**Notes to the Financial Statements**

**For the Year Ended June 30, 2020**

**I. Summary of Significant Accounting Policies**

The accounting policies of Owl Charter, Inc. (“Owl”) conform to generally accepted accounting principles (“GAAP”) as applicable to governments. Charter schools are established by non-profit entities, such as Owl. 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 is the charter holder for multiple charter schools. The preparer should give close attention to ensure that the references to the non-profit (Owl) or to the schools are appropriate for the specific organization structure.

For a non-profit that is the charter holder of one school, see the example provided for Cardinal Charter, Inc.

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

A.The Reporting Entity

Owl is a North Carolina non-profit corporation incorporated in October 2013. Pursuant to the provisions of Charter School Act of 1996 as amended (the “Act”), Owl, as the charter holder, has been approved to operate three charter schools: Owl Charter School – Doceo (“Owl - Doceo”), Owl Charter School – Erudio (“Owl - Erudio”) and Owl Charter School – Discite (“Owl - Discite”) (collectively, the “Schools”). The schools are public schools with Owl - Doceo serving approximately 250 students, Owl - Erudio serving 350 and Owl - Discite serving 175. Each school operates under a separate charter agreement applied for under the provisions of North Carolina General Statute (hereafter “G.S.”) 115C‑218.1 and authorized by the State Board of Education (“SBE”). The SBE has the authority to terminate, not renew or seek applicants to assume a charter on grounds sent out 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 current charters are effective until June 30, 2021 for Owl - Doceo, June 30, 2022 for Owl - Erudio and June 30, 2024 for Owl - Discite. Charters 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 charters will be renewed in the ordinary course of business.

Owl 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

Owl’s financial statements have been prepared in conformity with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board and required by G.S. 115C‑447 of The School Budget and Fiscal Control Act (the “SBFCA”). G.S. 115C‑218.6(b)(1) provides that a charter school shall be subject to the audit requirements adopted by the SBE which include the audit requirements established by G.S. 115C‑447.

In accordance with GASB Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments (“GASB 34”), Owl 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 Owl. These statements include the financial activities of the overall government. Eliminations minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of Owl. 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 Owl and for each function of Owl’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 made in the governmental funds were 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 Owl’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.

Owl reports the following major governmental funds:

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

**Note to Preparer:** The General Fund is the primary operating fund for the nonprofit corporation, Owl Charter, Inc. There can be only one general fund. When the nonprofit is the charter holder for multiple charter schools, the primary operating fund for an individual school (Owl – Doceo, etc.) is a special revenue fund.

*Special Revenue Funds.* Owl – Doceo, Owl – Erudio and Owl – Discite Funds include appropriations from the county, the State Department of Public Instruction, the federal government and others. There are subfunds within each special revenue fund including:

*County and Other Subfund.* The County and Other Subfund includes appropriations from various counties and other support of Owl’s programs.

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

*Federal Grants Subfund*. The Federal Grants Subfund includes appropriations of federal grants received for specific operating or capital purposes.

*Student Activities Subfund*. The Student Activities Subfund includes revenue and expenditures related to various student extracurricular activities.

The Schools report the following major enterprise funds:

*Enterprise Funds.* Owl – Doceo, Owl – Erudio and Owl – Discite enterprise funds account for the school food service and childcare activities.

*School Food Service Subfund.* The School Food Service Subfund accounts for the food service programs within each of the schools.

*Childcare Subfund.* The Childcare Subfund accounts for the before and after school programs within each of the schools.

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 value given (or received) 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. Owl 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 schools fund 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 the Schools’ 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. 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 the School’s funds based on the adopted budgets and subsequent amendments. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budgets presented in the supplemental data represents the budget of the General Fund and budgets the various subfunds of the schools at June 30, 2020. 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 an annual budget is adopted by fund or for only some of a schools’ funds, the budget to actual statements should be prepared on a fund basis. If, however, Owl adopted a school-wide budget for each school, the budget to actual statement would reflect all revenues and expenditures as measured against the estimated revenue and appropriations for each school.

E. Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Fund Equity

1. Deposits and Investments

All deposits of Owl on behalf of the schools are made in local banks, whose accounts are FDIC insured. Also, Owl may establish time deposit accounts, money market accounts, and certificates of deposit.

2. Cash and Cash Equivalents

Owl 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 each school are valued at cost using the first-in, first-out (FIFO) flow assumption in determining cost. Inventories in the governmental funds 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

Owl'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.

