused vacation time and sick days. The unused vacation and sick time are accumulated and employees may use it subsequent years. At June 30, 2015, the amount of unused time was immaterial to the financial statements.

**NOTE 7 PENSIONS PLANS**

**A) Description of Plans**

Substantially all eligible employees of the Charter School are covered by either the Public Employee's Retirement System or the Teacher's Pension and Annuity Fund which have been established by state statute and are administered by the New Jersey Division of Pension and Benefit (Division).

According to the State of New Jersey Administrative Code, all obligations of both Systems will be assumed by the State of New Jersey should the Systems terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirements System and the Teacher's Pension and Annuity Fund. These reports may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

## **GRAY CHARTER SCHOOL**

### **ESSEX COUNTY**

#### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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

The Teachers' Pension and Annuity Fund was established as a January 1, 1995, under the provisions of N.J.S.A. 18A:66 to provide coverage including post-retirements health care to substantially all full time certified teachers or professional staff of the public school systems in the State. The Teacher's Pension and Annuity Fund is considered a cost-sharing multiple-employer plan with a special funding situation, as under current statute, all employer contributions are made by the State of New Jersey on behalf of the Charter School and the systems other related non-contributing employers.

Membership is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, and employees of the Department of Education who have titles that are unclassified, professional and certified.

#### **Public Employees' Retirement System (PERS)**

The public Employees' Retirement Systems (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county municipality, Charter School, or public agency provided the employee is not a member of another state-administered retirement system. The public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full time employees and vesting occurs after 8 to 10 years of service for pension benefits and 25 years for post retirement health care coverage.

#### **Vesting and Benefit Provisions**

The vesting and benefit provisions for PERS are set by N.J.S.A 43:15a and 4303B and N.J.S.A. 18A: for TPAF. All benefits vest after eight to ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 55 and are generally determine to be 1/55 of the final average salary for each year of service credit as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. The TPAF and PERS provides for specified medical benefits for member who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System.

# GRAY CHARTER SCHOOL

## ESSEX COUNTY

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

#### 6 Pension Plans - *continued*

##### **Vesting and Benefit Provisions - *continued***

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the member's accounts.

##### **Significant Legislation**

P.L. 2011 effective May 21, 2011 made a number of changes to the state administered retirement systems concerning eligibility, the retirement allowance formula, the definition of composition, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor part of the PERS, and employer contributions to the retirement system.

The legislation changed the membership eligibility criteria for new members of TPAF and PERS from the amount of annual compensation to the number of hours worked weekly. Also it returned the benefit multiplier for new members of TPAF and PERS to 1/60 from 1/55, and it provided that new members of TPAF have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of TPAF and PERS will no longer receive from more than one employer.

Pension service credit will be earned for the highest paid position only. This law also closed the prosecutors part of the PERS to new members and repealed the law for the new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time of five years of pension service credit is attained. The law also requires the state to make its full pension contribution, defined as 1/7<sup>th</sup> of the required amount, beginning in the fiscal year 2015. TP. L. 2010, C.3 effective May 21, 2011, replaced the accidental and ordinary disability retirement for new members of the TPAF and PERS with disability insurance coverage similar to that provided by the state to individuals enrolled in the state "defined contribution" retirement program.

##### **Funding Status and Funding Progress**

As of June 30, 2010, the most recent actuarial valuation date, the aggregate funded ratio for all the State administered retirement systems including TPAF and PERS, is 66.0 percent with an unfunded actuarial accrued liability of \$45.8 billion.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**Funding Status and Funding Progress- continued**

The aggregate funded ratio and unfunded accrued liability for the State-funded systems is 62.0 percent and \$30.7 billion, and the aggregate funded ratio and unfunded accrued liability for local PERS and Police and Firemen's Retirement System ("PFRS) is 72.1 percent and \$15.1 billion. The funded status and funding progress of the retirement systems is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future.

These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financing reporting purposes does not explicitly incorporate the potential effects of legal or contractual limitations on the pattern of cost sharing between the employer and members in the future.

**GRAY CHARTER SCHOOL**

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**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**Annual Pension Cost and Contribution requirement**

The contribution policy is set by laws of the State of New Jersey and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Effective July, 2014, the employee's contributions for TPAF and PERS has increased from 6.5% to 6.64% of employee's annual compensation as defined. Subsequent increases are being phased in over 7 years effective July 1<sup>st</sup> to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018. Employers are required to contribute at an actuarially determined rate in both TPAF and PERS. Under the current statute, the Charter School is a noncontributing employer of the TPAF as the state has assumed the obligation.

Per the requirements of GASB Statement No. 27 for the year ended June 30, 2011 for TPAF, which is a cost sharing plan with special funding situations, annual pension cost differs from the annual required contribution. For PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost equals contributions made. TPAF employer contributions are made annually by the State of New Jersey to the pension system on behalf of the Board.

PERS employer contributions are made annually by the Board to the pension system in accordance with Chapter 114, P.L. 1997. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution

The Charter School's contributions for the PERS as of June 30, 2015 were \$53,876.

In accordance with N.J.S.A 18A:66-66 the State of New Jersey reimbursed the Charter School \$217,305 during the year ended June 30, 2015 for the employer's share of social security contributions for TPAF members, as calculated on their base salaries. The State also paid \$210,125 into the TPAF pension - representing on-behalf employer's portion of the TPAF contributions for the Charter School. The unbudgeted amounts were included in both revenues and expenditures. The amounts have been included in the school wide financial statements and the fund financial statements as a revenue and expenditure in accordance with GASB No. 24.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 7 PENSION PLANS – GASB 68**

**Teachers Pension and Annuity Plan**

***Summary of Significant Accounting Policies***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers Pension and Annuity Fund (TPAF) and additions to/deductions from the TPAF's fiduciary net position have been determined on the same basis as they are reported by the TPAF.

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

The employer contributions for the Charter School are legally required to be funded by the State in accordance with N.J.S.A 18:66-33. Therefore, the Charter School (employer) is considered to be in a special funding situation as defined by GASB Statement No. 68 and the State is treated as a non-employer contributing entity. Since the Charter School (employer) does 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 Charter School. However, the state's portion of the net pension liability that was associated with the Charter School was \$5,067,008 as measured on June 30, 2014 and \$-0- as measured on June 30, 2013.

For the year ended June 30, 2015, the Charter School recognized pension expense of \$210,125 and revenue of \$210,125 for support provided by the State. The measurement period for the pension expense and revenue reported in the Charter School's financial statements (A-2) at June 30, 2015 is based upon changes in the collective net pension liability with a measurement period of June 30, 2013 through June 30, 2014. Accordingly, the pension expense and the related revenue associated with the support provided by the State are based upon the changes in the collective net pension liability between July 1, 2013 and June 30, 2014.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 7 PENSION PLANS – GASB 68**

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension-TPAF- continued***

Although the Charter School does not report net pension liability or deferred outflows or inflows related to the TPAF, the following schedule illustrates the collective net pension liability and deferred items and the State's portion of the net pension liability associated with the Charter School. The collective amounts are the total of all New Jersey local governments participating in the TPAF plan.

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Collective deferred outflows of resources	\$ 2,306,623,861	\$ -
Collective deferred inflows of resources	\$ 1,763,205,593	\$ -
Collective net pension liability (non-employer State of New Jersey)	\$53,446,745,367	\$50,539,213,484
State's portion of the net pension liability that was associated with the Charter School	\$ 7,588,810	\$ 5,674,092
State's portion of the net pension liability that was associated with the Charter School as a percentage of the collective net pension liability	0.01419883%	0.011227%

***Actuarial Assumptions***

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013, which was rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of July 1, 2013. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.5%
Salary increases	Varies based on experience
Investment rate of returns	7.9%

**GRAY CHARTER SCHOOL**

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**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension-TPAF continued***

Mortality rates were based on the RP-2000 Health Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA. Pre-retirement mortality improvements for active members are projected using Scale AA from the base year of 2000 until the valuation date plus 15 years to account for future mortality improvement. Post-retirement mortality improvements for non-disabled annuitants are projected using Scale AA from the base year of 2000 for males and 2003 for females until the valuation date plus 7 years to account for future mortality improvement. The actuarial assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2012.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension-TPAF continued***

**Long-Term Expected Rate of Return**

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension-TPAF continued***

**Long-Term Expected Rate of Return**

Best estimates of arithmetic real rates of return for each major asset class included in TPAF's target asset allocation as of June 30, 2014 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long Term Expected Real Rate of Return</b>
Cash	6.00%	0.50%
Core Fixed Income	0.00%	2.19%
Core Bonds	1.00%	1.38%
Short Term Bonds	0.00%	1.00%
Intermediate Term Bonds	11.20%	2.60%
Long Term Bonds	0.00%	3.23%
Mortgages	2.50%	2.84%
High Yield Bonds	5.50%	4.15%
Non-US Fixed Income	0.00%	1.41%
Inflation Indexed Bonds	2.50%	1.30%
Broad US Equities	25.90%	5.88%
Large Cap US equities	0.00%	5.62%
Mid Cap US Equities	0.00%	6.39%
Small Cap US Equities	0.00%	7.39%
Developed Foreign Equities	12.70%	6.05%
Emerging Market Equities	6.50%	8.90%
Private Equity	8.25%	9.15%
Hedge Funds/Absolute Return	12.25%	3.85%
Real Estate (Property)	3.20%	4.43%
Real Estate (REITS)	0.00%	5.58%
Commodities	2.50%	3.60%
Long Credit Bonds	0.00%	3.74%

