**Notes to the Financial Statements**

**For the Year Ended June 30, 2021**

**I. Summary of Significant Accounting Policies**

The accounting policies of Cardinal Charter, Inc. (“Cardinal” or the “School”) conform to generally accepted accounting principles (“GAAP”) as applicable to governments. Charter schools are established by non-profit entities, such as Cardinal. Because of the authority of the State Board of Education (the “SBE”) to terminate, not renew or seek applicants to assume a charter on grounds set out in the North Carolina General Statutes at G.S. 115C‑218.95 with all net assets purchased with public funds reverting to a local education agency (G.S. 115C‑218.100), the charter schools in North Carolina follow the governmental reporting model as used by local education agencies.

**Note to Preparer**: The GASB **“Emergency Toolbox”** designed to help quickly identify the authoritative guidance that could be relevant to the impact of coronavirus on School current may be found [here](https://www.gasb.org/cs/Satellite?c=Page&cid=1176174469582&pagename=GASB%2FPage%2FGASB%2FSectionPage). North Carolina Local Government COVID-19 resources may be found [here](https://www.nctreasurer.com/local-government-covid-19-resources).

The laws related to charter schools have been recodified as NC General Statutes Chapter 115C, Article 14A (G.S. 115C‑218 through 115C‑218.115) and are available [here](https://www.ncga.state.nc.us/EnactedLegislation/Statutes/PDF/ByArticle/Chapter_115C/Article_14A.pdf).

This example is appropriate for a non-profit that sponsors only one charter school and substantially all of the activities of the non-profit relate to operation of the charter school.

For a non-profit sponsoring multiple charter schools, review the sample provided for Owl Charter, Inc.

The following is a summary of the more significant accounting policies.

A. Reporting Entity

Cardinal is a North Carolina non-profit corporation incorporated in October 2014. Pursuant to the provisions of the Charter School Act of 1996 as amended (the “Act”), Cardinal has been approved to operate Cardinal Charter School, a public school serving approximately 439 students. The School operates under an approved charter received from the SBE and applied for under the provisions of G.S. 115C-218.1. G.S. 115C‑218.6(b)(1) provides 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), and requires the financial statements to be prepared in accordance with GAAP. The current charter is effective until June 30, 20xx and may be renewed for subsequent periods of ten (10) years unless one of the conditions in G.S. 115C‑218.6(b) applies in which case the SBE may renew the charter for a shorter period or not renew the charter. Management believes that the charter will be renewed in the ordinary course of business.

Cardinal has been recognized by the Internal Revenue Service as exempt from Federal income taxation under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3).

**Note to Preparer:** The above language is suggested when the IRS has issued a determination letter recognizing the organization as tax-exempt. Adjust the language appropriately if the application for recognition of exemption from federal income taxation has been or will be filed but a determination letter has not been received.

B. Basis of Presentation

In accordance with GASB Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments (“GASB 34”), Cardinal is a special-purpose government that is engaged in governmental activities and is not a component unit of another government. Therefore, the financial statements are prepared in the same manner as general purpose governments.

*Government-wide Statements*: The statement of net position and the statement of activities display information about Cardinal, including the School. These statements include the financial activities of the overall entity. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of Cardinal. 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 Cardinal and for each function of Cardinal’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 Cardinal’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.

Cardinal reports the following major governmental funds:

*General Fund.* The General Fund is the general operating fund of Cardinal. 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 specific operating needs of the public-school system and is reported as a special revenue fund.

Cardinal reports the following major enterprise fund:

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

Cardinal reports two non-major governmental funds, the Federal Grants Fund and the Clubs and Activities Fund, and reports one non-major enterprise fund, the Childcare Fund.

**Note to Preparer:** In the situation presented here, the School does have administrative involvement per the criteria in GASBS 84 ¶11.c.(2); therefore, the activity would continue to be reported in the special revenue fund. Depending upon the policies and legal structure of a given charter school’s clubs and activities, the presentation of these activities for each school may be different. Implementation Guide No. 2019-2, *Fiduciary Activities* has numerous examples of how to apply GASBS 84 to reporting club and scholarship activities based on how each charter school’s policy. Refer to questions 3 and 4.28 in Implementation Guide 2019‑2, *Fiduciary Activities*, for more information. Also, see [Memo 2021-04](https://files.nc.gov/nctreasurer/documents/files/SLGFD/Memos/2021-04.pdf) for additional information.

