

Financial Reporting Checklist for North Carolina Local Governments Charter Schools

The checklist below is provided as a supplement to other audit programs and checklists that already address compliance with generally accepted accounting principles or federal programs. This checklist addresses issues within the context of the North Carolina Local Government Budget and Fiscal Control Act (LGBFCA) that are *specific* to local government audits in North Carolina and the presentation of the audited financial statements. Also, many of the following items will be used in compiling comparative statistical data reports, which will be published statewide in the spring, following the receipt of the audits. Other audit procedures are included based upon prior years' audit reviews results. Many of the steps and procedures below are interrelated and may be done in conjunction with other audit procedures. Please refer to the Audit Manual web-site on the NC Department State Treasurer's web-site (https://www.nctreasurer.com/slglfm/audit_acct/Pages/Audit-Manual.aspx) for an audit program focusing on the auditee's compliance with the LGBFCA and internal control environment. *Please read the suggested procedures before beginning the audit work.* Note that the LGBFCA is applicable to all units of local government and public authorities in North Carolina. References to "the unit" or "the local government" are not meant to, and do not, exclude public authorities, or auditors of public authorities, from using the following suggested audit procedures, as appropriate. This checklist is not intended to be all-inclusive; professional judgment should be used in determining the extent of tests and the use of procedures not included herein. A full understanding of the LGBFCA is essential to a thorough audit of a local government or public authority in North Carolina. A copy of the LGBFCA may be ordered from the Institute of Government. The General Statutes of North Carolina are also available on the web site of the North Carolina General Assembly, [NCGA General Statutes - Chapter 159](#). The auditor should use professional judgment if any results of these checklist items suggest that a statutory violation has occurred. The auditor should consult with the unit's legal representative to determine if a violation of North Carolina law has actually occurred.

Some terminology has been revised for current GASB Statements. Users should consider whether the suggested procedure is of benefit as they audit.

Charter School Audit Checklist			
	<i>Suggested Procedure / Checklist item</i>	<i>Performed By or NA</i>	<i>Workpaper Reference</i>
	Standard Auditor's Report		
	Does the report include Independent Auditors Report on the top of the first page? (AU-C 700, ¶.23). Is the report signed (stamped or manual signature), dated, and is the firm's city included? (AU-C 700, ¶.39,.41) It is preferred that the opinion is presented on the firm's letterhead.		
	If other auditor(s) audit a component and the group engagement partner does not want to assume responsibility for the work of the component auditor, is (are) other auditor(s) referenced in the auditor's responsibility paragraph and opinion paragraph? (AU-C 600, ¶.28)		
	If other auditor(s) is (are) referenced and the audit was performed using yellow book standards, is there a statement that the DCU(s), not audited by the group auditor and not subject to yellow book standards (ABC Boards and TDAs), was (were) not performed under yellow book standards? (AICPA GAS/A-133 AG ¶4.43).		
	Opinion paragraph includes applicable references for the following: unmodified opinion, opinion units (as listed in the first paragraph and presented in the financial statements) and cash flows (if cash flow statement is presented for enterprise fund(s)).		
	Is an Other Matters paragraph included for Required Supplementary Information presented for MD&A and any other statements that have RSI (Other Post Employment Benefit (OPEB))?		
	If an Other Matters paragraph for Supplementary Information is presented, does it properly reference the appropriate schedules? Most commonly referenced are combining and individual fund financial statements, budgetary schedules and schedule of expenditures of federal and State awards.		

