

**Publication No. 140**  
**Revised August 2009**

Illustrative Financial Statements  
for a Charter School  
in North Carolina

State and Local Government Finance Division  
North Carolina Department of State Treasurer

**Cardinal Charter School, North Carolina**  
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as of June 30, 2009

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<p><b>Note to preparer:</b> The Single Audit section is not reproduced in this report. Detailed information on the Single Audit is available in Section 35-E of the Audit Manual.</p>
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# **Financial Section**

LETTERHEAD OF INDEPENDENT AUDITOR

Independent Auditor's Report

To the Board of Directors  
Cardinal Charter School  
Dogwood, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Cardinal Charter School, North Carolina,<sup>1</sup> as of and for the year ended June 30, 2009 which collectively comprise of the Cardinal Charter School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cardinal Charter School's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Cardinal Charter School, North Carolina as of June 30, 2009, and the respective changes in financial position and cash flows<sup>1</sup>, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated *[date of report]* on our consideration of Cardinal Charter School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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<sup>1</sup> This sentence should be modified to include only those items that relate to the governmental unit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Cardinal Charter School, North Carolina. The combining and individual nonmajor fund financial statements and schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the accompanying schedule of expenditures of federal and State awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.<sup>8</sup>

*[Signature]*

*[Date]*

**Note to preparer:** See Section 27-A of the *Audit Manual for Governmental Audits in North Carolina* for various opinion letter examples. Please note that the opinion letter above was adjusted for the Cardinal Charter School which has one discretely presented component unit (100% of opined unit) audited by another auditor.

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**Management's Discussion and Analysis**  
**Cardinal Charter School**  
**June 30, 2009**

As management of the Cardinal Charter School, we offer readers of the Cardinal Charter School's financial statements this narrative overview and analysis of the financial activities of the Cardinal Charter School for the fiscal year ended June 30, 2009. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the School's financial statements, which follow this narrative.

**Financial Highlights**

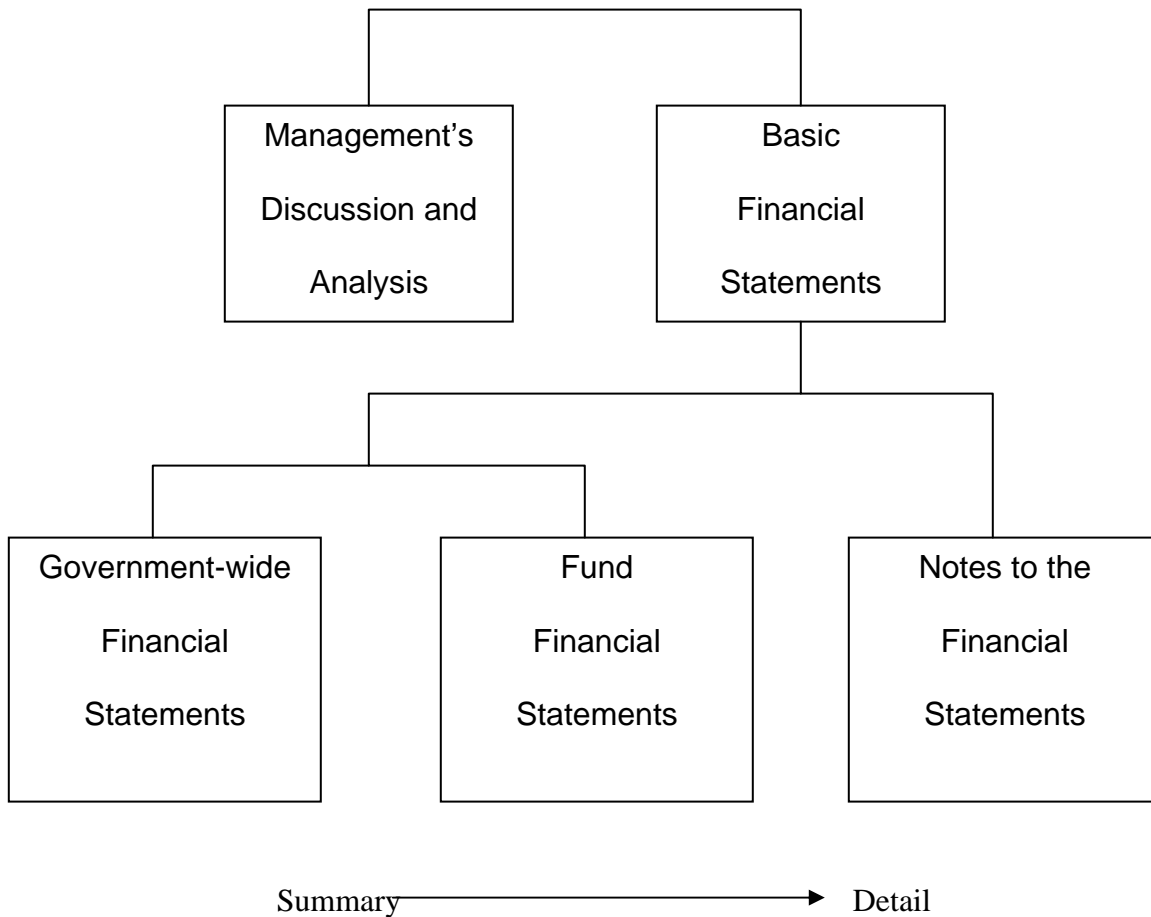
- The assets of the Cardinal Charter School exceeded its liabilities at the close of the fiscal year by \$475,693 (*net assets*).
- The government's total net assets increased by \$28,305, primarily due to increases in the business-type activities net assets.
- As of the close of the current fiscal year, the Cardinal Charter School's governmental funds reported combined ending fund balances of \$63,599, an increase of \$ 15,596 in comparison with the prior year.
- Enrollment continues to increase at the School, rising by 19 students this past year, an 11% increase.
- The Cardinal Charter School's total debt increased by \$393,561 during the current fiscal year. The key factor in this increase was the new capital lease entered into by the School for the lease purchase of a new building. The total lease amount is \$400,000.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to Cardinal Charter School's basic financial statements. The School's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the School through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Cardinal Charter School.

### Required Components of Annual Financial Report

Figure 1



#### Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the School's financial status.

The next statements (Exhibits 3 through 7) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the School's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

**Management Discussion and Analysis**  
**Cardinal Charter School**  
**June 30, 2009**

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the School's individual funds. Budgetary information for the School also can be found in this section of the statements.

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the School's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the School's financial status as a whole.

The two government-wide statements report the School's net assets and how they have changed. Net assets are the difference between the School's total assets and total liabilities. Measuring net assets is one way to gauge the School's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the School's basic functions such as instructional services and business services. State, county, and federal funds provide virtually all of the funding for these functions. The business-type activities are those services for which the School charges its students and other customers to provide. These include the Food Service and Child Care services offered by the Cardinal Charter School.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

**Fund Financial Statements**

The fund financial statements provide a more detailed look at the School's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Cardinal Charter School, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the School's budget ordinance. All of the funds of Cardinal Charter School can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the School's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the

**Management Discussion and Analysis**  
**Cardinal Charter School**  
**June 30, 2009**

reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the School's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Cardinal Charter School adopts an annual budget for each of its funds, although it is not required to do so by the General Statutes. Because the budget is not legally required by the Statutes, the budgetary comparison statements are not included in the basic financial statements, but are part of the supplemental statements and schedules that follow the notes. The budget is a legally adopted document that incorporates input from the faculty, management, and the Board of Directors of the School in determining what activities will be pursued and what services will be provided by the School during the year. It also authorizes the School to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for each of the funds demonstrates how well the School has complied with the budget ordinance and whether or not the School has succeeded in providing the services as planned when the budget was adopted.