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

D. Budgetary Data

Annual budgets are adopted for all funds, except for the chess, drama, and debate clubs and Cardinal athletics which are included in the Clubs and Activities Fund. 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 Cardinal’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 Cardinal at June 30, 2021. All appropriations lapse at year end.

**Note to Preparer:** 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 school-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, Deferred Outflows and Inflows of Resources, and Fund Equity

1. Deposits and Investments

All deposits of Cardinal are made in local banks, whose accounts are FDIC insured. Also, Cardinal may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

2. Cash and Cash Equivalents

Cardinal pools money from several funds to facilitate disbursement and investment and to maximize investment income. All cash and investments with original maturities of three months or less are considered cash and cash equivalents.

3. Inventories and Prepaid Items

The inventories of Cardinal are valued at cost, and they use 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 also 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

Cardinal's donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other capital assets are recorded at original cost. 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 Cardinal 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.

**Note to Preparer:** GASB Statement 72 requires that donations of specific capital assets during fiscal years beginning after June 15, 2015, be measured at acquisition value (market-based entry price). For more information on the acquisition value requirements for certain donated capital assets please refer to Paragraph 79 of GASB Statement No. 72.

Capital assets are depreciated over the following estimated useful lives:



5. Deferred outflows or inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Cardinal has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. Cardinal has one item that meets the criterion for this category: prepaid facilities rent in the General Fund.

6. 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 position.

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

7. 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. Cardinal 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 Cardinal 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 Cardinal has no obligation for accumulated sick leave until it is taken, no accrual for sick leave has been made.

8. Net Position and Fund Balance

*Net Position*. Net position in the government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents 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.

*Fund Balance*. In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

*Inventories* – that portion of fund balance that is not an available resource because it represents the year-end balance of inventories which are not spendable resources.

*Prepaid Items* – that portion of fund balance that is not an available resource because it represents the year-end balance of prepaid rent on the school facility which is not a spendable resource.

Restricted – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

**Note to Preparer:** Cardinal Charter, Inc. does not have an example of restricted or committed fund balance. Refer to the City of Dogwood or Carolina County Illustrative Statements for an example.

Restricted and Committed section of Fund Balance must be by purpose. The name of the restricting source is not a purpose. Example: “Restricted by grants” is not a purpose and should be renamed “Restricted for School Capital Outlay”.

Committed – The portion of fund balance that can only be used for specific purposes imposed by majority vote of Cardinal’s governing body (highest level of decision-making authority). Any changes or removal of the specific purpose requires majority action by the governing bodies that approved the original action.

Assigned – That amount of fund balance that Cardinal intends to use for specific purposes.

**Note to Preparer:** Schools must disclose the official that has authority to assign fund balance for a specific purpose and the policy of the governing body that established this authorization.

*Assigned for Clubs and Activities Fund* – Revenue sources restricted for expenditures for the various clubs and organizations, athletic events and various fund-raising activities for which they were collected.

Unassigned – The portion of fund balance that has not been assigned to another fund or restricted, committed or assigned to specific purposes within the General Fund.

Cardinal has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-board of education funds, board of education funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of Cardinal.

**Note to Preparer:** Schools should modify this language to reflect their own policies.

9. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between governmental funds’ total fund balance and governmental activities’ net position as reported in the government-wide statement of net position.

The net adjustment of $362,131 represents the amount that the net position of governmental activities exceeds the total fund balances of governmental funds and consists of several elements as follows:



F. Revenues, Expenditures, and Expenses

1. Funding

Cardinal is funded by the SBE 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‑218.105(a)).

Subject to certain limitations, funds allocated by the SBE may be used to enter into operational and financing leases for real property or mobile classroom units for use as school facilities for charter schools and may be used for payments on loans made to charter schools for facilities, equipment, or operations. (G.S. 115C‑218.105(b))

Additionally, Cardinal receives for each student an amount equal to the per pupil share of the local current expense fund of the local school administrative unit in which the child resides. (G.S. 115C‑218.105(c)). Amounts transferred that consist of revenue from supplemental taxes shall be transferred only to a charter school located in the district where the taxes are levied and the child resides.

For the fiscal year ended June 30, 2021, Cardinal received funding from the Boards of Education for Carolina County ($75,000), Dogwood County ($43,750), and Old Pine County ($6,250).