	Report date & date of compliance reports are the same. If not, is there dual dating of the reports?		
	Management Discussion and Analysis (MD&A)		
	Is MD&A presented preceding the basic financial statements and does it contain all the required contents? (<i>GASB No. 34, ¶ 11</i>)		
	Do all schedules presented and references tie to the financial statements and applicable notes?		
	If comparative financial statements (basic financial statements) and RSI are presented for both years, are two years presented in the MD&A along with the prior year (three years total) presented? (If comparative data is provided for non-comparative financial statements, the three year presentation is not required). (<i>GASB No. 34, Implementation Guide Q8</i>)		
	Exhibits		
	Statement of Net Position		
	Verify that cash not available for operations of the fund(s) are classified as restricted cash and investments in the financial statements and are clearly described in the notes.		
	Verify that Internal balances net to zero between Governmental Activities and Business Activities, and tie to the fund statements. (<i>GASB No. 34, ¶ 58</i>)		
	Capital assets are separated between non-depreciable & depreciable. (<i>GASB No. 34 ¶ 20</i>)		
	Are deferred outflows and inflows of resources itemized? Deferred outflows or inflows of resources should include a name and amount either in the notes OR on the face of the applicable statements. (<i>GASB No. 63 ¶ 13</i>)		
	If the charter school participates in the TSERS plan, Do the numbers appearing in the financial statements agree to the data tables provided by DST? Net pension asset or liability? Deferred outflows and inflows of resources?		
	If the charter school participates in the TSERS plan, have the net pension asset or liability, deferrals, or pension expense been allocated among all relevant funds?		
	Are pension deferrals properly itemized on the face of the financial statements or in the notes to the statements?		
	Are Prepaid cash receipts properly classified as liabilities or deferred inflows of resources?		
	Verify that all references to “deferred revenues” are replaced by “unavailable revenues”, “deferred inflows of resources” or another appropriate term as an alternative. <i>GASB 65</i>		
	The equity section of the Statement of Net Position should reflect three components: Net investment in capital assets, Restricted (distinguishing between major categories of restrictions) and Unrestricted.		
	Is the net investment in capital assets calculation reasonably correct? The calculation includes any capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributed to the capital assets. Any significant unspent debt proceeds at year end related to the capital assets should not be included in the calculation of net investment in capital assets. (<i>GASB No. 63 ¶ 9</i>)		
	Verify no negative cash is shown in any fund. If a unit pools cash into one bank account and one fund is in a deficit cash position, a “due to” amount should be recorded in the appropriate fund and a “due from” should be recorded in the fund that is supporting the deficit fund. If a specific bank account is overdrawn, a bank overdraft liability should be shown in both the fund and government-wide financial statements rather than a negative cash balance. <i>AICPA's Audit and Accounting Guide State and Local Governments 5.28 (March 2013)</i>		

	Statement of Activities		
	Does the statement present activities accounted for in governmental funds by function and are those activities accounted for in the enterprise funds by different identifiable activities, except those reported as special or extraordinary? (<i>GASB 37 ¶ 10</i>)		
	Is interest on general long term liabilities that are not considered direct expense, reported on a separate line? (<i>GASB 34, ¶ 46</i>)		
	If the charter school participates in the TSERS plan, have the net pension asset or liability, deferrals, or pension expense been allocated among all relevant funds?		
	Ensure transfers are shown separately & net to zero.		
	Special and/or Extraordinary items are properly disclosed and agree to the notes to the financial statements.		
	Do the amounts reported as ending balances for net position tie to the amounts reported on the Statement of Net Position? Do beginning balances reported tie to the amounts reported on the prior year financial statements?		
	If there is a Prior Period Adjustment, is the Prior period adjustment described in the notes to the financial statements?		
	Fund Financial Statements		
	Governmental Fund – Balance Sheet		
	Major funds should be presented individually and consistently on the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance.		
	The non-major funds should be labeled as such and presented in the aggregate on the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance.		
	Verify that Unearned revenues (prepaid cash receipts) from exchange transactions are classified as liabilities and that unearned revenues from non-exchange transactions are shown as deferred inflows of resources. <i>GASBS 65 ¶53, 67</i>		
	Verify that all references to “deferred revenues” are replaced by “unavailable revenues”, “deferred inflows of resources” or another appropriate term as an alternative. <i>GASB 65</i>		
	Are Prepaid cash receipts properly classified as liabilities or deferred inflows of resources?		
	Because charter schools in the state are <u>not subject to</u> G.S. 115C-425(a), no reserve by state statute amount should be calculated.		
	Verify that only the General Fund has a positive unassigned fund balance. It may be necessary to report a negative fund balance for other governmental funds. <i>GASBS 54 ¶17</i>		
	Verify that appropriate fund balance classifications are used: non-spendable, restricted, committed, assigned, and unassigned. <i>GASBS 54 ¶6-19</i>		
	Verify that governmental fund inventories and prepaid assets are shown as a non-spendable component of fund balance on the balance sheet <i>GASB 54, ¶6</i>		
	Does the reconciliation of the total fund balance of governmental funds to the statement of net position of governmental activities appear reasonable?		
	Governmental Fund – Statement of Revenues, Expenditures, and Changes in Fund Balance		
	Verify funds reported as major and non-major on the balance sheet are also reported accordingly in the Statement of Revenues, Expenditures, and Changes in Fund Balance.		
	Are revenues reported by major source and expenditures by function?		
	Verify that non-departmental or miscellaneous expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balance do not exceed 5% of total expenditures.		
	Verify that the transfers between the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds, and the Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds are equal.		