**Proprietary Funds** – Cardinal Charter School has two proprietary funds, both of which are enterprise funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Cardinal Charter School uses enterprise funds to account for its school food service and child care functions.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 35-H-29 of this report.

**Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as one useful indicator of a school's financial condition. The assets of Cardinal Charter School exceeded liabilities by \$475,693 as of June 30, 2009. As of June 30, 2008, the net assets of Cardinal Charter School stood at \$447,388. The School's net assets increased by \$28,305 for the fiscal year ended June 30, 2009, compared to an increase of \$15,360 in 2008. One of the largest portions (84.01%) reflects the School's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. Cardinal Charter School uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although Cardinal Charter School's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the School's net assets (<1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$75,092 is unrestricted. In 2008, the amount of net

**Management Discussion and Analysis  
Cardinal Charter School  
June 30, 2009**

assets invested in capital assets net of related debt was \$412,909, with restricted assets standing at \$500. The remaining \$33,979 was unrestricted net assets for that year.

**The Cardinal Charter School's Net Assets**

**Figure 2**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 194,555	\$ 146,552	\$ 24,178	\$ 3,078	\$ 218,733	\$ 149,630
Capital assets	914,783	566,936	33,541	26,150	948,324	593,086
<b>Total assets</b>	<b>\$ 1,109,338</b>	<b>\$ 713,488</b>	<b>\$ 57,719</b>	<b>\$ 29,228</b>	<b>\$ 1,167,057</b>	<b>\$ 742,716</b>
Long-term liabilities outstanding	\$ 575,785	\$ 180,177	\$ 1,643	\$ -	\$ 577,428	\$ 180,177
Other liabilities	107,823	107,212	6,113	7,939	113,936	115,151
<b>Total liabilities</b>	<b>\$ 683,608</b>	<b>\$ 287,389</b>	<b>\$ 7,756</b>	<b>\$ 7,939</b>	<b>\$ 691,364</b>	<b>\$ 295,328</b>
<b>Net Assets:</b>						
Invested in capital assets net of related debt	\$ 366,045	\$ 386,759	\$ 33,541	\$ 26,150	\$ 399,586	\$ 412,909
Restricted	1,015	500	-	-	1,015	500
Unrestricted	58,670	38,840	16,422	(4,861)	75,092	33,979
<b>Total Net Assets</b>	<b>\$ 425,730</b>	<b>\$ 426,099</b>	<b>\$ 49,963</b>	<b>\$ 21,289</b>	<b>\$ 475,693</b>	<b>\$ 447,388</b>

Several particular aspects of the School's financial operations positively influenced the total unrestricted governmental net assets:

- The School adopted an annual budget for all funds except the Clubs and Activities Fund. The School's performance was measured using these budgets on a monthly basis, allowing changes in spending as needed to stay within the budget.
- The School applied for and was awarded several Federal grants to assist with the expenses of meeting the education needs of extremely academically gifted children.
- With an 11 percent increase in the student population, funding increased proportionately.

**Management Discussion and Analysis**  
**Cardinal Charter School**  
**June 30, 2009**

**Cardinal Charter School Changes in Net Assets**  
**Figure 3**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 68,669	\$ 60,115	\$ 68,669	\$ 60,115
Operating grants and contributions	46,125	40,051	46,351	40,252	92,476	80,303
Capital grants and contributions	-	-	934	-	934	-
General revenues:						
County, State, and Federal funds	500,472	446,421	-	-	500,472	446,421
Grants and contributions not restricted to specific programs	7,725	6,875	-	-	7,725	6,875
Other	16,087	14,317	-	-	16,087	-
Total revenues	<u>570,409</u>	<u>507,664</u>	<u>115,954</u>	<u>100,367</u>	<u>686,363</u>	<u>593,714</u>
Expenses:						
Instructional services	464,536	415,829	-	-	464,536	415,829
System-wide support services	84,385	75,103	-	-	84,385	75,103
Ancillary services*	-	-	-	-	-	-
Non-programmed charges	5,685	5,060	-	-	5,685	5,060
School food service	-	-	83,026	80,893	83,026	80,893
Child care	-	-	14,254	12,686	14,254	12,686
Interest on long-term debt	6,172	3,100	-	-	6,172	3,100
Total expenses	<u>560,778</u>	<u>499,092</u>	<u>97,280</u>	<u>93,579</u>	<u>658,058</u>	<u>592,671</u>
Increase in net assets before transfers	9,631	8,572	18,674	6,788	28,305	15,360
Transfers	(10,000)	(8,000)	10,000	8,000	-	-
Increase in net assets	(369)	572	28,674	14,788	28,305	15,360
Net assets, July 1	<u>426,099</u>	<u>425,527</u>	<u>21,289</u>	<u>6,501</u>	<u>447,388</u>	<u>432,028</u>
Net assets, June 30	<u>\$ 425,730</u>	<u>\$ 426,099</u>	<u>\$ 49,963</u>	<u>\$ 21,289</u>	<u>\$ 475,693</u>	<u>\$ 447,388</u>

**\* Note to preparer:** The expense line for Ancillary Services is included here for illustrative purposes only. Many charter schools have expenses that fall under this category. If your school does not, however, please remove this line from the statement.

**Management Discussion and Analysis**  
**Cardinal Charter School**  
**June 30, 2009**

**Governmental activities:** Governmental activities decreased the School's net assets by \$369.

**Business-type activities:** Business-type activities increased the Cardinal Charter School's net assets by \$28,674, accounting for 100% of the total growth in the school's net assets. Key elements of this increase are as follows:

- By adopting a budget for each of the enterprise funds that comprise the business-type activities, the Board is able to monitor the School's revenues and expenditures and adjust their estimates as needed during the year.
- The School received \$46,351 of federal reimbursement funds in the School Food Service Fund this past year.

**Financial Analysis of the School's Funds**

As noted earlier, the **Cardinal Charter School** uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the Cardinal Charter School's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Cardinal Charter School's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Cardinal Charter School. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$54,084, while total fund balance reached \$62,584.

At June 30, 2009, the governmental funds of Cardinal Charter School reported a combined fund balance of \$63,599, a 307.8 percent increase over last year.

**Proprietary Funds.** The School's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the School Food Service Fund at the end of the fiscal year amounted to \$11,488. The total growth in net assets for the School Food Service fund was \$23,548. Other factors concerning the finances of this fund have already been addressed in the discussion of the School's business-type activities.

**Management Discussion and Analysis  
Cardinal Charter School  
June 30, 2009**

**Capital Asset and Debt Administration**

**Capital assets.** The Cardinal Charter School’s investment in capital assets for its governmental and business–type activities as of June 30, 2009, totals \$948,324 (net of accumulated depreciation). These assets include a building, equipment and furniture, and electronic equipment.

The major capital asset transaction during the year includes the following addition:

- The School entered into a capital lease for a new building in which to hold classes, total lease purchase price of \$400,000.