Furthermore, Cardinal has received donations of cash or equipment from private organizations. The cash has been used for the purchase of new equipment for Cardinal’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 the fund balance of the governmental funds and the change in the net position of governmental activities as reported on the government-wide statement of activities.

The net difference of $48,372 between the two amounts represents the amount that the change in fund balances of government funds exceeds the change in net position of governmental activities and consists of the following elements:



**II. Stewardship, Compliance, and Accountability**

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

1. Noncompliance with North Carolina General Statutes

Cardinal, in violation of G.S. 115C‑218.105(b), purchased a tract of land for $9,000 with funds provided by State Board of Education during the year ended June 30, 2021. It is Cardinal’s intention to keep the land for future school expansion. Accordingly, 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. A receivable from the General Fund and a liability to the State of North Carolina have been recorded in the State Public School Fund. (See the related Note III.C.)

**Note to preparer**: Significant instances of noncompliance with the General Statutes should 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 preceding example. The auditor should consider reporting issues normally disclosed in this section in the management letter.

2. Contractual Violations

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

B. Deficit Fund Balance or Net Position of Individual Funds

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

**III. Detail Notes on All Funds**

A. Assets

1. Deposits

At June 30, 2021, Cardinal 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. Cardinal does not have a deposit policy for custodial credit risk. Cardinal holds $100 in petty cash.

**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 should 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 of 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. See *Note III.A.1* of Carolina County for an example of a formal policy.

2. Capital Assets

Capital asset activity related to governmental activities for the year ended June 30, 2021 was as follows:



Depreciation expense charged to governmental functions for the year ended June 30, 2021 is summarized as follows:



Capital asset activity related to business-type activities for the year ended June 30, 2021 was as follows:



B. Liabilities

1. Pension Plan Obligations

a. Retirement Plan

Cardinal has adopted a tax deferred annuity retirement plan under Internal Revenue Code §403(b). The Cardinal Charter, Inc. Retirement Plan (“Retirement Plan”) is a defined contribution plan and is administered by Dogwood Pension Services, Inc. The Retirement Plan was effective July 1, 2010. The benefit terms are established or may be amended by the Board of Directors. All full-time employees who have reached age 21 are eligible to participate in the plan after one year of service to Cardinal. Employees who work at least 30 hours a week are considered full-time. Cardinal 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, 2021, all eligible employees of Cardinal were included in the Retirement Plan. Cardinal made all required contributions. For the year ended June 30, 2021, the pension cost was $2,438, with members contributing $3,961. No amounts were forfeited. The financial statements for the Retirement Plan are available by contacting Dogwood Pension Services, Inc. at 919‑555‑6868 or by writing to 555 Cardinal Avenue, Dogwood, NC 00000.

**Note to preparer**: For charter schools participating in the Teachers and State Employees Retirement System, 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. 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 Statements 68 and 73 for guidance on specific disclosure requirements.

2. Other Post Employment Benefit

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

Single-employer healthcare plan disclosures are also found in the Carolina County (partially funded plan) and in the City of Dogwood (unfunded plan) illustrative financial statements.

For charter schools providing their own other post-employment 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 plan offered, the eligibility requirements, and the expense to the school. See GASB Statements 74 and 75 for guidance on specific disclosure requirements.

3. Deferred Inflows of Resources

The balance in deferred inflows of resources at year-end is composed of the following:



4. Risk Management

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

As authorized by G.S. 115C‑218.90(a)(4), Cardinal also participates in the Teachers’ and State Employees’ Comprehensive Major Medical Plan (“Medical Plan”), a self-funded risk financing pool of the State administered by Blue Cross and Blue Shield of North Carolina. Through this plan, permanent full-time employees of the School are eligible to receive health care benefits. The School pays the full cost of coverage for employees enrolled in the Medical Plan.

Cardinal and the School carry 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. Cardinal carries flood insurance through the National Flood Insurance Plan (NFIP). Because Cardinal 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.

5. Claims and Judgments

At June 30, 2021, Cardinal was a defendant to various lawsuits. In the opinion of management and Cardinal’s attorney, the ultimate effect of these legal matters will not have a material adverse effect on Cardinal’s financial position.

6. Long-Term Obligations

**Note to Preparer:** Schools should be alert to any debt covenant violations including debt coverage ratio requirements, debt term modifications, payment extensions, defaults, etc. and include appropriate disclosures.