## GRAY CHARTER SCHOOL

### ESSEX COUNTY

#### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

#### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension-TPAF continued*

##### *Discount Rate*

The discount rate used to measure the State's total pension liability was 4.68% and 4.95% as of June 30, 2014 and 2013, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.29% and 4.63% as of June 30, 2014 and 2013, respectively, 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 (State of New Jersey) will be made based on the average of the last five years. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2027. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2027, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

Since the Charter School's has no proportionate share of the net pension liability because of the special funding situation, the Charter School would not be sensitive to any changes in the discount rate. Detailed information about the pension plan's sensitivity of the collective net pension liability to changes in the discount rate is available in the separately issued State of New Jersey Division of Pensions and Benefits financial report at: <http://www.nj.gov/treasury/pensions/pdf/financial/gasb68-tpaf15.pdf>

##### *Pension plan fiduciary net position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued State of New Jersey Divisions of Pensions and Benefits financial report at:

<http://www.nj.gov/treasury/pensions/financial-rprts-home.shtml>.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 7 PENSION PLANS – GASB 68**

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

*Summary of Significant Accounting Policies*

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

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

At June 30, 2015, the Charter School reported a liability of \$1,223,585 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2013, which was rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of July 1, 2013. The Charter School's proportion of the net pension liability is based on the ratio of the contributions as an individual employer to total contributions to the PERS during the years ended June 30, 2014 and 2013. At June 30, 2014, the Charter School's proportion was 0.0065352914% which was an increase of 0.0031939% from its proportion measured as of June 30, 2013 which was 0.0033412983%.

For the year ended June 30, 2015, the Charter School recognized pension expense of \$157,696. At June 30, 2015, the Charter School reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**7 Pension Plans – GASB 68 Disclosures - *continued***

**Public Employees' Retirement System (PERS) - *continued***

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

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
	<u>\$</u>	<u>\$</u>
Differences between expected and actual experience	-	-
Changes in assumptions	44,516	-
Net difference between projected and actual earnings on pension plan investments	-	261,074
Changes in proportion and differences between Charter School's contributions and proportionate share of contributions	-	-
Charter School's contributions subsequent to the measurement date	62,333	-
<b>Total</b>	<u><u>\$ 106,849</u></u>	<u><u>\$ 261,074</u></u>

\$62,333 reported as deferred outflows of resources related to pensions resulting from school Charter School contributions subsequent to the measurement date (i.e. for the school year ending June 30, 2015, the plan measurement date is June 30, 2014) will be recognized as a reduction of the net pension liability measured as of June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30:</b>	<b>Expense</b>
2015	\$ (70,149)
2016	(70,149)
2017	(70,149)
2018	(70,149)
2019	44,470
Thereafter	19,567
	<u><u>\$ (216,558)</u></u>

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**Pension Plans – GASB 68 Disclosures - *continued***

**Public Employees' Retirement System (PERS) - *continued***

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

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Collective deferred outflows of resources	\$ 952,194,675	\$ -
Collective deferred inflows of resources	\$ 1,479,224,662	\$ -
Collective net pension liability (Non-State Local Group)	\$ 18,722,735,003	\$ 19,111,986,911
Charter School's portion of the net pension liability	\$ 1,415,653	\$ 1,654,278
Charter School's proportion (percentage)	0.00756114%	0.00865571%

***Actuarial Assumptions***

The total pension liability in the July 1, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for females) with adjustments for mortality improvements from the base year of 2012 Based on Projection Scale AA.

The actuarial assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

***Long-Term Expected Rate of Return***

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2014 are summarized in the following table:

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 7 Pension Plans – GASB 68 Disclosures - continued**

**Public Employees' Retirement System (PERS) - continued**

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

***Long-Term Expected Rate of Return***

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long Term Expected Real Rate of Return</b>
Cash	6.00%	0.80%
Core Bonds	1.00%	2.49%
Intermediate Term Bonds	11.20%	2.26%
Mortgages	2.50%	2.17%
High Yield Bonds	5.50%	4.82%
Inflation Indexed Bonds	2.50%	3.51%
Broad US Equities	25.90%	8.22%
Developed Foreign Equities	12.70%	8.12%
Emerging Market Equities	6.50%	9.91%
Private Equity	8.25%	13.02%
Hedge Funds/Absolute Return	12.25%	4.92%
Real Estate (Property)	3.20%	5.80%
Commodities	2.50%	5.35%

***Discount Rate***

The discount rate used to measure the total pension liability was 5.39% and 5.55% as of June 30, 2014 and 2013, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.29% and 4.63% as of June 30, 2014 and 2013, respectively, 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.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**Public Employees' Retirement System (PERS) - *continued***

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

***Long-Term Expected Rate of Return***

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions.

Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

***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 net pension liability measured as of June 30, 2014 and 2013, respectively, calculated using the discount rate of 5.39% and 5.55%, respectively, 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:

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**Public Employees' Retirement System (PERS) - continued**

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

	<b>1% Decrease (4.39%)</b>	<b>Current Discount Rate (5.39%)</b>	<b>1% Increase (6.39%)</b>
Charter School's proportionate share of the pension liability	<u>\$ 1,780,940</u>	<u>\$ 1,415,653</u>	<u>\$ 1,108,905</u>
<b>2013</b>			
	<b>1% Decrease (4.55%)</b>	<b>Current Discount Rate (5.55%)</b>	<b>1% Increase (6.55%)</b>
Charter School's proportionate share of the pension liability	<u>\$ 2,059,358</u>	<u>\$ 1,654,278</u>	<u>\$ 1,314,874</u>

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued State of New Jersey Divisions of Pensions and Benefits financial report at: <http://www.nj.gov/treasury/pensions/financial-rprts-home.shtml>

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 8 POST EMPLOYMENT BENEFITS**

P.L. 1987, c. 384 and P.L. 1990, c.6 required Teachers' Pensions and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS), respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c 103 amended the law to eliminate the funding of post-retirement medical benefits through the TPAF and PERS.

It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired State employees and retired educational employees.

As of June 30, 2014, there were 103,432 retirees receiving post-retirement medical benefits, and the State contributed \$1.04 billion on their behalf. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical benefits changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

The State is also responsible for the cost attributable to P.L. 1992, c.126, which provides employer paid health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid \$165.8 million toward Chapter 126 benefits for 18,122 eligible retired members in Fiscal Year 2014.

**NOTE 9 DEFERRED COMPENSATION**

The Charter School has no other deferred compensation other than the New Jersey State TPAF and PERS as mentioned above. Accordingly, no amount has been recorded in the accompanying financial statements.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 10 ON BEHALF PAYMENTS**

In accordance with N.J. S.A. 18A: 66-66 of the State of New Jersey reimbursed the school \$202,307 during the year ended June 30, 2015 for the employer's share of social security contributions and pension for TPAF members as calculated on their base salaries. This amount has been included in the accompanying CAFR as revenue and expenditure.

**NOTE 11 NEW JERSEY UNEMPLOYMENT COMPENSATION**

Prior to January 1 2015, the charter School had elected to fund its New jersey Unemployment compensation insurance under the "Benefit Reimbursement Method", under this plan, the Charter School was required to reimburse the New Jersey Unemployment Trust Fund for Benefits paid to its former employees and charged to its account with the State. The Charter School was billed quarterly for amounts due to the State, During 2012-13, the Charter School enrolled in an installment arrangement plan with the Division of Employer Accounts of the New Jersey Department of Labor (NJ DOL) to pay monthly installments in the amount of \$10,000 to address past due contributions and interest, At June 30, 2015, outstanding liability has been fully satisfied by the school and the balance due to NJ DOL and recorded in account payable is approximately \$0.

The following is a summary of the school contribution to the state for benefits paid and the ending balance of the Charter School's trust contributions, employee contributions, reimbursements to the state for benefits paid and the ending balance of the Charter School's trust fund for the current and the previous years.

<u>Fiscal year</u>	<u>Contributions</u>
2014-2015	\$ 10,295

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 13 BUSINESS RISK**

The Charter School receives its support from federal, state and local governments. A significant reduction in the level of support, if it were to occur may have an adverse effect on the Charter School's programs and activities.

**NOTE 14 RISK MANAGEMENT**

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

**Property and Liability Insurance**

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

**NOTE 15 INTERFUND RECEIVABLE AND PAYABLE**

The composition of inter-fund balances as of June 30, 2015 is as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 303,989	\$ 244,554
Enterprise Fund	-	44,043
Fiduciary Funds		15,392
	<u>\$ 303,989</u>	<u>\$ 303,989</u>

The above balances are the results of revenues earned or other financing sources received in one fund which are due to another fund and/or expenditures paid by one fund on behalf of another fund and/or to cover cash balances which were in negative position. Liquidation of these inter-fund balances is expected within the next fiscal year.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 16 COMMITMENTS**

The grant program is subject to financial and compliance audits by the grantors or their representatives. The final determination on the allowability of costs resulting from expenditures funded by New Jersey Department of Education (NJDOE) remains with NJDOE. Management is not aware of any material items of non compliance which would result in disallowance of the program expenditures.