**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.

It is the policy of Owl 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:



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. Owl 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. Owl has only one item that meets the criterion for this category - prepaid items 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. Owl 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 Owl 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 Owl 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 is 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 Fund Balance – 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 part 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 Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

**Notes to Preparer:** Examples of Restricted or Committed Fund Balance are not presented. Refer to the City of Dogwood or Carolina County Illustrative Statements for an example.

The 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” or “Restricted for Special Education Programs”.

Committed Fund Balance – The amount of fund balance that can only be used for specific purpose imposed by majority vote of Owl’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 Fund Balance – The portion of fund balance that Owl intends to use for specific purposes.

**Note to Preparer:** Unit of government must disclose who has authority to assign fund balance to a specific purpose and the policy by the governing body that established this authorization.

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

Unassigned Fund Balance – 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.

Owl 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 Owl.

**Note to Preparer:** This language must be modified to clearly reflect the policies of the charter school.

9. Reconciliation of Government-Wide and Fund Financial Statements

a. The governmental fund balance sheet includes a reconciliation between the total fund balance of the governmental funds and net position of the governmental activities as reported in the government-wide statement of net position. The net adjustment of $865,188 consists of several elements as follows:



b. The governmental fund statement of revenues, expenditures, and changes in fund balance is followed by a reconciliation between the change in governmental funds’ fund balance and the change in governmental activities’ net position as reported on the government-wide statement of activities. The net difference of $149,860 between the two amounts consists of the following elements:



F. Revenues, Expenditures, and Expenses

1. Funding

The schools are 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 Schools except for the allocation for children with special needs and (ii) an additional amount for each child attending the Schools 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, for each student who resides in the local administrative unit and attends one of the charter schools, that school receives an amount equal to the per pupil local current expense appropriation to the respective local school administrative unit for the fiscal year which is transferred by the appropriate local school administrative units. [G.S. 115C‑218.105(c)]. For the fiscal year ended June 30, 2020, the Schools received funding from the Boards of Education for Carolina County, Dogwood County, and Old Pine County.

Furthermore, Owl and the schools have received donations of cash and equipment from various private organizations. The cash has been used for the purchase of new equipment for the School’s facilities.

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

**Note to preparer**: Significant instances of noncompliance with the General Statutes should be disclosed in this section and should include a description of the 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. The auditor should consider reporting issues disclosed in this section in the management letter as well.

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

1. Noncompliance with North Carolina General Statutes

**Note to preparer:** Significant statutory violations must be disclosed in this section along with the corrective action plan. See Cardinal Charter, Inc. for a sample disclosure.

2. Contractual Violations

**Note to preparer:** Significant contractual violations of bond debt service covenants; of lease arrangements; or of other contractual agreements must be disclosed in this section along with the 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, 2020, Owl had deposits with banks and savings and loans with a carrying amount of $1,690,696. The bank balance with the financial institutions was $500,000, which was covered by federal depository insurance. Owl does not have a deposit policy for custodial credit risk. Each school has $100 in a petty cash fund.

**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 assets for governmental activities for the year ended June 30, 2020 was as follows:









Depreciation expense charged to governmental functions totaled $101,298 as follows:



Capital assets for business-type activities for the year ended June 30, 2020 was as follows:











B. Liabilities

1. Pension Plan Obligations

a. Retirement Plan

Owl has adopted a tax deferred annuity retirement plan under Internal Revenue Code section 403(b). The Owl 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, 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 the Schools. Employees who work at least 30 hours a week are considered full-time. Owl 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, 2020, all eligible employees of Owl were included in the plan. Owl made all required contributions. For the year ended June 30, 2020, the pension cost to Owl was $2,438, with members contributing $3,961. No amounts were forfeited. The financial statements for the 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 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. 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 was composed of the following:



4. Risk Management

Owl 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. Owl 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), Owl 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 Schools are eligible to receive health care benefits. The Schools pays the full cost of coverage for employees enrolled in the Medical Plan.

Owl 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. Owl carries flood insurance through the National Flood Insurance Plan (the “NFIP”) on certain structures. Because Owl - Erudio 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, it is eligible to purchase coverage of $500,000 per structure through the NFIP.

5. Claims and Judgments

At June 30, 2020, Owl - Discite was a defendant to various lawsuits. In the opinion of Owl’s and the School’s management and their respective attorneys, the ultimate effect of these legal matters will not have a material adverse effect on Owl’s or Owl -Discite’s financial position.