**Cardinal Charter School’s Capital Assets  
(Net of Depreciation)**

**Figure 3**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 9,000	\$ -	\$ -	\$ -	\$ 9,000	\$ -
Buildings	396,667	-	-	-	396,667	-
Furniture and office equipment	495,867	552,103	23,841	15,827	519,708	567,930
Electronic equipment	13,249	14,833	9,700	10,323	22,949	25,156
<b>Total</b>	<b>\$ 914,783</b>	<b>\$ 566,936</b>	<b>\$ 33,541</b>	<b>\$ 26,150</b>	<b>\$ 948,324</b>	<b>\$ 593,086</b>

Additional information on the School’s capital assets can be found in note III.A.2. of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2009, the Cardinal Charter School had total debt outstanding of \$573,738. The debt consists of a \$25,000 line of credit with Cardinal Bank and \$548,783 of capital lease debt.

**Management Discussion and Analysis  
Cardinal Charter School  
June 30, 2009**

**Cardinal Charter School's Outstanding Debt  
Note Payable and Capital Leases**

**Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Line of Credit	\$ 25,000	\$ 25,000	\$ -	\$ -	\$ 25,000	\$ 25,000
Capital leases	548,738	155,177	-	-	548,738	155,177
Total long term obligations	<u>\$ 573,738</u>	<u>\$ 180,177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 573,738</u>	<u>\$ 180,177</u>

The Cardinal Charter School's total debt increased by \$393,561 during the past fiscal year, solely due to the \$400,000 in capital lease financing issued for the lease purchase of a new building.

**Economic Factors**

The following key economic indicators reflect the growth and prosperity of the School:

- The low unemployment rate (4.9%) in the tri-county area has increased revenues in the three counties and contributed to the increased funding to all public schools in the area, including charter schools.
- Cutbacks in federal funding to education in general have resulted in a reduction of federal revenue for the School of 5 percent over the next year.
- The high growth rate (20%) of the tri-county area should increase the number of students in the School over the next 3 years. The School estimates growth in enrollment to continue at a 10 – 15 percent increase each year for the next three years.

**Requests for Information**

This report is designed to provide an overview of the School's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, Cardinal Charter School, 500 Dogwood Lane, Dogwood, NC 00000, telephone (919) 800-9000.

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# FINANCIAL STATEMENTS

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**The Cardinal Charter School**  
**Statement of Net Assets**  
**June 30, 2009**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 91,584	\$ 5,387	\$ 96,971
Due from other governments	94,471	11,832	106,303
Receivables (net)	-	5,340	5,340
Internal balances*	-	-	-
Inventories	500	1,619	2,119
Prepaid items	8,000	-	8,000
Capital assets (Note 1):			
Land	9,000	-	9,000
Other capital assets, net of depreciation	905,783	33,541	939,324
Total capital assets	914,783	33,541	948,324
Total assets	1,109,338	57,719	1,167,057
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	4,500	5,413	9,913
Accrued salaries and wages payable	90,652	700	91,352
Unearned revenue	1,804	-	1,804
Due to other governments	9,000	-	9,000
Accrued interest payable	1,867	-	1,867
Long-term liabilities:			
Due within one year	52,472	387	52,859
Due in more than one year	523,308	1,256	524,564
Total liabilities	683,603	7,756	691,359
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	366,045	33,541	399,586
Restricted for:			
Clubs and activities	1,015	-	1,015
Unrestricted (deficit)	58,670	16,422	75,092
Total net assets	\$ 425,730	\$ 49,963	\$ 475,693

The notes to the financial statements are an integral part of this statement.

**Note to preparer:** The Internal Balances line is shown for illustrative purposes. If the unit of government has funds due to and from the governmental activities and the business-type activities these balances should be reported on the Internal Balances line.

The Cardinal Charter School  
 Statement of Activities  
 For the Year Ended June 30, 2009

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
<b>Primary government:</b>			
Governmental Activities:			
Instructional services	\$ 464,536	\$ -	\$ 22,657
System-wide support services	84,385	-	22,357
Ancillary services	-	-	-
Non-programmed charges	5,685	-	1,111
Interest on long-term debt	6,172	-	-
Total governmental activities	560,778	-	46,125
Business-type activities:			
School food service	83,026	50,223	46,351
Child care	14,254	18,446	-
Total business-type activities	97,280	68,669	46,351
Total primary government	\$ 658,058	\$ 68,669	\$ 92,476

General revenues:  
 Unrestricted county appropriations  
 Unrestricted State appropriations  
 Unrestricted Federal appropriations  
 Donations - general  
 Investment earnings, unrestricted  
 Miscellaneous, unrestricted  
 Transfers  
 Total general revenues, special items, and transfers  
 Change in net assets  
 Net assets-beginning  
 Net assets-ending

The notes to the financial statements are an integral part of this statement.

**Exhibit 2**

<b>Net (Expense) Revenue and Changes in Net Assets</b>				
<b>Primary Government</b>				
<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>		<b>Total</b>
\$ -	\$ (441,879)	\$ -		\$ (441,879)
-	(62,028)	-		(62,028)
-	-	-		-
-	(4,574)	-		(4,574)
-	(6,172)	-		(6,172)
-	(514,653)	-		(514,653)
-	-	13,548		13,548
934	-	5,126		5,126
934	-	18,674		(40,403)
<b>\$ 934</b>	<b>(514,653)</b>	<b>18,674</b>		<b>(2,268,238)</b>
	125,000	-		125,000
	347,531	-		347,531
	27,941	-		27,941
	7,725	-		7,725
	-	-		-
	16,087	-		16,087
	(10,000)	10,000		-
	514,284	10,000		524,284
	(369)	28,674		28,305
	426,099	21,289		447,388
<b>\$</b>	<b>425,730</b>	<b>\$ 49,963</b>	<b>\$</b>	<b>475,693</b>

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**The Cardinal Charter School, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2009**

	Major Funds		Total Non-major Funds	Total Governmental Funds
	General	State Public School		
<b>ASSETS</b>				
Cash and cash equivalents	\$ 90,569	\$ -	\$ 1,015	\$ 91,584
Due from other funds	-	9,000	-	9,000
Due from other governments	5,747	84,724	4,000	94,471
Prepaid items	8,000	-	-	8,000
Inventories	500	-	-	500
<b>Total assets</b>	<b>\$ 104,816</b>	<b>\$ 93,724</b>	<b>\$ 5,015</b>	<b>\$ 203,555</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 4,500	\$ -	\$ -	\$ 4,500
Accrued salaries and wages payable	2,232	84,724	3,696	90,652
Note payable - Cardinal Bank	25,000	-	-	25,000
Due to other governments	-	9,000	-	9,000
Due to other fund	9,000	-	-	9,000
Unearned revenue	1,500	-	304	1,804
<b>Total liabilities</b>	<b>42,232</b>	<b>93,724</b>	<b>4,000</b>	<b>139,956</b>
Fund balances:				
Reserved for:				
Inventories	500	-	-	500
Prepaid items	8,000	-	-	8,000
Unreserved, General Fund	54,084	-	-	54,084
Unreserved, reported in:				
Special Revenue Fund	-	-	1,015	1,015
Capital Projects Fund	-	-	-	-
<b>Total fund balances</b>	<b>62,584</b>	<b>-</b>	<b>1,015</b>	<b>63,599</b>
<b>Total liabilities and fund balances</b>	<b>\$ 104,816</b>	<b>\$ 93,724</b>	<b>\$ 5,015</b>	

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

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

914,783

Liabilities for earned but deferred revenues in fund statements.

-

Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds (Note 5).

(552,652)

Net assets of governmental activities

\$ 425,730

The notes to the financial statements are an integral part of this statement.