**NOTE 17 RETROACTIVE RESTATEMENT OF NET POSITION**

**Restatement of Prior Period:**

The District adopted GASB No. 68 -*Accounting and Financial Reporting for Pensions - An amendment of GASB No. 27* during the 2015 fiscal year as required by the pronouncement. The pronouncement requires the district to record its proportional share of the State of New Jersey's net pension liability on the face of its financial statements as of June 30, 2015 and to record related pension expense in accordance with the pronouncement. In order to correctly reflect pension expense in accordance with GASB No. 68, the beginning Net Position of the district was adjusted to reflect the beginning balance of the net pension liability. Since the measurement date of the net pension liability is June 30, 2014 (as described in Note 8), the restatement adjustments to Net Position relate to the *beginning* net pension liability measured as of June 30, 2013. Also, in accordance with GASB No. 71 -*Pension Transition for Contributions Made Subsequent to the Measurement Date*, The district restated its Net Position for pension contributions made after the beginning net pension liability measurement date of June 30, 2013 (deferred outflows).

**Government Activities Net Position:**

Net position (per A-1) as of June 30, 2014	\$ (68,305)
Restatement of net pension liability	1,654,278
Restatement of deferred outflows	(3,286,489)
Net position (per A-1) as of June 30, 2014, as restated	<u>\$ (1,700,516)</u>

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 18     RECONCILIATION OF SCHOOL-WIDE AND FUND FINANCIAL STATEMENTS**

**Explanation of Certain Differences Between the Governmental Fund Balance Sheet (B-1) and the Government-wide Statement of Net Position (A-1).**

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the Government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including deferred pension liability are not due and payable in the current period and therefore are not reported in the funds. The reconciliation is as follows:

Fund balance per B-1	\$	474,138
Cost of capital assets net accumulated depreciation		10,808
Pension deferred outflows		44,516
Pension deferred inflows		(261,074)
Deferred pension liability as of June 30, 2015		(1,415,653)
Net position (per A-1) as of June 30, 2015	\$	<u>(1,147,265)</u>

**NOTE 19     SUBSEQUENT EVENTS**

The Charter School has evaluated all subsequent events occurring through the date of the independent auditors report dated December 10, 2015. No other events were determined to require disclosure.

**GRAY CHARTER SCHOOL**

**ESSEX COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 20 PROBATIONARY STATUS**

The Charter School received notification from the State of New Jersey, Department of Education that their Charter Agreement had been renewed to June 30, 2019, but extended the Charter School's probationary status until October 15, 2014. The probationary status for the Charter School is a result of the Office of Fiscal Accountability and Compliance's (OFAC) June 23, 2015 report which raised the following fiscal findings 1) the Charter School has a net deficit and New Jersey public schools cannot operate in a deficit, 2) the Charter School has a long-term liability to repay delinquent New Jersey unemployment compensation insurance and New Jersey charter school law prohibits unsecured long-term debt, and 3) the Charter School has reported inaccurate Board Secretary Reports. In accordance with this notification, the Charter School was to demonstrate full implementation of the remedial plan by October 15, 2014.

The school has made significant improvement fiscally by eliminating the deficit fund balance with astute fiscal responsibility by hiring a reputable firm to oversee the fiscal records on contractual basis. In addition, the Charter School has fully satisfied the long term obligation with the New Jersey Department of labor for unpaid unemployment. The monthly Board Secretary Report has been improved.

As of the date of this financial statement, the Charter School is not aware of the State of New Jersey's follow up action. Due to the uncertainties regarding the future outcome of the Charter School's probationary status, it is at least reasonably possible that this matter may have a negative impact on the operations of the Charter School if the school reverts to its former status. It should be noted that the school continues to use the services of a reputable accounting firm that specializes in the school operations for compliance purposes.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**PART II**  
**BUDGETARY COMPARISON**

**GRAY CHARTER SCHOOL**  
**BUDGETARY COMPARISON SCHEDULE**  
For the fiscal year ended June 30, 2015

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES:</b>					
<b>Local Sources:</b>					
Local Levy -Local share	\$ 38,000		38,000	\$ 605,759	567,759
Private Donations	0		0	304,861	304,861
Miscellaneous					-
<b>Total - Local Sources</b>	<u>38,000</u>	<u>-</u>	<u>38,000</u>	<u>910,620</u>	<u>872,620</u>
<b>Categorical Aid:</b>					
Local Levy -State share	4,323,541		4,323,541	3,712,147	(611,394)
District Security Aid	134,713		134,713	132,746	(1,967)
State Non public Aid			-		-
State - Other			-		-
Special Education Aid	17,472		17,472	17,472	-
<b>Total State Sources</b>	<u>4,475,726</u>	<u>-</u>	<u>4,475,726</u>	<u>3,862,365</u>	<u>(613,361)</u>
<b>Revenue from Other Sources:</b>					
Interest income					-
Other Sources					-
TPAF Pension (On-Behalf - Non-Budgeted)				202,307	202,307
TPAF Social Security (Reimbursed - Non-Budgeted)				118,271	118,271
<b>Total Revenue from Other Sources</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>320,578</u>	<u>320,578</u>
<b>Total Revenues</b>	<u>4,513,726</u>	<u>-</u>	<u>4,513,726</u>	<u>5,093,563</u>	<u>579,837</u>
<b>EXPENDITURES:</b>					
<b>Current Expense:</b>					
<b>Instruction</b>					
Salaries of Teachers	1,186,334		1,186,334	1,186,334	-
Other Salaries for Instruction	223,096		223,096	223,096	-
Purchased Professional-Educational Services			-		-
Purchased Technical Services	90,530		90,530	89,856	674
Other Purchased Services (400-500 series)	220,376		220,376	82,817	137,559
General Supplies	22,095		22,095	12,141	9,954
Textbooks	36,059		36,059	25,792	10,267
Miscellaneous Expenditures	11,912	-	11,912	7,928	3,984
<b>Total Instruction</b>	<u>1,790,402</u>	<u>-</u>	<u>1,790,402</u>	<u>1,627,964</u>	<u>162,438</u>

**GRAY CHARTER SCHOOL**  
**BUDGETARY COMPARISON SCHEDULE**  
For the fiscal year ended June 30, 2015

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Undist. Expend. - Administrative Cost</b>					
Salaries	374,281		374,281	374,281	-
Salaries of Secretarial and Clerical Assistants	119,927		119,927	119,927	-
Benefit Costs	162,103		162,103	162,103	-
Health Benefits	576,376		576,376	576,376	-
Other Purchased Services - legal	17,744		17,744	17,744	-
Other Purchased Services - Audit	29,346		29,346	29,346	-
Other Purchased Services	26,504		26,504	26,504	-
Communications/Telephone	16,230		16,230	16,230	-
Supplies and Materials	5,298		5,298	5,298	-
Miscellaneous Expenditures	164,576	-	164,576	44,222	120,354
<b>Total Undist. Expend. - Administrative Cost</b>	<u>1,492,385</u>	<u>-</u>	<u>1,492,385</u>	<u>1,372,031</u>	<u>120,354</u>
<b>Undist. Expend. - Support Services</b>					
Salaries - Health	91,600		91,600	91,600	-
Salaries- Custodian and other	168,145		168,145	168,145	-
Salaries - Social worker	60,773		60,773	60,773	-
Other Purchased Services and Technical Service	20,273		20,273	20,273	-
Other Purchased Services (400-500 series)	32,708		32,708	32,708	-
Rental	573,145		573,145	573,145	-
Insurance-Fidelity, Liability, Property	39,424		39,424	39,424	-
Supplies and Materials	17,704		17,704	17,704	-
Energy	57,810		57,810	57,810	-
Transportation -other than to/from	5,455		5,455	5,455	-
Miscellaneous Expenditures					-
<b>Total Undist. Expend. - Support Services</b>	<u>1,067,037</u>	<u>-</u>	<u>1,067,037</u>	<u>1,067,037</u>	<u>-</u>
<b>TOTAL UNDISTRIBUTED EXPENDITURES</b>	<u>2,559,422</u>	<u>-</u>	<u>2,559,422</u>	<u>2,439,068</u>	<u>120,354</u>
<b>TOTAL GENERAL CURRENT EXPENSE</b>	<u>4,349,824</u>	<u>-</u>	<u>4,349,824</u>	<u>4,067,032</u>	<u>282,792</u>
<b>CAPITAL OUTLAY</b>					
Instructional equipment	14,000		14,000	13,510	490
Non-instructional equipment					-
<b>Total Capital Outlay</b>	<u>14,000</u>	<u>-</u>	<u>14,000</u>	<u>13,510</u>	<u>490</u>
<b>ON-BEHALF CONTRIBUTIONS</b>					
On-behalf TPAF Pension Contributions (non-budgeted)	-	-	-	202,307	(202,307)
Reimbursed TPAF Social Security Contributions (non-budgeted)	-	-	-	118,271	(118,271)
<b>TOTAL ON-BEHALF CONTRIBUTIONS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>320,578</u>	<u>(320,578)</u>
<b>TOTAL EXPENDITURES</b>	<u>4,363,824</u>	<u>-</u>	<u>4,363,824</u>	<u>4,401,120</u>	<u>(37,296)</u>
<b>Excess (Deficiency) of Revenues</b>					
Over (Under) Expenditures	149,902	-	149,902	692,443	542,541
<b>OTHER FINANCING SOURCES/(USES)</b>					
Operating Transfer Out:					
Transfer to food services	(150,000)		(150,000)	(150,000)	-
	<u>(150,000)</u>	<u>-</u>	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues</b>					
Over (Under) Expenditures and other financing sources(uses)	(98)	-	(98)	542,443	(542,541)
<b>Fund Balance, July 1</b>	59,643	(75,261)	(15,618)	(68,305)	52,687
<b>Fund Balance, June 30</b>	<u>\$ 59,545</u>	<u>\$ (75,261)</u>	<u>\$ (15,716)</u>	<u>\$ 474,138</u>	<u>\$ (489,854)</u>