	Do the amounts reported as ending balances on the fund balance sheet tie to the amounts reported on Statement of Revenues, Expenditures, and Changes in Fund Balance? Do beginning balances reported tie to the amounts reported on the prior year financial statements?		
	Does the reconciliation of the governmental activities in the statement of activities to the total changes in net position of governmental activities appear reasonable?		
	Activities of a Special Revenue Fund that does not meet the definition of a Special Revenue Fund for GASB 54 purposes should be consolidated into the General Fund. <i>GASB 54 ¶ 30-31</i>		
	Proprietary Funds – Statement of Net Position/Statement of Revenues, Expenditures, and Net Position		
	Major funds should be presented individually and consistently on the Statement of Net Position, the Statement of Revenues, Expenditures, and Statement of Net Position, and Statement of Cash Flows.		
	The non-major funds should be labeled as such and presented in the aggregate on the Statement of Net Position, the Statement of Revenues, Expenditures, and Statement of Net Position, and Statement of Cash Flows.		
	Restricted cash is separately reported from unrestricted cash and is clearly described in the notes.		
	If the charter school participates in the TSERS plan, Do the numbers appearing in the financial statements agree to the data tables provided by DST? Net pension asset or liability? Deferred outflows and inflows of resources?		
	If the charter school participates in the TSERS plan, have the net pension asset or liability, deferrals, or pension expense been allocated among all relevant funds?		
	Are pension deferrals properly itemized on the face of the financial statements or in the notes to the statements?		
	All references to “deferred revenues” should be replaced by “unavailable revenues”, “deferred inflows of resources” or another appropriate term as an alternative. <i>GASB No. 65</i>		
	Are Prepaid cash receipts properly classified as liabilities or deferred inflows of resources?		
	Do the amounts reported as ending total net position tie to the amounts reported on Statement of Net Position? Do beginning balances reported tie to the amounts reported on the prior year financial statements?		
	Liabilities payable from restricted assets should be properly identified on the Statement of Net Position.		
	Proprietary Funds – Statement of Cash Flows		
	Is the direct method used to present cash flows from operating activities, which reports major classes of gross cash receipts and gross cash payments and their combined sum?		
	Verify on the statement of cash flows that changes in due to / due from are presented as non-capital financing and not as part of the reconciliation to “cash flows from operations”. <i>GASB 9</i>		
	Do ending cash and cash equivalents tie to the related fund statements? Does beginning cash tie to prior year statements? Do cash transfers tie to related fund statements?		
	Does the reconciliation of operating income to net cash provided by operations appear reasonable? Does the net cash provided by operations in the reconciliation section tie to the cash flows from operating activities section?		
	Does Operating Income on the Reconciliation of operating income tie to Operating Income on the Statement of Revenues, Expenses and Changes in Fund New Position?		
	Statement of Fiduciary – Net Position and Changes in Net Position		
	Verify a separate column is presented for each fiduciary type.		
	Same fund type is presented among both fiduciary statements.		
	Both Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position are included in the financial statements and ending net Position between both		