**The Cardinal Charter School**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2009**

	Major Funds		Total Non-major Funds	Total Governmental Funds
	General	State Public School		
<b>REVENUES</b>				
State of North Carolina	\$ 17,500	\$ 347,136	\$ -	\$ 364,636
Carolina County	125,000	-	-	125,000
U.S. Government	27,941	-	29,020	56,961
Contributions and donations	7,000	-	725	7,725
Other	15,321	-	766	16,087
Total revenues	192,762	347,136	30,511	570,409
<b>EXPENDITURES</b>				
<b>Current:</b>				
Instructional services	60,196	327,136	25,552	412,884
System-wide support services	59,442	9,981	3,414	72,837
Non-programmed charges	4,574	19	1,092	5,685
<b>Capital outlay:</b>	409,000	-	-	409,000
<b>Debt service:</b>				
Principal	31,439	-	-	31,439
Interest and other charges	5,561	-	-	5,561
Total expenditures	570,212	337,136	30,058	937,406
Excess (deficiency) of revenues over expenditures	(377,450)	10,000	453	(366,997)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers to other funds	-	(10,000)	-	(10,000)
Note payable issued	25,000	-	-	25,000
Capital lease obligations issued	400,000	-	-	400,000
Total other financing sources (uses)	425,000	(10,000)	-	415,000
Net change in fund balance	47,550	-	453	48,003
Fund balances-beginning	15,034	-	562	15,596
Fund balances-ending	\$ 62,584	\$ -	\$ 1,015	\$ 63,599

The notes to the financial statements are an integral part of this statement.

**The Cardinal Charter School  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Funds  
For the Year Ended June 30, 2009**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 48,003
Change in fund balance due to change in reserve for inventory	-
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	
	347,847
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Amount of donated assets	-
Difference in accrued investment income and income reported in fund statements	
	-
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
	(393,561)
Difference in accrued interest payable and interest expensed on fund statements	
	(611)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	(2,047)
Loss on disposal of assets	-
	-
Total changes in net assets of governmental activities	\$ (369)

The notes to the financial statements are an integral part of this statement.

**The Cardinal Charter School  
Statement of Net Assets  
Proprietary Funds  
June 30, 2009**

	Enterprise Funds		Total
	Major Fund School Food Service	Non-major Fund Child Care	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 3,172	\$ 2,215	\$ 5,387
Due from other governments	11,132	700	11,832
Receivables (net)	2,800	2,540	5,340
Inventories	1,419	200	1,619
Total current assets	<u>18,523</u>	<u>5,655</u>	<u>24,178</u>
Noncurrent assets:			
Capital assets:			
Furniture and office equipment, net	19,541	800	20,341
Food service equipment	3,500	-	3,500
Computer equipment, net	9,500	200	9,700
Total noncurrent assets	<u>32,541</u>	<u>1,000</u>	<u>33,541</u>
Total assets	<u>\$ 51,064</u>	<u>\$ 6,655</u>	<u>\$ 57,719</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 5,392	\$ 721	\$ 6,113
Due to other funds	-	-	-
Total current liabilities	<u>5,392</u>	<u>721</u>	<u>6,113</u>
Long-term liabilities:			
Due within one year	387	-	387
Due in more than one year	1,256	-	1,256
Total long-term liabilities	<u>1,643</u>	<u>-</u>	<u>1,643</u>
Total liabilities	<u>7,035</u>	<u>721</u>	<u>7,756</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	32,541	1,000	33,541
Unrestricted	11,488	4,934	16,422
Total net assets	<u>\$ 44,029</u>	<u>\$ 5,934</u>	<u>\$ 49,963</u>

The notes to the financial statements are an integral part of this statement.

**The Cardinal Charter School**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2009**

	Enterprise Funds		Total
	Major Fund School Food Service	Non-major Fund Child Care	
<b>OPERATING REVENUES</b>			
Food sales	\$ 50,223	\$ -	\$ 50,223
Child care fees	-	18,446	18,446
Total operating revenues	50,223	18,446	68,669
<b>OPERATING EXPENSES</b>			
Food cost:			
Purchase of food	45,899	-	45,899
Donated commodities	-	-	-
Salaries and benefits	11,859	11,727	23,586
Indirect costs	113	144	257
Materials and supplies	153	517	670
Depreciation	950	773	1,723
Contracted services	23,970	1,093	25,063
Other	82	-	82
Total operating expenses	83,026	14,254	97,280
Operating income (loss)	(32,803)	4,192	(28,611)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Federal reimbursements	46,351	-	46,351
Total nonoperating revenue (expenses)	46,351	-	46,351
Income (loss) before contributions and transfers	13,548	4,192	17,740
Capital contributions	-	934	934
Transfers from other funds	10,000	-	10,000
Change in net assets	23,548	5,126	28,674
Total net assets-beginning	20,481	808	21,289
Total net assets-ending	\$ 44,029	\$ 5,934	\$ 49,963

The notes to the financial statements are an integral part of this statement.

**The Cardinal Charter School  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2009**

	Enterprise Funds		
	Major Fund	Non-major Fund	Total
	School Food Service	Child Care	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 37,207	\$ 15,206	\$ 52,413
Cash paid for goods and services	(62,951)	(1,854)	(64,805)
Cash paid to employees for services	(10,093)	(11,827)	(21,920)
Net cash provided (used) by operating activities	(35,837)	1,525	(34,312)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Federal reimbursements	46,351	-	46,351
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital contributions	-	934	934
Acquisition of capital assets	(8,287)	(827)	(9,114)
Net cash (used) by capital and related financing activities	(8,287)	107	(8,180)
Net increase (decrease) in cash and cash equivalents	2,227	1,632	3,859
Balances-beginning	945	583	1,528
Balances-ending	\$ 3,172	\$ 2,215	\$ 5,387
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ (32,803)	\$ 4,192	\$ (28,611)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	950	773	1,723
Salaries paid by special revenue fund	10,000	-	10,000
Changes in assets and liabilities:			
Increase in due from other governments	(8,573)	(700)	(9,273)
Increase in accounts receivable	(2,800)	(2,540)	(5,340)
Increase in inventory	(785)	(200)	(985)
Increase (decrease) in accounts payable and accrued liabilities	(1,949)	100	(1,849)
Increase in salaries and wages payable	123	(100)	23
Total adjustments	(3,034)	(2,667)	(5,701)
Net cash provided by operating activities	\$ (35,837)	\$ 1,525	\$ (34,312)

The notes to the financial statements are an integral part of this statement.

## The Cardinal Charter School, North Carolina

### Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2009

#### I. Summary of Significant Accounting Policies

The accounting policies of the Cardinal Charter School, North Carolina (School) conform to generally accepted accounting principles (GAAP) as applicable to governments. Charter schools are established by non-profit entities. Because of the authority of the State Board of Education (SBE) to unilaterally abolish a school with all the assets reverting to a local education agency, the charter schools in North Carolina follow the governmental reporting model, as used by local education agencies. The following is a summary of the more significant accounting policies:

##### A. Reporting Entity

The Cardinal Charter School is a public school operated by a local non-profit corporation, serving approximately 100 students. The School operates under an approved charter received from the SBE, and applied for under the provisions of General Statute (G.S.) 115C-238.29B. G.S. 115C-238.29F(f)(1) states that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act (SBFCA). G.S. 115C-447 also requires financial statements to be prepared in accordance with GAAP.