In addition to other requirements to disclose information related to debt in the notes, schools should disclose the information required by GASB Statement 88 and [Memo 2020-08](https://files.nc.gov/nctreasurer/documents/files/SLGFD/Memos/2019-08.pdf).

a. Note Payable

On May 16, 2020, the school entered into a direct borrowing from a bank for $25,000 plus interest at prime plus 1% evidenced by an unsecured note with a six-month term. The 2020 note was repaid in full plus interest on September 15, 2020. On March 18, 2021, the school entered into a direct borrowing from a bank for $25,000 plus interest at prime plus 1.5% evidenced by an unsecured note with a six-month term. The loans were obtained for working capital purposes during the summer months.

b. Capital Leases

Cardinal entered into various lease agreements for certain equipment. At the conclusion of each of the leases, ownership is transferred to Cardinal. 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.

Cardinal entered into two capital leases in July 2017 for school furnishings including desks and physical education equipment, as well as electronic equipment, including computers. Both capital leases were for four-year terms.

In January 2021, Cardinal entered into a capital lease in the amount of $400,000 for the school building. The lease is for a twenty-year term, requiring annual payments from $21,296 to $25,056.

At June 30, 2021, assets recorded under the capital leases were as follows:



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, 2021:



**Note to Preparer:** Schools should review leases and other contracts to identify items that require reporting under GASBS 87. Memo [2021-05](https://files.nc.gov/nctreasurer/documents/files/SLGFD/Memos/2021-05.pdf) offers guidance on the policy and planning aspects associated with the lease guidance and Memo [2021-09](https://files.nc.gov/nctreasurer/documents/files/SLGFD/Memos/2021-09.pdf) and related worksheets focuses on the implementation of the statement from both a lessee’s and a lessor’s perspective. Development tools have been developed to assist local governments post various transactions to the general ledger.

c. Changes in General Long-Term Obligations

The following is a summary of changes in Cardinal’s long-term obligations for the fiscal year ended June 30, 2021:



C. Interfund Balances and Activity

The composition of interfund balances as of June 30, 2021, is as follows:



Transfers to and from other funds for the year ended June 30, 2021 include the following:



**Note to preparer:** The purpose of each transfer must be disclosed.

Understanding interfund balances plays a significant role in the determination of fiscal health. The justification and a repayment schedule should be disclosed for balances that are not expected to be repaid within the current fiscal year. 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 between funds by individual major fund, non-major governmental funds in the aggregate, non-major 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 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.

**Note to preparer:** Also, the due to and the due from in this case illustrates 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 using due to and due from transactions for routine operational needs. If such advances are made, they should be disclosed as a violation of General Statutes.

D. Fund Balance

Cardinal has a revenue spending policy that provides policy for programs with multiple revenue sources. The Finance Officer will use resources according to the following hierarchy: Federal funds, State funds, local non-Cardinal funds, and Cardinal funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first followed in order by committed fund balance, assigned fund balance, and unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of Cardinal.

**Note to Preparer:** Schools should modify the revenue spending policy description to reflect their specific policies.

The following schedule provides management and citizens with information on the portion fund balance of the General Fund that is available for appropriation as of June 30, 2021.



Encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year end. The following schedule provides a summary of encumbrances outstanding as of June 30, 2021.



**Note to Preparer:** The school is also required to disclose dollar amount of encumbrances for all major funds and non-major funds in aggregate. Encumbrances under GASB Statement No. 54 will not be shown on the face of the statement; however, amounts of significant encumbrances must be disclosed for each major fund and in aggregate for non-major funds.

E. Net Investment in Capital Assets

**Note to preparer:** If the net investment in capital assets amount is not easily determinable based on the amounts presented in the basic financial statements, please include a calculation. It may be submitted in a document separate from the audit submission.

**IV. Related Party Transactions**

Mr. Paul Smith, a member of the governing board of Cardinal, also serves as principal of the School. For the fiscal year, Mr. Smith was paid a salary of $25,200 from the General Fund and $19,800 from the State Public School Fund.

**Note to preparer:** Under GAAP, significant commitments, agreements, contracts and transactions with officials and employees of the school and with any related organizations should be fully disclosed.

These GAAP disclosures should include the nature of the relationship, a description and the dollar amount of any transactions, 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 any of the following: loans, leases of equipment or facilities, other types of service arrangements, purchase or sale of capital assets, etc.

**V. Summary Disclosure of Significant Contingencies**

Federal and State Assisted Programs

Cardinal 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.

**VI. Significant Effects of Subsequent Events**

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