	statements agree.		
	Verify that pension trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit plans, defined contribution plans, other postemployment benefit plans, and other employee benefit plans. <i>GASB 34 ¶70</i>		
	Verify that private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. <i>GASB 34 ¶72</i>		
	Units of government with pension trust funds and with irrevocable trusts for other employee benefits must include fiduciary statements in the basic financial statements. Monies set aside for other employee benefits but not held in irrevocable trusts should be reported as a component of fund balance or in an internal service fund. <i>GASB 34 ¶ 108-109.</i>		
	Trusts have contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable, pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms, and pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members. <i>GASB 68 ¶ 4 (a-c)</i>		
	Notes to the Financial Statements		
	Note Disclosures: Summary of Significant Accounting Policies		
	Basis of Presentation, Basis of Accounting: Verify that descriptions of the major funds and the fiduciary funds are part of the notes and agree with the fund statements. <i>GASBS 38 ¶6</i>		
	Is there a budgetary note explaining the budgetary responsibility, the basis of accounting used in budgetary reporting, and other budgetary policies or legal requirements?		
	Note Disclosures: Statutory and Compliance with Laws, Rules, and Regulations		
	Verify that material violations with legal and contractual provisions or deficit fund balance/net position in individual fund that is not visible on the face of the statement of financial position are disclosed in the stewardship note. <i>Note that the LGC illustrative statements disclose budget violations separately from other violations. Because GAAP requires disclosures of any spending violations of the legally adopted budget, materiality should not be consideration for this disclosure.</i>		
	If the special revenue fund is advancing State or federal money to other funds through the use of “due to” and “due from” transactions for routine operational needs, verify that a statutory violation has been disclosed. Based on individual situations, materiality, and the level of audit done, it is possible that a corrective action plan may be required to be included with the compliance reports.		
	If the Charter School has incurred losses in excess of insurance coverage, verify that this is disclosed in the risk management note.		
	A Conflict of Interest policy is required for Charter Schools by State Board Policy #EEO-U-006 – “Policy for Charter Schools on Financial and Governance Noncompliance.” Verify that a conflict of interest policy has been adopted.		
	Verify that the charter school governing board and officials have followed their own policy. If the board has not followed its own policy, disclose this as appropriate based on professional judgment. <i>Because charter schools must be sponsored by a non-profit corporation, related party transactions are not unusual. Auditors should consider inquiries of management and testing of transactions to determine if any related party transactions have occurred.</i>		

	<p>Confirm that the School meets the requirements under <i>G.S. 115C-238.29F(e)(1:)</i></p> <ul style="list-style-type: none"> • at least 75% of teachers to hold teacher certificates in grades kindergarten through five; • at least 50% of teachers to hold teacher certificates in grades six through eight; • at least 50% of teachers to hold teacher certificates in grades nine through twelve. 		
	Note Disclosures: Detailed notes on all activities and funds		
	Verify that government-wide cash and investments plus any cash and investments carried in fiduciary funds materially equal the cash and investments disclosed in the Deposits and Investments notes. Deposit and Investment disclosures should comply with <i>GASB 40</i> .		
	Verify that the investment note discloses interest rate risk, credit risk, custodial credit risk, and concentration of credit risk. If the unit's only investment is with the North Carolina Capital Management Trust Cash Portfolio, look for a statement that states "The unit has no policy regarding credit risk". <i>GASB 40</i>		
	Are material receivables described in the notes or on the face of the statements? Do they tie to the Statement of Net Position and Balance Sheet? If receivables are presented in aggregate in the financial statements, there must be detailed presentation in the note disclosures.		
	Summary of changes in capital assets including intangible assets for both Governmental Activities & Business-type Activities are disclosed.		
	Does the schedule of capital assets show the beginning and end of year balances, with accumulated depreciation presented separately from historical costs? The capital acquisitions, sales and other dispositions, and current period depreciation expense, with the amounts charged to each of the functions in the statement of activities?		
	Do the notes disclose the method or methods used to compute depreciation for each major class?		
	Are material payables described in the notes or on the face of the statements? Do they tie to the Statement of Net Position and Balance Sheet?		
	Verify that the unit has an appropriate pension footnote. Note that charter schools may participate in the NC Teachers' and State Employees' Retirement System or a school may opt to provide a private pension arrangement. Professional judgment should be used in determining which notes and information to include. If the Charter School participates in the Teachers' and State Employees' Retirement System, include the School's contribution for the most current three years.		
	If the Charter School has a Defined Contribution Plan, the following information is required to be disclosed: Plan description, summary of significant accounting policies, and concentration credit risk (<i>GASB 45 ¶31</i>).		
	If the Charter School has OPEB, verify that the disclosures comply with <i>GASB 43</i> and <i>45</i> . Refer to LGC Memorandum #1107 for sample disclosures.		
	If the charter school participates in the TSERS plan, is the note disclosure for each pension plan complete? Includes all relevant note disclosures for each plan outlined in <i>GASB Statement 68</i> , paragraphs 74-80		
	Long Term Obligation Activity Note: Are liabilities divided between governmental activities and business-type activities and then separated between types of debt (bonds, notes, installment purchases, leases payables, compensated absences, claims and judgments, OPEB, etc.), presentation of beginning and end of year balances (regardless of whether prior-year data are presented on the face of the government-wide financial statements), increases and decreases (separately presented), and current portion of each item (due in one year)? <i>GASB 34 ¶ 119</i> .		
	Does the entity disclose the following details of debt service requirements to maturity: Principal and interest requirements to maturity presented separately, for each of the five subsequent years, and in five year increments thereafter? <i>GASB 38 ¶ 10</i> .		
	Verify that unavailable revenues, deferred inflows of resources and deferred outflows of resources are itemized in the financial statements and clearly disclosed in the notes to the		