**GRAY CHARTER SCHOOL**  
**BUDGETARY COMPARISON SCHEDULE -SPECIAL REVENUE FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>					
Local Sources			-		
State Sources			-		
Federal Sources	395,628		395,628	317,512	78,116
<b>Total Revenues</b>	<b>395,628</b>	<b>-</b>	<b>395,628</b>	<b>317,512</b>	<b>78,116</b>
<b>EXPENDITURES:</b>					
<b>Instruction</b>					
Salaries of Teachers	198,307		198,307	191,155	7,152
Other Salaries for Instruction			-		-
Personal Services - Employee Benefits	51,560		51,560	49,701	1,859
Purchased Professional and Technical Services			-	-	-
Purchased Professional - Educational Services	124,395		124,395	63,419	60,976
Miscellaneous			-	-	-
General Supplies	11,053		11,053	2,924	8,129
Textbooks			-	-	-
Other Objects			-	-	-
<b>Total Instruction</b>	<b>385,315</b>	<b>-</b>	<b>385,315</b>	<b>307,199</b>	<b>78,116</b>
<b>Support Services</b>					
Salaries of Other Professional Staff			-		-
Other Salaries			-		-
Personal Services - Employee Benefits			-		-
Purchased Professional - Educational Services			-		-
Other Purchased Professional Services	10,313		10,313	10,313	-
Text Books			-		-
Travel			-		-
Other Purchased Services (400-500 series)			-		-
Supplies & Materials			-		-
Other Objects			-		-
Supplies			0	-	-
<b>Total Support Services</b>	<b>10,313</b>	<b>-</b>	<b>10,313</b>	<b>10,313</b>	<b>-</b>
<b>Facilities Acquisition and Construction Services:</b>					
Buildings	-	-	-	-	-
Instructional Equipment	-	-	-	-	-
Noninstructional Equipment	-	-	-	-	-
<b>Total Facilities Acquisition and Const. Services</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Expenditures</b>	<b>395,628</b>	<b>-</b>	<b>395,628</b>	<b>317,512</b>	<b>78,116</b>
<b>Excess (Deficiency) of Revenues Over (Under)</b>					
<b>Other Fin.Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**REQUIRED SUPPLEMENTARY INFORMATION  
PART III**

**GRAY CHARTER SCHOOL  
BUDGETARY COMPARISON SCHEDULE  
NOTE TO RSI  
FOR THE YEAR ENDED JUNE 30, 2015**

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

	General Fund	Special Revenue Fund
<b>Sources/inflows of resources</b>		
Actual amounts (budgetary basis) "revenue" from the budgetary comparison schedule	[C-1] \$ 5,093,563	[C-2] \$ 317,512
Difference - budget to GAAP:		
Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized.		-
State aid payment recognized for budgetary purposes, not recognized for GAAP statements	-	-
	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	[B-2] \$ 5,093,563	[B-2] \$ 317,512
<b>Uses/outflows of resources</b>		
Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	[C-1] \$ 4,401,120	[C-2] \$ 317,512
Differences - budget to GAAP		
The district budgets for claims and compensated absences only to the extent expected to be paid, rather than on the modified accrual basis.		
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for <i>budgetary</i> purposes, but in the year the supplies are received for <i>financial reporting</i> purposes.		-
	-	-
Total expenditures as reported on the statement of revenues,	[B-2] \$ 4,401,120	[B-2] \$ 317,512

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

GRAY CHARTER SCHOOL

L-1

Schedule of the Charter School's Proportionate Share of the Net Pension Liability - PERS

	Fiscal Year Ended June 30,	
	2014	2013
Charter School's proportion of the net pension liability (assets)	0.0075611464%	0.0086557091%
Charter School's proportionate share of the net pension liability (assets)	1,415,653	1,654,278
Charter School's covered employee payroll	\$ 448,673	\$ 1,159,245
Charter School's proportionate share of the net pension liability (assets) as a percentage of its covered employee payroll	315.52%	142.70%
Plan fiduciary net position as a percentage of the total pension liability - local	52.08%	48.72%

Note

Until a full ten year trend is compiled, information will be presented for those years for which information is available.

GRAY CHARTER SCHOOL

L-2

Schedule of the Charter School's Contributions - PERS

	<u>Fiscal Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 62,333	\$ 65,219
Contribution in relation to the contractually required contribution	<u>(62,333)</u>	<u>(65,219)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Charter School's covered employee payroll	\$ 448,673	\$ 1,159,245
Contributions as a percentage of covered employee payroll	13.89%	5.63%

Note

Until a full ten year trend is compiled, information will be presented for those years for which information is available.

Schedule of the Charter School's Proportionate Share of the Net Pension Liability - TPAF

	<u>Fiscal Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Charter School's proportion of the net pension liability (assets)**	N/A	N/A
Charter School's proportionate share of the net pension liability (assets)**	N/A	N/A
State's proportionate share of the net pension liability (assets) associated with the Charter School	\$ 7,588,810	\$ 5,674,092
Total	<u>\$ 7,588,810</u>	<u>\$ 5,674,092</u>
Charter School's covered employee payroll	\$ 1,370,800	\$ 1,429,655
Charter School's proportionate share of the net pension liability (assets) as a percentage of its covered employee payroll**	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	33.64%	33.76%

\*\*Note

TPAF is a special funding situation as defined by GASB Statement No. 68 in which the State of New Jersey is 100% responsible for contributions to the plan. Since the Charter School (employer) does not contribute directly to the plan there is no net pension liability to report in the financial statements of the Charter School.

**Note to Required Supplementary Information****Year ended June 30, 2015****Public Employees' Retirement System (PERS)**

Changes of benefit terms. 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.

Changes of assumptions. Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for females) with adjustments for mortality improvements from the base year of 2012 Based on Projection Scale AA.

**Teacher's Pension and Annuity Fund (TPAF)**

Changes of benefit terms. The vesting and benefit provisions 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 for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

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

**OTHER SUPPLEMENTARY INFORMATION**

**SPECIAL REVENUE FUND  
DETAIL STATEMENTS**

GRAY CHARTER SCHOOL  
SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2015

	Title I	Title II	IDEA Part B	Total
<b>REVENUES</b>				
Local Sources	\$ -	\$ -	\$ -	\$ -
State Sources	-	-	-	-
Federal Sources	247,375	17,468	52,669	317,512
<b>Total Revenues</b>	<b>247,375</b>	<b>17,468</b>	<b>52,669</b>	<b>317,512</b>
<b>EXPENDITURES:</b>				
<b>Instruction:</b>				
Salaries of Teachers	191,155	-	-	191,155
Other Salaries for Instruction	-	-	-	-
Personal Services - Employee Benefits	42,983	6,718	-	49,701
Purchased Professional - Educational Services	-	10,750	52,669	63,419
Purchased Professional and Technical Services	-	-	-	-
Miscellaneous	-	-	-	-
General Supplies	2,924	-	-	2,924
Textbooks	-	-	-	-
Other Objects	-	-	-	-
<b>Total instruction</b>	<b>237,062</b>	<b>17,468</b>	<b>52,669</b>	<b>307,199</b>
<b>Support services:</b>				
Salaries of Other Professional Staff	-	-	-	-
Other Salaries	-	-	-	-
Personal Services - Employee Benefits	-	-	-	-
Purchased Professional - Educational Services	-	-	-	-
Other Purchased Professional Services	10,313	-	-	10,313
Text Books	-	-	-	-
Travel	-	-	-	-
Other Purchased Services (400-500 series)	-	-	-	-
Supplies & Materials	-	-	-	-
Instructional Equipment	-	-	-	-
Other Objects	-	-	-	-
<b>Total support services</b>	<b>10,313</b>	<b>-</b>	<b>-</b>	<b>10,313</b>
<b>Facilities acquisition and construction:</b>				
Buildings	-	-	-	-
Instructional Equipment	-	-	-	-
Noninstructional Equipment	-	-	-	-
<b>Total facilities acquisition and construction</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Expenditures</b>	<b>247,375</b>	<b>17,468</b>	<b>52,669</b>	<b>317,512</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**CAPITAL PROJECTS FUND  
DETAIL STATEMENTS**

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

At June 30, 2015, there was no capital project fund.

**ENTERPRISE FUNDS  
DETAIL STATEMENTS**

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the Charter School is that the costs of providing goods and services be financed through user charges. The Fund consisted of Food Service Program and After Care Services for the year ended June 30, 2015.