##### B. Basis of Presentation

*Government-wide Statements:* The statement of net assets and the statement of activities display information about the School. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the School. Governmental activities generally are financed through 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 activities presents a comparison between direct expenses and program revenues for the different business-type activities of the School and for each function of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the School's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The School reports the following major governmental funds:

*General Fund.* The General Fund is the general operating fund of the School. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.

*State Public School Fund.* The State Public School Fund includes appropriations from the Department of Public Instruction for current operating needs of the public school system.

The School reports the following major enterprise fund:

*School Food Service Fund.* The School Food Service Fund is used to account for the food service program within the school system.

### C. Measurement Focus and Basis of Accounting

*Government-wide and Proprietary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the School gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the School funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the School's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

#### D. Budgetary Data

Annual budgets are adopted for all funds, except for the chess, drama, and debate clubs and cardinal athletics. All budgets are prepared using the modified accrual basis of accounting.

The governing board has voluntarily established the policy, as a sound business practice, that expenditures may not exceed appropriations, for all of the School's funds, based on the adopted budget and subsequent amendments. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget presented in the supplemental data represents the budget of the School at June 30, 2009. All appropriations lapse at year end.

Because charter schools are not required by the General Statutes to adopt an annual budget, some variation exists regarding the basis on which the schools develop their budgets. If a School adopts an annual budget by fund, or adopts a fund budget for only some of the School's funds, the budget to actual statements should be prepared on a fund basis. If, however, the School adopts a unit-wide budget, the budget to actual statement would reflect all revenues and expenditures as measured against the estimated revenue and appropriations for the School.

#### E. Assets, Liabilities, and Fund Equity

##### 1. Deposits and Investments

All deposits of the School are made in a local bank, whose accounts are FDIC insured. Also, the School has established time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

## 2. Cash and Cash Equivalents

The School pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

## 3. Inventories and Prepaid Items

The inventories of the School are valued at cost, and the School uses the first-in, first-out (FIFO) flow assumption in determining cost. Governmental fund inventories consist of supplies and are recorded as expenses when consumed. Proprietary fund inventories consist of food and supplies and are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

## 4. Capital Assets

The School's capital assets are recorded at original cost. Donated assets are listed at their estimated fair value at the date of donation. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

It is the policy of the School to capitalize all capital assets costing more than \$5,000 with an estimated useful life of two or more years. In addition, other items which are purchased and used in large quantities such as student desks and office furniture are capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. All depreciable assets are depreciated using the straight-line method of depreciation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Furniture and office equipment	10
Food service equipment	5
Electronic equipment	3

## 5. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

## 6. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated annual leave balances. Employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. The School accounts for its leave on a first-in, first-out basis, such that the oldest available leave is used first. The current portion of the liability is recorded as such in the government-wide financial statements.

The sick leave policy of the School provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the School has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

## 7. Net Assets/Fund Balances

Net assets in the government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The governmental fund types classify fund balances as follows:

### Reserved:

Reserved for prepaid items - portion of fund balance not available for appropriation because it represents the year-end balance of prepaid rent on the school facility, which is not an expendable, available resource.

Reserved for inventories – portion of fund balance not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources.

### Unreserved:

Designated for subsequent year's expenditures - portion of total fund balance available for appropriation which has been designated for the adopted 2009-10 budget ordinance.

Undesignated - portion of total fund balance available for appropriation which is uncommitted at year-end.

8. The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. The net adjustment of \$362,131 consists of several elements as follows:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital assets used in governmental activities are not financial resources are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column).	\$1,046,860
Less accumulated depreciation	(132,077)
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements:	
Bonds, leases, and installment financing	(548,738)
Compensated absences	(2,047)
Accrued interest payable	(1,867)
Total adjustment	<u>\$362,131</u>

F. Revenues, Expenditures, and Expenses

1. Funding

The Cardinal Charter School is funded by the State Board of Education, receiving (i) an amount equal to the average per pupil allocation for the average daily membership (ADM) from the local school administrative unit allotments in which the school is located (i.e. Carolina County Board of Education) for each child attending the School except for the allocation for children with special needs and (ii) an additional amount for each child attending the School who is a child with special needs [G.S. 115C-238.29H(a)]. Additionally, the appropriate local school administrative unit(s) transfers to the School, for each student who resides in the local administrative unit and attends the charter school, an amount equal to the per pupil local current expense appropriation to the respective local school administrative unit for the fiscal year. [G.S. 115C-238.29H(b)]. For the fiscal year ended June 30, 2009, the Cardinal Charter School received funding from the Boards of Education for Carolina County, Dogwood County and Old Pine County.

Furthermore, Cardinal Charter School has received donations of cash and/or equipment from private organizations. The cash has been used for the purchase of new equipment for the School's facilities.

2. Reconciliation between government-wide and fund statements

The governmental fund statement of revenues, expenditures, and changes in fund balance is followed by a reconciliation between the change in fund balance –governmental activities and the change in net assets – governmental funds as reported on the government-wide statement of activities. The net difference of \$(48,372) between the two amounts consists of the following elements:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets on the statement of activities.	419,078
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(71,231)
New debt issued during the year is recorded as a source of funds on the fund statements but has no effect on the statement of activities, only the statement of net assets.	(400,000)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net assets in the government-wide statements.	6,439
Expenses reported on the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements.	
Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual).	(611)
Compensated absences are accrued in the government-wide statements but not in the fund statements, as they do not use current resources.	<u>(2,047)</u>
<b>Total</b>	<b><u>\$(48,372)</u></b>

II. Stewardship, Compliance, and Accountability

A. Significant Violations of Finance-Related Legal and Contractual Provisions

Noncompliance with North Carolina General Statutes

The school, in violation of G.S. 115C-238H(a), purchased a tract of land for \$9,000 with funds provided by State Board of Education during the year ended June 30, 2009. It is the school's intention to keep the land for future school expansion. Accordingly, a capital outlay and a liability for the \$9,000 to be repaid to the State Public School Fund have been recorded in the General Fund. Revenues and expenditures have been reduced by this amount in the State Public School Fund, and a receivable from the General Fund and a liability to the State of North Carolina have been recorded. (See the related Note III.C.)

**Note to preparer:** Significant instances of noncompliance with the General Statutes should all be disclosed in this section and should include a description of the School's plan to correct the violation. Immaterial instances of noncompliance could be summarized in the management letter. For a charter school, budgetary over-expenditures are not statutory violations. See the example below. The auditor should consider reporting issues normally disclosed in this section in the management letter.

### Contractual Violations

**Note to preparer:** Significant contractual violations of lease arrangements or other contractual agreements should be disclosed in this section along with a corrective action plan.

### B. Deficit Fund Balance or Net Assets of Individual Funds

**Note to preparer:** Individual funds that report deficits in their fund balances or in their net asset totals should be disclosed along with a corrective action plan.

## III. Detail Notes on All Funds

### A. Assets

#### 1. Deposits

At June 30, 2009, the School had deposits with banks and savings and loans with a carrying amount of \$96,871. The bank balance with the financial institutions was \$110,951, which was covered by federal depository insurance. The School does not have a deposit policy for custodial credit risk.

Cash on hand at the School totaled \$100.

**Note to preparer:** As required by GASB 40, any deposit amount beyond the FDIC limit must be disclosed as uncollateralized. The School should disclose whether or not their Board has adopted a formal policy for any of the different deposit and investments risks it encounters. In addition, the unit may include whether its management follows any internal practices to avoid applicable risks. See *Note III.A.1* of Carolina County Board of Education for an example when the Board has not formally adopted a policy, nor does management have an internal policy. Please see *Note III.A.1* of City of Dogwood for an example of when no formal policy has been adopted, but there are internal management policies in place. Finally, see *Note III.A.1* of Carolina County for an example of a formal policy.