6. Long-Term Obligations

**Note to Preparer:** 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 2019-08](https://www.nctreasurer.com/slg/Memos/2019-08.pdf).

a. Note Payable

On May 31, 2019, Owl - Erudio obtained 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, 2018. On March 18, 2020, the school entered into a direct borrowing from a bank for $100,000 plus interest at prime plus 2.0% evidenced by an unsecured note with a six-month term. The loans were obtained to provide additional working capital during the summer months.

b. Capital Leases

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

Owl entered into two capital leases in July 2019 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 2020, Owl entered into a capital lease for the elementary school building in the amount of $650,000. The lease has a twenty-year term and requires annual payments from $44,250 to $52,056.

At June 30, 2020, 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, 2020:



c. Revenue Bond

In December 2018, Owl issued through a direct placement the School Facilities Revenue Bonds, Series 2018, (the “Revenue Bonds”) in the principal amount of $1,000,000. Principal payments are due annually on June 1 with semiannual interest payments due on December 1 and June 1, at an annual interest rate of 5.25%. The current principal amount outstanding is $906,923.

The future payments of the direct placement Revenue Bonds are as follows:



The future total principal and interest payments of the Revenue Bonds allocated to the individual schools are as follows:



Owl and the Schools were in compliance with the various covenants as to rates, fees, rentals and charges in Section 704 of the Bond Order authorizing the issuance of the Bonds. Section 704(a) of the Bond Order requires the debt service coverage ratio to be no less than 125%.

The debt service coverage ratio for the year ended June 30, 2020 is calculated as follows:



Owl has pledged future revenues, net of specified operating expenses, to repay the direct placement Bonds. Proceeds from the Bonds provided financing for a high school building and related equipment, various other capital improvements and a debt service reserve fund. The Bonds are payable solely from net revenues and are payable through 2043. The total debt outstanding, including leases, is expected to be repaid entirely, or almost entirely, with resources from the operation of the school. Annual principal and interest payments on the Bonds are expected to require less than 6% of net revenues. In the event of a default, Owl and the Schools agrees to pay to the purchaser, on demand, interest on any and all amounts due and owing by the School under the related agreements. The total principal outstanding plus interest expected to be paid on the Bonds totals $10,521,972.

**Note to preparer**: The auditor working with a unit that has outstanding bonds should include in the notes to the audited financial statements, whether or not required by the revenue bond documents, a calculation demonstrating compliance with the revenue bond rate covenant. Additionally, the auditor should be aware that any other bond compliance statements or additional reports required in the authorizing bond documents need to be submitted to the LGC simultaneously with the local governments audited financial statements, unless otherwise specified in the bond documents.

Revenue bond rate covenants are subject to significant variability. The preceding debt service coverage calculation is presented for illustrative purposes only. Consult the bond order or other loan documents for the exact covenants and any additional disclosure and reporting requirements.

d. Changes in Long-Term Obligations

The following is a summary of changes in Owl’s long-term obligations for the fiscal year ended June 30, 2020:



e. General Long-Term Obligations

The following is a summary of Owl’s long-term obligations at June 30, 2020 by school:



C. Interfund Balances and Activity

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

Understanding interfund balances plays a significant role in the determination of fiscal health of an organization. The justification and a repayment schedule should be disclosed for balances that are not expected to be repaid within the current fiscal year.

The composition of interfund balances as of June 30, 2020, was follows:



**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 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.

D. Fund Balance

Owl has a revenue spending policy that provides policy for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: federal funds, state funds, local non-school funds, and finally Owl 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 the Schools.

**Note to Preparer:** Units should modify this language as necessary to clearly reflect their own policies.

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation:



Encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. At June 30, 2020, the amount of encumbrances is as follows:



**Note to Preparer:** The unit 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 face of 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 provide a supporting calculation. It may be submitted in a document separate from the audit submission.

**IV. Related Party Transactions**

Mr. Paul Smith, Ms. Rebekah Brown and Dr. George Wilkinson are members of the governing board of Owl and serve as principals of Owl - Doceo, Owl - Erudio and Owl - Discite, respectively. For the fiscal year, each was paid a salary of $25,200 from the General Fund and $19,800 from the respective 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**

1. 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.

**VI. 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.

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**Required Supplementary Information**

**Note to preparer:** Charter schools participating in the Teachers and State Employees Retirement System (“TSERS”) or providing other post-employment benefits should include the required supplementary information. Appropriated disclosures for TSERS are presented in the Carolina County Board of Education and other sample financial statements.

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**Combining Statements**

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**Budget to Actual Schedules**

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**Compliance Section**

**Note to preparer:** A complete set of illustrative single audit reports can be found [here](https://www.nctreasurer.com/slg/lfm/audit_acct/single_audit/Pages/default.aspx).

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