**GRAY CHARTER SCHOOL  
STATEMENT OF NET POSITION  
ENTERPRISE FUND  
JUNE 30, 2015**

**Exhibit G-1**

	<u><b>Food Service</b></u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 25,955
Government grants receivable-Federal	19,099
Government grants receivable-State	382
Interfund receivable	
Total current assets	<u>45,436</u>
Total assets	<u><u>45,436</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	725
Interfund payable	44,043
Total liabilities	<u>44,768</u>
<b>NET POSITION</b>	
Invested in capital assets net	-
Unrestricted net assets	<u>668</u>
Total net assets	<u>668</u>
Total Laibilities and Net Position	<u><u>\$ 45,436</u></u>

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

**GRAY CHARTER SCHOOL**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2015**

Operating revenues:	
Charges for services:	
Daily sales - non-reimbursable programs	\$ 5,000
New Jersey Care for Kids	
Miscellaneous revenue	5,011
Total operating revenues	<u>10,011</u>
Operating expenses:	
Other purchased services	126,271
Bank charges	-
Supplies	8,852
Miscellaneous	1,451
Postage	-
Technology supplies	-
Total Operating Expenses	<u>136,574</u>
Operating loss	<u>(126,563)</u>
Nonoperating revenues:	
<b>State sources:</b>	
State school lunch program	2,335
<b>Federal sources:</b>	
National school breakfast program	-
National school lunch program	114,553
Healty Hunger Free Kids Act	
Federal snack	-
Total nonoperating revenues	<u>116,888</u>
Loss before transfers	(9,675)
Transfers in (out)	150,000
Change in net position	140,325
Total net position-beginning	<u>(139,657)</u>
Total net position-ending	<u>\$ 668</u>

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

**GRAY CHARTER SCHOOL  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$	10,011
Payments to suppliers		9,597
Net cash used for operating activities		<u>19,608</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Payment to vendors		136,574
Cash received from State and Federal reimbursements		-
Other receipts		-
		<u>-</u>

**Decrease in Cash and Cash Equivalents** 19,608

Balances-beginning of year 6,347

Balances-end of year 25,955

**Reconciliation of operating income (loss) to net cash provided****(used) by operating activities:**

Operating income (loss)	140,325
Increase in receivable -Federal	(4,906)
Increase in receivable -State	(94)
Account payable	(8,830)
Interfund payable	(106,887)
	<u>-</u>

Net cash used for operating activities \$ 19,608

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

**FIDUCIARY FUNDS  
DETAIL STATEMENTS**

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

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

At June 30, 2015, there was no non-expendable trust fund utilized by the Charter School.

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

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

**GRAY CHARTER SCHOOL  
COMBINING FIDUCIARY FUNDS  
JUNE 30, 2015**

Exhibit H-1

	<u>Payroll Agency</u>	<u>Net Payroll</u>	<u>Total Agency Fund</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,920	\$ 9,000	\$ 13,920
Other current assets	1,472		1,472
Interfund Receivable	-	-	-
Total assets	<u>6,392</u>	<u>9,000</u>	<u>15,392</u>
<b>LIABILITIES</b>			
Interfund Payable	\$ 6,392	\$ 9,000	\$ 15,392
Payroll deductions and withholdings			-
Payroll payable		-	-
	-	-	-
Total liabilities	<u>6,392</u>	<u>9,000</u>	<u>15,392</u>
<b>NET POSITION</b>			
Reserved for unemployment claims and other purposes	-		-
Unrestricted surplus	-	-	-
Total net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**GRAY CHARTER SCHOOL  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Unemployment Compensation Trust</u>
<b>ADDITIONS</b>	
General fund appropriation	\$ -
Board contribution	10,295
	<u>-</u>
Total Contributions	<u>10,295</u>
<b>DEDUCTIONS</b>	
	-
Payment to NJ unemployment compensation fund	10,295
Claims	-
	<u>-</u>
Total deductions	<u>10,295</u>
Change in net assets	<u>-</u>
Net position-beginning of the year	<u>-</u>
Net position-end of the year	<u><u>\$ -</u></u>

**GRAY CHARTER SCHOOL  
PAYROLL AGENCY FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Assets</u>	<u>Balance July 1, 2014</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance June 30, 2015</u>
Cash	\$ 19,487	\$ 1,066,170	\$ 1,080,737	\$ 4,920
Interfund receivable	10,867	-	10,867	-
			b	
Total assets	<u>\$ 19,487</u>	<u>\$ 1,066,170</u>	<u>\$ 1,091,604</u>	<u>\$ 4,920</u>
 <u>Liabilities</u>				
Interfund payable	\$ 30,354	\$ 1,066,170	\$ 1,091,604	\$ 4,920
Payroll deductions and withholdings				
Other payable	-	-	-	-
Total liabilities	<u>\$ 30,354</u>	<u>\$ 1,066,170</u>	<u>\$ 1,091,604</u>	<u>\$ 4,920</u>

## **LONG-TERM DEBT**

The long-term debt is used to record the outstanding principal balances of the long term liabilities of the charter school. This includes the outstanding principal balance on capital lease, the accrued liability for insurance claims and the liability for compensated absences and the outstanding principal balance on certificates of participation outstanding. As of June 30, 2015 there were no activities to be reported in this section.

## **STATISTICAL SECTION**

GASB requires 10 years of statistical data be presented.

Each year thereafter, an additional year's data will be included up to 10 years

**GRAY CHARTER SCHOOL  
CHANGES IN NET POSITION**

**LAST TEN YEARS**

(accrual basis of accounting)

Exhibit J-2

Fiscal Year Ending June 30,

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Expenses</b>										
Governmental activities										
Instruction	\$ 1,935,163	\$ 2,866,842	\$ 2,806,921	\$ 2,406,210	\$ 2,379,074	\$ 2,477,130	\$ 2,211,792	\$ 1,983,740	\$ 1,724,218	\$ 1,512,017
Administration	1,372,031	782,672	717,806	993,188	671,883	690,983	641,455	483,591	542,075	518,518
Support Services:	1,547,928	1,273,362	1,208,907	1,260,087	1,341,382	1,190,387	1,074,191	1,000,323	843,275	839,446
Capital Outlay	0	0	0	0	0	0	0	0	0	60
Unallocated Depreciation	2,702	25,690	25,690	25,690	25,690	25,690	25,690	25,690	25,690	25,690
<b>Total governmental activities expenses</b>	<b>4,857,824</b>	<b>4,948,566</b>	<b>4,759,324</b>	<b>4,685,175</b>	<b>4,418,029</b>	<b>4,384,200</b>	<b>3,953,128</b>	<b>3,493,344</b>	<b>3,143,258</b>	<b>2,895,731</b>
Business-type activities:										
Food service	136,574	147,493	144,320	109,456	119,088	138,300	136,138	136,555	87,449	78,293
<b>Total business-type activities expense</b>	<b>136,574</b>	<b>147,493</b>	<b>144,320</b>	<b>109,456</b>	<b>119,088</b>	<b>138,300</b>	<b>136,138</b>	<b>136,555</b>	<b>87,449</b>	<b>78,293</b>
<b>Total district expenses</b>	<b>\$ 4,994,398</b>	<b>\$ 5,096,059</b>	<b>\$ 4,903,644</b>	<b>\$ 4,794,631</b>	<b>\$ 4,537,117</b>	<b>\$ 4,522,500</b>	<b>\$ 4,089,266</b>	<b>\$ 3,629,899</b>	<b>\$ 3,230,707</b>	<b>\$ 2,974,024</b>
<b>Program Revenues</b>										
Governmental activities:										
Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating grants and contributions	317,512	672,577	233,001	-	-	3,873	3,734	-	-	-
Capital grants and contributions	-	-	-	-	-	-	-	-	-	-
<b>Total governmental activities program revenues</b>	<b>317,512</b>	<b>672,577</b>	<b>233,001</b>	<b>-</b>	<b>-</b>	<b>3,873</b>	<b>3,734</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Business-type activities:</b>										
Charges for services:										
Food service	10,011	7,286	-	5,623	4,200	5,186	6,537	7,862	14,570	12,537
Trar	150,000	-	-	-	-	-	-	-	-	-
Operating grants and contributions	116,888	92,265	52,605	90,534	94,317	93,826	87,518	90,469	91,626	75,606
Capital grants and contributions	-	-	-	-	-	-	-	-	-	-
<b>Total business type activities program revenues</b>	<b>276,899</b>	<b>99,551</b>	<b>52,605</b>	<b>96,157</b>	<b>98,517</b>	<b>99,012</b>	<b>94,055</b>	<b>98,351</b>	<b>106,196</b>	<b>88,143</b>
<b>Total district program revenues</b>	<b>\$ 594,411</b>	<b>\$ 772,128</b>	<b>\$ 285,606</b>	<b>\$ 96,157</b>	<b>\$ 98,517</b>	<b>\$ 102,885</b>	<b>\$ 97,789</b>	<b>\$ 98,351</b>	<b>\$ 106,196</b>	<b>\$ 88,143</b>
<b>Net (Expense)/Revenue</b>	<b>\$ (4,540,312)</b>	<b>\$ (4,275,989)</b>	<b>\$ (4,526,323)</b>	<b>\$ (4,685,175)</b>	<b>\$ (4,418,029)</b>	<b>\$ (4,380,327)</b>	<b>\$ (3,949,394)</b>	<b>\$ (3,493,344)</b>	<b>\$ (3,143,258)</b>	<b>\$ (2,895,731)</b>
Governmental activities	140,325	(47,942)	(91,715)	(13,289)	(20,571)	(39,289)	(42,083)	(38,204)	18,747	9,850
Business-type activities	\$ (4,399,987)	\$ (4,323,931)	\$ (4,618,038)	\$ (4,698,474)	\$ (4,438,600)	\$ (4,419,615)	\$ (3,991,477)	\$ (3,531,548)	\$ (3,124,511)	\$ (2,885,881)
<b>General Revenues and Other Changes in Net Assets</b>										
Governmental activities:										
General purposes	605,759	558,742	519,162	496,864	455,191	481,529	484,069	699,676	511,896	461,566
Capital Projects	-	-	-	-	-	-	-	-	-	-
Grants and contributions(Federal/state aid )	4,167,226	3,464,925	3,452,065	4,127,737	3,780,979	3,776,730	3,528,226	2,841,842	2,787,441	2,360,580
Transfers	-	-	-	-	-	-	-	-	-	-
Miscellaneous	320,578	173,945	23,779	190,534	12,435	18,077	88,098	18,680	68,266	9,200
<b>Total governmental activities</b>	<b>5,093,563</b>	<b>4,197,612</b>	<b>3,995,006</b>	<b>4,815,135</b>	<b>4,248,605</b>	<b>4,276,335</b>	<b>4,100,393</b>	<b>3,560,198</b>	<b>3,367,603</b>	<b>2,951,362</b>
<b>Business-type activities:</b>										
Investment earnings	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	13,299	26,360	33,457	41,450	37,308	14,500	32,050
<b>Total business-type activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,299</b>	<b>26,360</b>	<b>33,457</b>	<b>41,450</b>	<b>37,308</b>	<b>14,500</b>	<b>32,050</b>
<b>Total Charter -wide</b>	<b>\$ 5,093,563</b>	<b>\$ 4,197,612</b>	<b>\$ 3,995,006</b>	<b>\$ 4,828,434</b>	<b>\$ 4,274,965</b>	<b>\$ 4,309,793</b>	<b>\$ 4,141,843</b>	<b>\$ 3,597,506</b>	<b>\$ 3,382,103</b>	<b>\$ 2,983,412</b>
<b>Change in Net Position</b>										
Governmental activities	\$ 553,251	\$ (78,377)	\$ (531,317)	\$ 129,960	\$ (169,424)	\$ (103,991)	\$ 150,999	\$ 66,864	\$ 224,345	\$ 55,631
Business-type activities	140,325	(47,942)	(91,715)	-	5,789	(5,831)	(633)	(896)	33,247	41,900
<b>Total Charter School</b>	<b>\$ 693,576</b>	<b>\$ (126,319)</b>	<b>\$ (623,032)</b>	<b>\$ 129,960</b>	<b>\$ (163,635)</b>	<b>\$ (109,822)</b>	<b>\$ 150,366</b>	<b>\$ 65,968</b>	<b>\$ 257,592</b>	<b>\$ 97,531</b>