	financial statements. <i>GASB 63 ¶13</i>		
	If the charter school has incurred losses in excess of insurance coverage, verify that this is disclosed in the risk management note.		
	Interfund balances/payables (Due to) and receivables (Due from) should be disclosed in the notes, including the nature of the transaction(s) and the long-term portion, if any. <i>GASBS 38 ¶ 14 and Memo #981</i>		
	Verify that a schedule of interfund transfers is presented as part of the notes, including the amounts transferred between funds and a general description of the principal purpose of each transfer. <i>GASBS 38 ¶ 15 and Memo #981</i>		
	Verify transfers are properly classified and are not actually cost allocations. Interfund services provided and used must be reported as revenues or expenditures in the proper funds with unpaid amounts reported as interfund receivables (due from) or interfund payables (due to). Ex: administrative costs from one fund to another. <i>Memo 2014-07 Proper accounting and treatment for Cost Allocations</i> discusses detail on this. https://www.nctreasurer.com/slg/Memos/2014-07.pdf <i>GASB 34 ¶112a(2)</i>		
	For governments that use encumbrance accounting and have significant encumbrances at year end, verify this is disclosed in the notes to the financial statements by major fund and non-major funds in the aggregate. <i>GASBS 54 ¶24</i>		
	Are construction or other significant commitments, claims and judgments, and contingencies disclosed? Debt that a unit is secondary liable for should be disclosed.		
	Are nonrecognizable subsequent events that occurred after the year end of the reporting period, but prior to the issuance of the financial statement disclosed in order for users understanding the financial statements? Examples of nonrecognizable events such as major uninsured loss, issuance of debt, creation of a new component unit, or major casualty loss due to a natural disaster. (GASB 56)		
	Are related party transactions disclosed and include the nature of the relationship, the description of the transaction, the dollar amount of the transaction, and any receivable/payable? (GASB 56)		
	If applicable, verify that jointly governed organizations, joint ventures, and related organizations are properly described.		
	Verify that material prior period adjustments (PPA) or restatements of fund balance or net position are presented in the statements and the notes when applicable and are included as a finding in the compliance reports if appropriate. <i>AU-C 265</i>		
	Required Supplementary Information and Schedules		
	Is RSI included for TSERS, Schedule of Proportionate Share of Net Pension Liability (Asset), Schedule of Contributions?		
	Supplementary Information and Schedules		
	If the unit has adopted an annual budget, a budget to actual comparison should be included. Because charter schools do not have a prescribed budget format, professional judgment should be used in determining the format that best shows the level of adoption and actual performance.		
	Check amounts and funds presented as individual statements and compare to the combining statements and see if total amounts agree.		
	Budgetary comparison statements that are presented for each fund presented ties to operating statement.		
	Verify that amounts received from counties and/or cities for local current expense and capital outlay are detailed in the statements. If the Charter School receives funding from a combination of counties and/or municipalities, verify that the respective amounts from each funding source are clearly identified in the supplemental schedules. If no budget to actual comparisons is presented, this information should be in the basic financial statements.		

	If <u>material</u> statutory or contract violations and/or significant deficient internal controls are included in a stewardship and compliance note, these items should also appear in the <u>Government Auditing Standards</u> report on compliance and internal control, if the Yellow Book auditing standards apply.		
	<i>Auditors should also consider that charter schools may lose their charter for financial mismanagement. This fact should be considered when evaluating the audit procedures to be done, the extent of testing to be performed, and any related party note disclosures to be made.</i>		
	Charter schools in North Carolina are subject to comparatively fewer laws, regulations, and operating guidelines than other local government units or public authorities. Verify that issues which would be statutory violations in other auditees are evaluated for management letter comments, referral to the audit committee, inclusion as significant deficiencies related to internal control, etc.		