## 2. Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ -	\$ 9,000	\$ -	\$ 9,000
Capital assets being depreciated:				
Buildings	-	400,000	-	400,000
Furniture and office quipment	607,214	4,278	-	611,492
Electronic equipment	20,568	5,800	-	26,368
Total capital assets being depreciated	627,782	410,078	-	1,037,860
Less accumulated depreciation for:				
Buildings	-	3,333	-	3,333
Furniture and office quipment	55,111	60,514	-	115,625
Electronic equipment	5,735	7,384	-	13,119
Total accumulated depreciation	60,846	71,231	-	132,077
Total capital assets being depreciated, net	566,936			905,783
Governmental activity capital assets, net	<u>\$ 566,936</u>			<u>\$ 914,783</u>

Depreciation expense was charged to governmental functions as follows:

Instructional programs	55,135
Supporting services	16,096
	<u>\$71,231</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Child Nutrition				
Capital assets being depreciated:				
Furniture and office equipment	12,066	8,287	-	20,353
Food service equipment	4,000	-	-	4,000
Electronic equipment	10,000	-	-	10,000
Total capital assets being depreciated	<u>26,066</u>	<u>8,287</u>	-	<u>34,353</u>
Less accumulated depreciation for:				
Furniture and office equipment	362	450	-	812
Food service equipment	250	250	-	500
Electronic equipment	250	250	-	500
Total accumulated depreciation	<u>862</u>	<u>950</u>	-	<u>1,812</u>
Total Child Nutrition capital assets	<u>25,204</u>			<u>32,541</u>
Other business-type activity programs:				
Capital assets being depreciated:				
Furniture and office equipment	373	827	-	1,200
Electronic equipment	573	-	-	573
Total capital assets being depreciated	<u>946</u>	<u>827</u>	-	<u>1,773</u>
Less accumulated depreciation for:				
Furniture and office equipment	-	400	-	400
Electronia equipment	-	373	-	373
Total accumulated depreciation	<u>-</u>	<u>773</u>	-	<u>773</u>
Total capital assets being depreciated, net	<u>946</u>			<u>1,000</u>
Business-type activities capital assets, net	<u>\$ 26,150</u>			<u>\$ 33,541</u>

## B. Liabilities

### 1. Pension Plan Obligations

#### a. Retirement Plan

The Cardinal Charter School has adopted a tax deferred annuity retirement plan under Internal Revenue Code section 403 (b). The Cardinal Charter School Retirement Plan (The Plan) is a defined contribution plan and is administered by Dogwood Pension Services, Inc. This plan was effective July 1, 2008. All full-time employees who have reached age 21 are eligible to participate in the plan after one year of service to the School. Cardinal Charter School contributes 4% of the annual compensation of each eligible employee. The employee may make voluntary contributions, pursuant to a salary reduction agreement, of a percentage of annual compensation not to exceed the limits set by the Internal Revenue Code.

At June 30, 2009, all eligible employees of the School were included in the plan. The Cardinal Charter School made all required contributions. For the year ended June 30, 2009, the pension cost to the School was \$2,438, with members contributing \$3,961.

**Note to preparer:** For charter schools participating in the TSERS, illustrative note disclosures for the pension plan and the post-employment retirement benefits may be found in the Carolina County Board of Education illustrative financial statements in this audit manual. The current level of required contributions for the fiscal year is detailed in a memo issued by the staff of the Local Government Commission.

For charter schools providing their own retirement benefits, the preparer should consider what information is relevant to the users of the financial statements. This should include but is not limited to a description of the type of retirement plan offered, the eligibility requirements, and the cost to the school. See GASB Statement No. 27 for guidance on specific disclosure requirements.

## 2. Unearned Revenues

The balance in deferred / unearned revenues at year-end is composed of the following elements:

	Unearned Revenue
Prepaid items (General Fund)	\$ 1,500
Sales tax receivable (Federal Grants Fund)	304
Total	\$ 1,804

## 3. Risk Management

The School is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School maintains general liability and errors and omissions insurance coverage of \$1 million per occurrence with a commercial carrier.

The School also participates in the Teachers' and State Employees' Comprehensive Major Medical Plan, a self-funded risk financing pool of the State administered by Blue Cross and Blue Shield of North Carolina. Through the Plan, permanent full-time employees of the School are eligible to receive health care benefits up to a \$2 million lifetime limit. In addition, employees have the option of receiving health care benefits through one of the available health maintenance organizations (HMOs). The School pays the full cost of coverage for employees enrolled in the Comprehensive Major Medical Plan and makes an equal contribution for employees enrolled in one of the available HMO plans [G.S.115C-238.29F(e)(4)].

The School carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and claims have not exceeded coverage in any of the past two fiscal years.

The School carries flood insurance through the National Flood Insurance Plan (NFIP). Because the School is in an area of the State that has been mapped and designated an “A” area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the City is eligible to purchase coverage of \$500,000 per structure through the NFIP.

4. Claims and Judgments

At June 30, 2009, the School was a defendant to various lawsuits. In the opinion of the School’s management and the School’s attorney, the ultimate effect of these legal matters will not have a material adverse effect on the School’s financial position.

5. Long-Term Obligations

a. Note Payable

On May 31, 2008 a note was obtained from a bank for \$25,000 plus interest at prime plus 1%. The note plus interest was paid in full on September 15, 2008. On March 18, 2009 another note was obtained for \$25,000 plus interest at prime plus 2%. The note was obtained for working capital.

b. Capital Leases

The School entered into various lease agreements for certain equipment. At the conclusion of each of the leases, ownership is transferred to the School. The lease agreements qualify as capital leases for accounting purposes and, therefore, the obligations have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The School entered into two capital leases in July, 2006 for school furnishings including desks and physical education equipment, as well as electronic equipment such as computers and other electronic equipment. Both capital leases were for four year terms.

In January 2008, the School entered into a capital lease for the school building, for the amount of \$400,000. The lease is for a twenty year term, requiring annual payments from \$21,296 to \$25,056.

At June 30, 2009, assets recorded under the capital leases were as follows:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Buildings	\$ 400,000	\$ 3,333	\$ 396,667
Furniture and equipment	200,000	38,142	161,858
Computer equipment	18,768	11,991	6,777
Total	\$ 618,768	\$ 53,466	\$ 565,302

The following is a schedule of the future minimum lease payments and the net present value of the minimum lease payments as of June 30, 2009:

<u>Year Ending June 30</u>	
2010	\$ 44,520
2011	45,419
2012	46,328
2013	48,198
2014	50,126
2015-2019	125,633
2020-2024	127,500
2025-2028	<u>250,250</u>
Total minimum lease payments	737,974
Less: amount representing interest	<u>189,236</u>
Present value of the minimum lease payments	<u>\$ 548,738</u>

c. Changes in General Long-Term Obligations

The following is a summary of changes in the School's long-term obligations for the fiscal year ended June 30, 2009:

	Beginning			Ending	Current
Governmental activities:	Balance	Increases	Decreases	Balance	Portion
Note payable - bank	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Capitalized leases	\$ 155,177	\$ 400,000	\$ 6,439	\$ 548,738	\$ 27,272
Compensated absences	\$ -	\$ 10,700	\$ 8,653	\$ 2,047	\$ 200
Total	<u>\$ 180,177</u>	<u>\$ 435,700</u>	<u>\$ 40,092</u>	<u>\$ 575,785</u>	<u>\$ 52,472</u>
Business-type activities:					
Compensated absences	\$ -	\$ 2,257	\$ 614	\$ 1,643	\$ 387
Total	<u>\$ -</u>	<u>\$ 2,257</u>	<u>\$ 614</u>	<u>\$ 1,643</u>	<u>\$ 387</u>

C. Interfund Balances and Activity

The composition of interfund balances as of June 30, 2009, are as follows:

Due to the State Public School Fund from the General Fund to repay the fund for a tract of land purchased in violation of NCGS 115C-238H(a).	<u>\$ 9,000</u>
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**Note to preparer:** All interfund transactions throughout the year are considered essential to fair presentation at the basic financial statement level and should be included in the notes to the financial statements. For interfund transfers, amounts transferred from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type; a general description of the principal purposes of interfund transfers; and purposes for and amounts of non-routine transfers and/or transfers inconsistent with the activities of the fund making the transfers should be disclosed in the notes. These provisions should be applied only to *material* items. Also, the due to and the due from in this case is to illustrate the repayment of the misspent money disclosed in the Stewardship, Compliance, and Accountability note. The Special Revenue funds should not be advancing money to other funds through the use of due to and due from transactions for routine operational needs. If such advances are made, this should be disclosed as a violation of General Statutes.

#### V. Related Party Transactions

Mr. Paul Smith, a member of the governing board of Cardinal Charter School, also serves as principal of the School. For the fiscal year, Mr. Smith was paid a salary of \$5,200 from the General Fund and \$19,800 from the State Public School Fund.

**Note to preparer:** Under GAAP, disclose significant transactions with elected officials, employees, and related organizations. These GAAP disclosures should include the nature of the relationship, a description and the dollar amount of any transaction, the amount(s) due to or from the related parties, the fund(s) involved in the transaction, and any other significant details. Other types of transactions that might need to be disclosed could include leases of equipment or facilities, other types of services, and purchase or sale of capital assets, or loans.

#### VI. Summary Disclosure of Significant Contingencies

##### Federal and State Assisted Programs

The School has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

#### VII. Significant Effects of Subsequent Events

**Note to preparer:** Events that occur between the end of the period covered by the financial statements and the statement issuance date that have a significant effect upon the unit should be disclosed.

## **NON-MAJOR FUNDS**

Federal Grants Fund - This fund is used to account for the Federal moneys that are passed through the State Department of Public Instruction to the School.

Club and Activities Fund - This fund is used to account for the funds raised and earned by the various clubs and activities, including any athletic teams, that are part of the School.

The Cardinal Charter School, North Carolina  
**Non-Major Governmental Funds**  
**Combining Balance Sheet**  
as of June 30, 2009

	<u>Special Revenue Funds</u>		
	<u>Federal Grants Fund</u>	<u>Club and Activities Fund</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ 1,015	\$ 1,015
Due from other governments	4,000	-	4,000
Total assets	<u>\$ 4,000</u>	<u>\$ 1,015</u>	<u>\$ 5,015</u>
 <b>Liabilities and Fund Balances</b>			
Liabilities:			
Accrued salaries and wages payable	\$ 3,696	\$ -	\$ 3,696
Deferred revenue	304	-	304
Total liabilities	<u>4,000</u>	<u>-</u>	<u>4,000</u>
Fund balances-unreserved	-	1,015	1,015
Total liabilities and fund equity	<u>\$ 4,000</u>	<u>\$ 1,015</u>	<u>\$ 5,015</u>

The Cardinal Charter School, North Carolina  
**Non-Major Governmental Funds**  
**Combining Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
For the Fiscal Year Ended June 30, 2009

	Special Revenue Funds		Totals
	Federal Grants Fund	Club and Activities Fund	
Revenues:			
U.S. Government:			
Title I, Grant to Local Education Agencies - educationally deprived	\$ 17,412	\$ -	\$ 17,412
Title VI - Innovative education program	10,158	-	10,158
Other U.S. government	1,450	-	1,450
Total	<u>29,020</u>	<u>-</u>	<u>29,020</u>
Donations	-	725	725
Other	-	766	766
Total	<u>-</u>	<u>1,491</u>	<u>1,491</u>
Total revenues	<u>29,020</u>	<u>1,491</u>	<u>30,511</u>
Expenditures:			
Current:			
Instructional services:			
Regular curricular services	12,982	-	12,982
Special populations services	11,281	-	11,281
Other	1,289	-	1,289
Total	<u>25,552</u>	<u>-</u>	<u>25,552</u>
System-wide support services:			
Support and development services	1,015	-	1,015
Special population support and development services	983	-	983
Operational support	321	-	321
Financial and human resource services	57	-	57
Club and activity expenditures	-	1,038	1,038
Total	<u>2,376</u>	<u>1,038</u>	<u>3,414</u>
Non-programmed charges:			
Other	1,092	-	1,092
Total	<u>1,092</u>	<u>-</u>	<u>1,092</u>
Total expenditures	<u>29,020</u>	<u>1,038</u>	<u>30,058</u>
Revenues over expenditures	<u>-</u>	<u>453</u>	<u>453</u>
Fund balance-beginning	-	562	562
Fund balance-ending	<u>\$ -</u>	<u>\$ 1,015</u>	<u>\$ 1,015</u>

The Cardinal Charter School, North Carolina  
**All Fund Types**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Favorable (Unfavorable) Variance
<b>Revenues:</b>			
State of North Carolina	\$ 373,489	\$ 364,636	\$ (8,853)
Board(s) of Education:			
Carolina County	74,000	75,000	1,000
Dogwood County	42,000	43,750	1,750
Old Pine County	6,000	6,250	250
U.S. Government	58,707	56,961	(1,746)
Fines and forfeitures	3,200	3,346	146
Donations	6,800	7,725	925
Others	11,901	12,741	840
Operating revenues, food sales	49,957	50,223	266
Child care fees	8,984	18,446	9,462
Total	<u>635,038</u>	<u>639,078</u>	<u>4,040</u>
<b>Expenditures:</b>			
<b>Current:</b>			
<b>Instructional programs:</b>			
Regular curricular services	-	223,279	-
Special populations services	-	187,988	-
Other	-	1,617	-
Total instructional programs	<u>376,108</u>	<u>412,884</u>	<u>(36,776)</u>
<b>Support services:</b>			
Support and development services	-	48,205	-
Operational support	-	1,495	-
Financial and human resource services	-	23,137	-
Total support services	<u>119,961</u>	<u>72,837</u>	<u>47,124</u>
<b>Non-programmed charges:</b>			
Other	-	5,685	-
Total non-programmed charges	<u>8,279</u>	<u>5,685</u>	<u>2,594</u>
<b>Food service expenditures:</b>			
Food purchases	46,101	45,899	-
Salaries and benefits	7,284	7,216	-
Materials and supplies	232	153	-
Contracted services	20,386	20,326	-
Other	84	82	-
Total food service	<u>74,087</u>	<u>73,676</u>	<u>411</u>

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The Cardinal Charter School, North Carolina  
**All Fund Types**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Favorable (Unfavorable) Variance
Child care expenditures			
Salaries and benefits	11,273	10,900	373
Materials and supplies	500	517	(17)
Contracted services	634	1,093	(459)
Total child care	<u>12,407</u>	<u>12,510</u>	<u>(103)</u>
Capital outlay	<u>475,506</u>	<u>418,114</u>	<u>57,392</u>
Debt service:			
Principal	37,939	31,439	6,500
Interest and other charges	6,061	5,561	500
Total debt service	<u>44,000</u>	<u>37,000</u>	<u>7,000</u>
Total expenditures	<u>1,110,348</u>	<u>1,032,706</u>	<u>77,642</u>
Other financing sources (uses):			
Transfers out	(10,000)	(10,000)	-
Transfers in	10,000	10,000	-
Federal reimbursements	49,510	46,351	(3,159)
Capital lease obligations issued	400,000	400,000	-
Note payable issued	25,000	25,000	-
Total other financing sources and (uses)	<u>474,510</u>	<u>471,351</u>	<u>(3,159)</u>
Capital contributions	<u>800</u>	<u>934</u>	<u>134</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>78,657</u>	<u>\$ 78,657</u>

**Note to Preparer:** If the school adopts a unit-wide budget, the financial statements will present the combined budget as shown here. If the school adopts separate budgets for each fund, use the individual budget-actual statements as shown in subsequent schedules.