**GRAY CHARTER SCHOOL  
FUND BALANCES-GOVERNMENTAL FUNDS**

Exhibit J-3

**LAST TEN YEARS**  
*(modified accrual basis of accounting)*  
**UNAUDITED**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>General Fund</b>										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	474,138	(68,305)	(15,618)	490,009	334,359	478,093	556,394	379,705	287,160	(44,547)
<b>Total general fund</b>	<u>\$ 474,138</u>	<u>\$ (68,305)</u>	<u>\$ (15,618)</u>	<u>\$ 490,009</u>	<u>\$ 334,359</u>	<u>\$ 478,093</u>	<u>\$ 556,394</u>	<u>\$ 379,705</u>	<u>\$ 287,160</u>	<u>\$ (44,547)</u>
<b>All Other Governmental Funds</b>										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue fund	-	-	-	-	-	-	-	-	-	-
<b>Total all other governmental funds</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total governmental funds</b>	<u>\$ 474,138</u>	<u>\$ (68,305)</u>	<u>\$ (15,618)</u>	<u>\$ 490,009</u>	<u>\$ 334,359</u>	<u>\$ 478,093</u>	<u>\$ 556,394</u>	<u>\$ 379,705</u>	<u>\$ 287,160</u>	<u>\$ (44,547)</u>

**GRAY CHARTER SCHOOL  
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS**

**Exhibit J-4**

**LAST TEN YEARS  
(modified accrual basis of accounting)  
UNAUDITED**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Revenues</b>										
Local sources	304,861	732,687	542,941	687,398	467,626	499,606	572,167	718,356	580,162	590,782
Contribution										
Miscellaneous	320,578									
State sources	4,468,124	3,873,063	3,715,544	3,703,273	3,315,448	3,454,139	3,207,378	2,550,845	2,522,293	2,262,966
Federal sources	317,512	264,439	233,001	424,464	465,531	326,464	324,582	290,997	285,148	97,614
<b>Total revenue</b>	<b>5,411,075</b>	<b>4,870,189</b>	<b>4,491,486</b>	<b>4,815,135</b>	<b>4,248,605</b>	<b>4,280,209</b>	<b>4,104,127</b>	<b>3,560,198</b>	<b>3,367,603</b>	<b>2,951,362</b>
<b>Expenditures</b>										
<b>Instruction</b>										
Regular instruction	1,935,163	2,109,868	2,269,552	2,406,210	2,379,074	2,477,130	2,211,792	1,983,740	1,724,218	1,512,017
Special education instruction										
Other special instruction										
Vocational education										
Other instruction										
Nonpublic school programs										
Adult/continuing education										
<b>Support Services:</b>										
Tuition										
Student & inst. related services										
General administration	150,000									
School administrative services	725,351	1,343,780	1,600,588	993,188	671,883	690,983	641,455	483,591	542,075	518,518
Central services										
Admin. information technology										
Plant operations and maintenance										
Pupil transportation										
Other Support Services	1,397,928	1,469,228	1,126,973	1,260,087	1,341,382	1,190,397	1,074,191	1,000,323	843,275	839,446
Employee benefits	646,680									
<b>Capital outlay</b>	<b>13,510</b>								<b>8,000</b>	<b>60</b>
<b>Debt service:</b>										
Principal										
Interest and other charges										
<b>Total expenditures</b>	<b>4,868,632</b>	<b>4,922,876</b>	<b>4,997,113</b>	<b>4,659,485</b>	<b>4,392,339</b>	<b>4,358,510</b>	<b>3,927,438</b>	<b>3,467,654</b>	<b>3,117,568</b>	<b>2,870,041</b>
<b>Excess (Deficiency) of revenues over (under) expenditures</b>	<b>542,443</b>	<b>(52,687)</b>	<b>(505,627)</b>	<b>155,650</b>	<b>(143,734)</b>	<b>(78,301)</b>	<b>176,689</b>	<b>92,544</b>	<b>250,035</b>	<b>81,321</b>
<b>Other Financing sources (uses)</b>										
Proceeds from borrowing										
Capital leases (non-budgeted)										
Proceeds from refunding										
Payments to escrow agent										
Transfers in										
Transfers out										
<b>Total other financing sources (uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net change in fund balances</b>	<b>\$ 542,443</b>	<b>\$ (52,687)</b>	<b>\$ (505,627)</b>	<b>\$ 155,650</b>	<b>\$ (143,734)</b>	<b>\$ (78,301)</b>	<b>\$ 176,689</b>	<b>\$ 92,544</b>	<b>\$ 250,035</b>	<b>\$ 81,321</b>

GRAY CHARTER SCHOOL  
FULL TIME EQUIVALENT CHARTER SCHOOL EMPLOYEES BY

Exhibit J-16

LAST TEN YEARS

(modified accrual basis of accounting)

UNAUDITED

Function/Program	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Instruction	29	29	29	24	24	22	22	21	20	19
Regular										
Special education										
Other special education										
Vocational										
Other instruction										
Nonpublic school programs										
Adult/continuing education programs										
Support Services:										
Student & instruction related services										
General administration	1	1	1	1	1	1	1	1	1	1
School administrative services	1	1	1	1	1	1	1	1	1	1
Other administrative services	1	1	1							
Central services										
Administrative Information Technology										
Plant operations and maintenance										
Pupil transportation										
Other support services	7	7	7	5	5	5	5	5	5	5
Food Service	1	1	1	1	1	1	1	1	1	1
Child Care										
Total	40	40	39	32	32	30	30	29	28	27

Source: District Personnel Records

**GRAY CHARTER SCHOOL  
OPERATING STATISTICS**

Exhibit J-17

**LAST TEN YEARS**

**UNAUDITED**

Fiscal Year	Enrollment	Operating Expenditures	Cost Per Pupil	Percentage Change	Teaching Staff	Pupil/Teacher Ratio	Average Daily Enrollment (ADE)	Average Daily Attendance (ADA) <sup>c</sup>	% Change in Average Daily Enrollment	Student Attendance Percentage
2005	259	2,894,171	11,174	11.99%	17.00	14.3	259	248	8.50%	95.75%
2006	280	2,869,991	10,250	-8.27%	18.00	14.7	280	279	8.11%	99.64%
2007	306	3,109,568	10,162	-0.86%	19.00	15.3	306	305	9.29%	99.67%
2008	300	3,467,654	11,559	13.75%	20.00	15.3	300	300	-1.96%	100.00%
2009	290	3,927,438	13,543	17.16%	21.00	15.3	290	280	-3.33%	100.00%
2010	280	4,356,310	15,566	14.94%	22.00	15.3	280	280	-3.45%	100.00%
2011	266	4,392,339	16,513	6.08%	24.00	11	266	266	-5.00%	100.00%
2012	277	4,659,485	16,821	1.87%	24.00	11	277	277	4.14%	100.00%
2013	274	4,997,113	18,238	8.42%	28.00	9.4	274	274	-1.08%	100.00%
2014	299	4,922,876	16,464	-9.72%	29.00	10.3	299	299	9.12%	100.00%
2015	321	4,868,632	15,167	-7.88%	29.00	10.3	312	312	4.35%	100.00%

Note: Enrollment based on annual October district count.

**GRAY CHARTER SCHOOL  
SCHOOL BUILDING INFORMATION  
JUNE 30, 2015**

**Exhibit J-18**

**LAST TEN YEARS  
UNAUDITED**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Charter School Building</b>										
Square Feet	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500
Building Capacity for students	399	399	399	399	399	394	394	394	394	394
Enrollment	321	299	274	277	266	280	290	300	306	306

**2014-15 Schedule of Insurance  
for Gray Charter School**

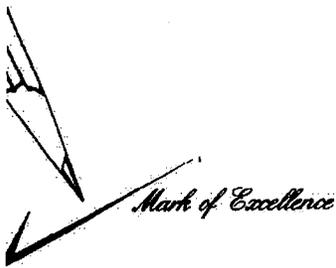
<b>COVERAGE</b>	<b>LIMITS</b>	<b>SUMMARY</b>
<b>Package</b> Markel Insurance Co CHP70000256-02 08/08/14-15 \$21,409.00	Covered Location	55 Liberty Street Newark, NJ 07102
<b>Property</b>	\$4,000,000 \$750,000 \$440,000 \$40,000	Building –Replacement Cost-All Risk w/ \$1,000 Deductible Contents – Replacement Cost-All Risk w/ \$1,000 Deductible Computer Equipment w/ \$1,000 Deductible Media and Data w/ \$1,000 Deductible
<b>Crime</b>	\$148,000	Blanket Employee Theft w/ \$500 Deductible
<b>General Liability</b>	\$3,000,000 \$3,000,000 \$1,000,000 \$2,000,000 \$1,000,000 \$1,000,000 \$10,000	General Aggregate Limit Products/Completed Operations Aggregate Limit Each Occurrence for Personal Injury/Advertising Injury Limit Abuse and Molestation Aggregate Limit Abuse and Molestation- per person Limit Damage to Premise Rented to You Limit Medical Expense Limit
<b>Educators Legal Liability</b>	\$1,000,000 \$2,000,000	Each Wrongful Act Limit w/ \$5,000 Deductible Aggregate Wrongful Act Limit w/ \$5,000 Deductible
<b>Automobile Liability</b>	\$1,000,000	Hired/Non Owned Auto Liability ONLY
<b>Student Accident</b> Markel Insurance Co CHH70000256-02 08/08/14-15 \$2,237.00	\$250,000 \$25,000 \$25,000	Aggregate Limit of Indemnity Accidental Medical Expense Benefit Accidental Death and Dismemberment Benefit
<b>Umbrella</b> Markel Insurance Co CHU70000256-02 08/08/14-15 \$7,193.16	\$5,000,000 \$5,000,000	Each Occurrence w/ \$10,000 Deductible Aggregate Limit w/ \$10,000 Deductible
<b>Workers' Compensation</b> Tower Group Co/Castlepoint WCC 0040921 08/08/14-15 Based on \$2,223,000 Professional and \$190,000 Non Professional 0.789 MOD \$46,176.00	\$1,000,000 \$1,000,000 \$1,000,000 Statutory	Each Accident Each Employee Policy Limit
<b>Directors and Officers Liability/ Employment Practice Liability</b> Philadelphia Insurance Co PHSD960468 08/08/14-15 \$3,902.00	\$1,000,000 \$1,000,000 \$100,000	Directors & Officers Liability w/\$2,500 Deductible Employment Practice Liability w/\$5,000 Deductible Workplace Violence w/\$5,000 Deductible

**Charter School Performance Framework Financial Indicators  
New Term Indicators  
June 30, 2015  
Unaudited**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash	\$ 497,729	\$ 405,556	\$ 571,520
Current assets	614,322	596,456	781,988
Capital assets, net	10,808	(365,556)	(545,830)
Total assets	<u>1,122,859</u>	<u>636,456</u>	<u>807,678</u>
Current liabilities	2,008,130	844,418	558,463
Long term liabilities	-	-	508,374
Total liabilities	<u>2,008,130</u>	<u>844,418</u>	<u>1,066,837</u>
Net position	<u>\$ (885,271)</u>	<u>\$ (207,962)</u>	<u>\$ (259,159)</u>
Total revenue	\$ 5,243,563	\$ 4,969,740	\$ 4,281,074
Total expenses	(4,549,987)	(5,096,059)	(5,081,622)
Change in net position	<u>\$ 693,576</u>	<u>\$ (126,319)</u>	<u>\$ (800,548)</u>
Depreciation expense	\$ 2,702	\$ 25,690	\$ 25,690
Interest expense	-	-	-
Principal payments	-	-	-
Interest payments	-	-	-
Final average daily enrollment	321	299	274
March 30th budgeted enrollment	290	296	277
	<u>2015</u>	<u>2014</u>	<u>Two Year Cumulative</u>
<b>NEAR TERM INDICATORS:</b>			
Current ratio	0.55	1.19	1.74
Unrestricted days cash	39.93	29.05	68.98
Enrollment variance	111%	101%	2.12
Default	N/A	N/A	N/A

Source: Charter School Records

**SINGLE AUDIT SECTION**



**ILORI CPA LLC**  
**CERTIFIED PUBLIC ACCOUNTANT**  
**& MANAGEMENT CONSULTANT**  
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**Fax (973) 404-8858**

## **EXHIBIT K-1**

### **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable President and  
Members of the Board of Trustees  
Gray Charter School, Inc.  
Essex County, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Gray Charter School, Inc.(GCS) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Charter School's basic financial statements, and have issued our report thereon dated December 10, 2015.

#### **Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

**INDEPENDENT AUDITOR'S 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***

**Internal Control Over Financial Reporting – Continued**

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 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 GCS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by Division of Finance and regulatory compliance, 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* in considering the Charter School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**Ilori CPA LLC**

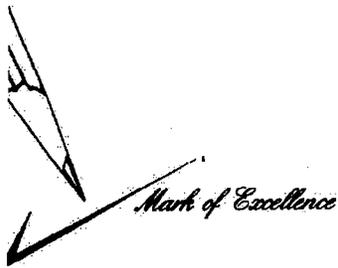
*Kunleilori*

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Kunle B. Ilori, CPA  
Licensed Public School Accountant  
No. 20CS00233100

*Ilori CPA LLC*

December 10, 2015  
Newark, New Jersey



**ILORI CPA LLC**  
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**EXHIBIT K-2**

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR 04-04**

The Honorable President and  
Members of the Board of Trustees  
Gray Charter School, Inc.  
Essex County, New Jersey

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

We have audited Gray Charter School, Inc., in the county of Essex, State of New Jersey (the "Charter School"),'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and *New Jersey OMB Circular 04-04* that could have a direct and material effect on each of Charter school's major federal programs for the year ended June 30, 2015. The Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Charter School's major federal 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations and New Jersey OMB Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards and OMB Circular A-133 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 program occurred. An audit includes examining, on a test basis, evidence about Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR 04-04**

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

***Opinion on Each Major Federal and State Programs***

In our opinion, Charter School, 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, 2015.

**Report on Internal Control Over Compliance**

Management of 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 Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal 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 program and to test and report on internal control over compliance in accordance with OMB Circular A-133, and New Jersey OMB Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Charter School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR 04-04**

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 OMB Circular A-133 and *New Jersey OMB Circular 04-04*. Accordingly, this report is not suitable for any other purpose.