The Cardinal Charter School, North Carolina  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Favorable (Unfavorable) Variance
Revenues:			
State of North Carolina	\$ 17,000	\$ 17,500	\$ 500
Board(s) of Education:			
Carolina County	74,000	75,000	1,000
Dogwood County	42,000	43,750	1,750
Old Pine County	6,000	6,250	250
U.S. Government	27,000	27,941	941
Donations	6,800	7,000	200
Fines and forfeitures	3,200	3,346	146
Other	11,901	11,975	74
Total	<u>187,901</u>	<u>192,762</u>	<u>4,861</u>
Expenditures:			
Current:			
Instructional services:			
Regular curricular services	-	50,024	-
Special populations services	-	10,172	-
Total instructional programs	<u>60,900</u>	<u>60,196</u>	<u>704</u>
System-wide support services:			
Support and development services	-	37,374	-
Financial and human resource services	-	22,068	-
Total support services	<u>60,252</u>	<u>59,442</u>	<u>810</u>
Non-programmed charges:			
Other	-	4,574	-
Total non-programmed charges	<u>5,000</u>	<u>4,574</u>	<u>426</u>
Capital outlay	<u>445,749</u>	<u>409,000</u>	<u>36,749</u>
Debt service:			
Principal	34,939	31,439	3,500
Interest and other charges	6,061	5,561	500
Total debt service	<u>41,000</u>	<u>37,000</u>	<u>4,000</u>
Total expenditures	<u>612,901</u>	<u>570,212</u>	<u>42,689</u>

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The Cardinal Charter School, North Carolina  
**General Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
 For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Favorable (Unfavorable) Variance
Other financing sources:			
Capital lease obligations issued	400,000	400,000	-
Note payable issued	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Excess of revenue over expenditures	<u>\$ -</u>	47,550	<u>47,550</u>
Fund balance-beginning		15,034	
Fund balance-ending		<u>\$ 62,584</u>	

**Note to Preparer:** Schools that adopt their budgets on a fund by fund basis should use the presentation illustrated here and on the subsequent budget schedules for the State Public School Fund and Federal Grants Fund. Schools that adopt a unit-wide budget should use the presentation on the "Govt-Wide Budget Actual" schedule that precedes this schedule.

The Cardinal Charter School, North Carolina  
**State Public School Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
State of North Carolina	\$ 356,489	\$ 347,136	\$ (9,353)
Expenditures:			
Current:			
Instructional services:			
Regular curricular services	-	160,273	-
Special populations services	-	166,535	-
Other	-	328	-
Total instructional programs	<u>289,261</u>	<u>327,136</u>	<u>(37,875)</u>
System-wide support services			
Support and development services	-	8,778	-
Special population support and development services	-	512	-
Financial and human resource services	-	691	-
Total supporting services	<u>57,209</u>	<u>9,981</u>	<u>47,228</u>
Non-programmed charges	<u>19</u>	<u>19</u>	<u>-</u>
Total expenditures	<u>346,489</u>	<u>337,136</u>	<u>9,353</u>
Revenues over expenditures	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Other financing uses:			
Transfer out:			
Enterprise Fund	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Revenues over expenditures and other uses	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance-beginning		-	
Fund balance-ending		<u>\$ -</u>	

The Cardinal Charter School, North Carolina  
**Federal Grants Fund**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
U. S. Government	\$ 31,707	\$ 29,020	\$ (2,687)
Expenditures:			
Instructional services:			
Regular curricular services		14,998	
Special populations services		10,225	
Other		329	
Total instructional programs	<u>25,947</u>	<u>25,552</u>	<u>395</u>
System-wide support services:			
Support and development services		2,376	
Special population support and development services		-	
Total supporting services	<u>2,500</u>	<u>2,376</u>	<u>124</u>
Nonprogrammed charges	<u>3,260</u>	<u>1,092</u>	<u>2,168</u>
Total expenditures	<u>31,707</u>	<u>29,020</u>	<u>2,687</u>
Revenues over expenditures	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance-beginning		-	
Fund balance-ending		<u>\$ -</u>	

The Cardinal Charter School  
**School Food Service Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Operating revenues, food sales	\$ 49,957	\$ 50,223	\$ 266
Operating expenditures:			
Food purchase	46,101	45,899	-
Salaries and benefits	10,284	10,216	-
Materials and supplies	232	153	-
Contracted services	24,030	23,970	-
Other	84	82	-
Total operating expenditures	<u>80,731</u>	<u>80,320</u>	411
Capital outlay	28,736	8,287	20,449
Total expenditures	<u>109,467</u>	<u>88,607</u>	<u>20,860</u>
Revenues (under) expenditures	<u>(59,510)</u>	<u>(38,384)</u>	<u>21,126</u>
Other financing sources:			
Federal reimbursements	49,510	46,351	(3,159)
Transfers in	10,000	10,000	-
Total other financing sources	<u>59,510</u>	<u>56,351</u>	<u>(3,159)</u>
Excess of revenues and other sources over expenditures	<u>\$ -</u>	17,967	<u>\$17,967</u>
Reconciliation of modified accrual to full accrual basis:			
Reconciling items:			
Indirect costs		(113)	
Depreciation		(950)	
Capital outlay		8,287	
Increase in accrued salaries		(1,643)	
Change in net assets (full accrual)		<u>\$ 23,548</u>	

The Cardinal Charter School  
**Child Care Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
For the Fiscal Year Ended June 30, 2009

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Child care fees	\$ 12,628	\$ 18,446	\$ 5,818
Expenditures:			
Salaries and benefits	11,273	11,727	(454)
Materials and supplies	500	517	(17)
Contracted services	634	1,093	(459)
Capital outlay:			
Equipment	1,021	827	194
Total expenditures	<u>13,428</u>	<u>14,164</u>	<u>(736)</u>
Revenues over expenditures	(800)	4,282	5,082
Capital contribution	<u>800</u>	<u>934</u>	<u>134</u>
Revenues and other sources over expenditures	<u>\$ -</u>	5,216	<u>\$ 5,216</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		827	
Indirect costs		(144)	
Depreciation		(773)	
Change in net assets		<u>\$ 5,126</u>	

## SINGLE AUDIT SECTION

**Note to preparer:** A complete set of illustrative single audit reports can be found in Section 35-B, Illustrative Financial Statements for a County in North Carolina, in this manual.

Also, see Section 35-E for illustrations of Single Audit reports and modifications thereto.