**Ilori CPA LLC**

*Kunleilori*

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Kunle B. Ilori, CPA  
Licensed Public School Accountant  
No. 20CS00233100

*Ilori CPA LLC*

December 10, 2015  
Newark, New Jersey

GRAY CHARTER SCHOOL  
(ESSEX COUNTY)

EXHIBIT K-3  
SCHEDULE A

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2015

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE	Federal CFDA No.	Grant or State Project No.	Program or Award Amount	Grant Period	Balance 06/30/14	Carryover (Walkover) Over Amount	Cash Received	Budgetary Expenditures	Adjustment	(Accs. Rec.) Def. Rev 6/30/2015	Due to Grantor 6/30/2015
U.S. Department of Education Passed-through State Dept. of Education:											
Title I-Grants to Local Educational Agencies	84.010A		\$ 206,253	7/1/14-6/30/15	\$ -	\$ -	\$ 62,550	\$ 206,253	\$ -	\$ (143,703)	\$ -
Title I-Grants to Local Educational Agencies	84.010A		59,255	8/01/13-9/30/14	0	0	0	59,255	0	(59,255)	
Title II Part A. Improving Teachers Quality State Grant	84.367A		17,468	7/1/14-6/30/15	0	0	0	10,750	0	(10,750)	
IDEA - Individuals with Disabilities Education Act	84.027		49,508	7/1/14-6/30/15	11,957	11,957	8,535	41,283	0	(20,791)	
<b>Total U. S. Dept. of Education</b>			<b>\$ 332,484</b>		<b>\$ -</b>	<b>\$ 11,957</b>	<b>\$ 71,085</b>	<b>\$ 317,541</b>	<b>\$ -</b>	<b>\$ (234,499)</b>	<b>\$ -</b>
U.S. Department of Agriculture											
Passed-Through New Jersey Dept of Agriculture											
National School Lunch Program	10.555		114,552	7/1/14-6/30/15	(14,193)	-	109,647	114,553	-	(19,099)	-
			<u>114,552</u>		<u>(14,193)</u>	<u>-</u>	<u>109,647</u>	<u>114,553</u>	<u>-</u>	<u>(19,099)</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 447,036</b>		<b>\$ (14,193)</b>	<b>\$ 11,957</b>	<b>\$ 180,732</b>	<b>\$ 432,094</b>	<b>\$ -</b>	<b>\$ (253,598)</b>	<b>\$ -</b>

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

GRAY CHARTER SCHOOL  
(ESSEX COUNTY)

EXHIBIT K-4

SCHEDULE B

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

JUNE 30, 2015

STATE GRANTOR/ PROGRAM TITLE	Grant or State Project No.	Program or Award Amount	Grant Period	(Accts. Rec.) Def. Rev June 30, 2014	Carryover (Walkover) Over Amount	Cash Received	Budgetary Expenditures	Adjustment	Repayment or Prior Year's Balance	(Accts. Rec.) Def. Rev June 30, 2015	Due to Grantor June 30, 2015
<b>State Department of Education</b>											
<b>General Fund:</b>											
Equalization Aid	15-495-034-5120-078	\$ 4,317,906	7/1/14-6/30/15	\$ (654)	\$ -	\$ 4,318,560	\$ 4,309,626	-	\$ -	8,280	8,280
Security Aid	15-495-034-5120-084	132,746	7/1/14-6/30/15	(24)	-	132,770	132,746	-	-	-	-
Special Education	15-495-034-5120-089	17,472	7/1/14-6/30/15	-	-	17,472	17,472	-	-	-	-
Social Security Tax Reimbursement	15-495-034-5095-002	118,271	7/1/14-6/30/15	(6,705)	-	124,976	124,569	-	-	(6,298)	-
Teacher's Pension and Annuity Fund	15-495-034-5095-006	202,307	7/1/14-6/30/15	-	-	202,307	202,307	-	-	-	-
<b>Total State Educational aid</b>		<b>4,788,702</b>		<b>(7,383)</b>	<b>-</b>	<b>4,796,085</b>	<b>4,786,720</b>	<b>-</b>	<b>-</b>	<b>1,982</b>	<b>8,280</b>
<b>State Department of Agriculture</b>											
State School lunch program	15-100-010-3350-023	2,335	7/1/14-6/30/15	(288)	-	2,240	2,334	-	-	(382)	-
<b>Total State Dept. of Agriculture</b>		<b>4,470,459</b>		<b>(288)</b>	<b>-</b>	<b>2,240</b>	<b>2,334</b>	<b>-</b>	<b>-</b>	<b>(382)</b>	<b>-</b>
<b>Total State Financial Assistance</b>		<b>9,259,161</b>		<b>(7,671)</b>	<b>0</b>	<b>4,798,325</b>	<b>4,789,054</b>	<b>0</b>	<b>0</b>	<b>1,600</b>	<b>8,280</b>

See accompanying Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance.

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**NOTE 1. GENERAL**

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance present the activity of all federal and state award programs of the Board of Trustees, Gray 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 are included on the schedule of expenditures of federal awards and state financial assistance.

**NOTE 2. BASIS OF ACCOUNTING**

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance are presented using the modified accrual basis of accounting with the exception of those recorded in the special revenue, which are presented using the budgetary basis of accounting. These bases of accounting are described in Note 1 to the Board's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation, of the basic financial statements.

**NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

The basic financial statements present the general fund and special revenue fund on GAAP basis. Budgetary comparison statements or schedules (RSI) are presented for 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 subsequent year or expenditures have been made.

The general fund is presented in the accompanying schedule on the modified basis. The special revenue fund is presented in the accompanying schedules on the grant accounting budgetary basis which recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not. The net adjustment to reconcile from budgetary basis to GAAP basis is \$0 for general fund and \$ 0 for special revenue fund. See Note 1 for a reconciliation of the budgetary basis to the GAAP basis of accounting for the special revenue fund. Awards and financial assistance revenues are reported in the Board's basic financial statements on a GAAP basis as follows:

**GRAY CHARTER SCHOOL      EXHIBIT K-5  
ESSEX COUNTY**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

	<u>Federal</u>	<u>State</u>	<u>Total</u>
General Fund	\$ -	\$ 4,772,805	\$ 4,772,805
Special Revenue Fund	317,512	-	317,512
	-	-	-
Total	<u>\$ 317,512</u>	<u>\$ 4,772,805</u>	<u>\$ 5,090,317</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. OTHER**

Revenue and expenditures reported under the Food distribution program represent current year value received and current year distributions respectively. The amount reported as TPAF 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, 2015.

**NOTE 6. SCHOOL WIDE PROGRAM FUNDS**

School-wide programs are not separated from federal programs as defined in OMB Circular A-133; amounts used in school wide programs are included in the total expenditures of the program.

SCHEDULES OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Part I Summary of Auditors' Results

Financial Statements Section

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? \_\_\_\_\_ Yes  No

Significant deficiencies identified? \_\_\_\_\_ Yes  None reported

Noncompliance material to basic financial statements noted? \_\_\_\_\_ Yes  No

State Financial Assistance Section

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

Auditee qualifies as low-risk auditee? \_\_\_\_\_ yes  No

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

Internal control over major programs:

Material weaknesses identified? \_\_\_\_\_ Yes  No

Significant deficiencies identified? \_\_\_\_\_ Yes  None reported

Any audit findings disclosed that are required to be reported  
in accordance with NJ OMB Circular 04-04? \_\_\_\_\_ Yes  No

Identification of Major Programs:

<u>State Grant/Program Number(s)</u>	<u>Name of State Program or Cluster</u>
15-495-034-5120-078	Equalization Aid - Cluster
15-495-034-5120-089	Special Education Aid - Cluster

**SUMMARY SCHEDULE OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Status of prior year findings**

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements in accordance with Government Auditing Standards.

**Finding 2014-1:**

Board Secretary's and Treasurer's monthly financial reports were not reconciled and adjusted on a timely basis to agree to the monthly bank reconciliations or certain subsidiary ledgers and supporting documentation.

**Recommendation:**

The monthly Board Secretary's and Treasurer's financial reports be reconciled and agreed to the monthly bank reconciliations, subsidiary ledgers and supporting documentation on a timely basis.

**Status**

Corrective action has been implemented

**Finding 2014-2:**

Transactions for one bank account were not recorded on the books and records on a monthly basis.

**Status**

Corrective action has been implemented

**Finding 2014-3:**

Employees were not paid in accordance with their contracts. As a result, payroll and payroll taxes were overpaid and the requests for Reimbursed TPAF Social Security Contributions and TPAF and PERS pensionable wages were incorrectly reported. Additionally, the Board of Trustees did not approve all employees hired and their contractual salaries, nor did they approve all additional stipends and supplemental payments to employees for additional work performed.

**Status**

Corrective action has been implemented

**SUMMARY SCHEDULE OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Finding 2014-4:**

Our audit of purchases and procedures related to compliance with the Public School Contracts Law revealed the following:

Contracts were awarded that in the aggregate were less than the bid threshold but 15 percent or more of that amount, without soliciting at least two competitive quotations.

**Status**

Corrective action has been implemented

**Finding 2014-5:**

Expenditures exceeded revenues in the current year, which resulted in a deficit in the General Fund balance. The Charter School did not timely notify the executive county superintendent of the deficit. Additionally, subsequent budget changes/transfers were not approved by resolution of the Board of Trustees, and did not include detail of the transfers to/from amounts and resulted in one line item being over expended. Also, as a result of the deficit, cash flow declined and salary withholdings were not promptly remitted to the proper agencies, including pension and health benefits premium withholding to the General Fund. The Charter School also has a long-term obligation to the New Jersey Department of Labor of approximately \$412,000 at year end for unpaid New Jersey Unemployment Compensation under the "Benefit Reimbursement Method".

**State Program Information**

Equalization Aid	14-495-034-5120-078
Special Education Categorical Aid	14-495-034-5120-089
Security Aid	14-495-034-5120-084

**Status**

Corrective action has been implemented; the school has fully satisfied the outstanding debt with the New Jersey Department of Labor for the unpaid unemployment in the current fiscal year.