

**CASA ESPERANZA MONTESSORI, INC.,  
NORTH CAROLINA**

Financial Statements  
Year Ended June 30, 2016

**CASA ESPERANZA MONTESSORI, INC.**  
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**As of June 30, 2016**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Casa Esperanza Montessori, Inc.  
Raleigh, North Carolina

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Casa Esperanza Montessori, Inc., North Carolina as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Casa Esperanza Montessori, Inc.'s basic financial statements as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Casa Esperanza Montessori, Inc. as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 10 and the Schedule of the School's Proportionate Share of the Net Pension Liability and the Schedule of Contributions on pages 42 and 43, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Casa Esperanza Montessori, Inc.'s basic financial statements. The budgetary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statement. The Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The budgetary schedules, as well as the accompanying schedule of expenditures of federal and State awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying budgetary schedules and the schedule of expenditures of federal and State awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2016 on our consideration of Casa Esperanza Montessori, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Casa Esperanza Montessori, Inc.'s internal control over financial reporting and compliance.

*Thomas, Judy & Packer, P.A.*

October 28, 2016

**Management's Discussion and Analysis**  
**Casa Esperanza Montessori, Inc.**  
**June 30, 2016**

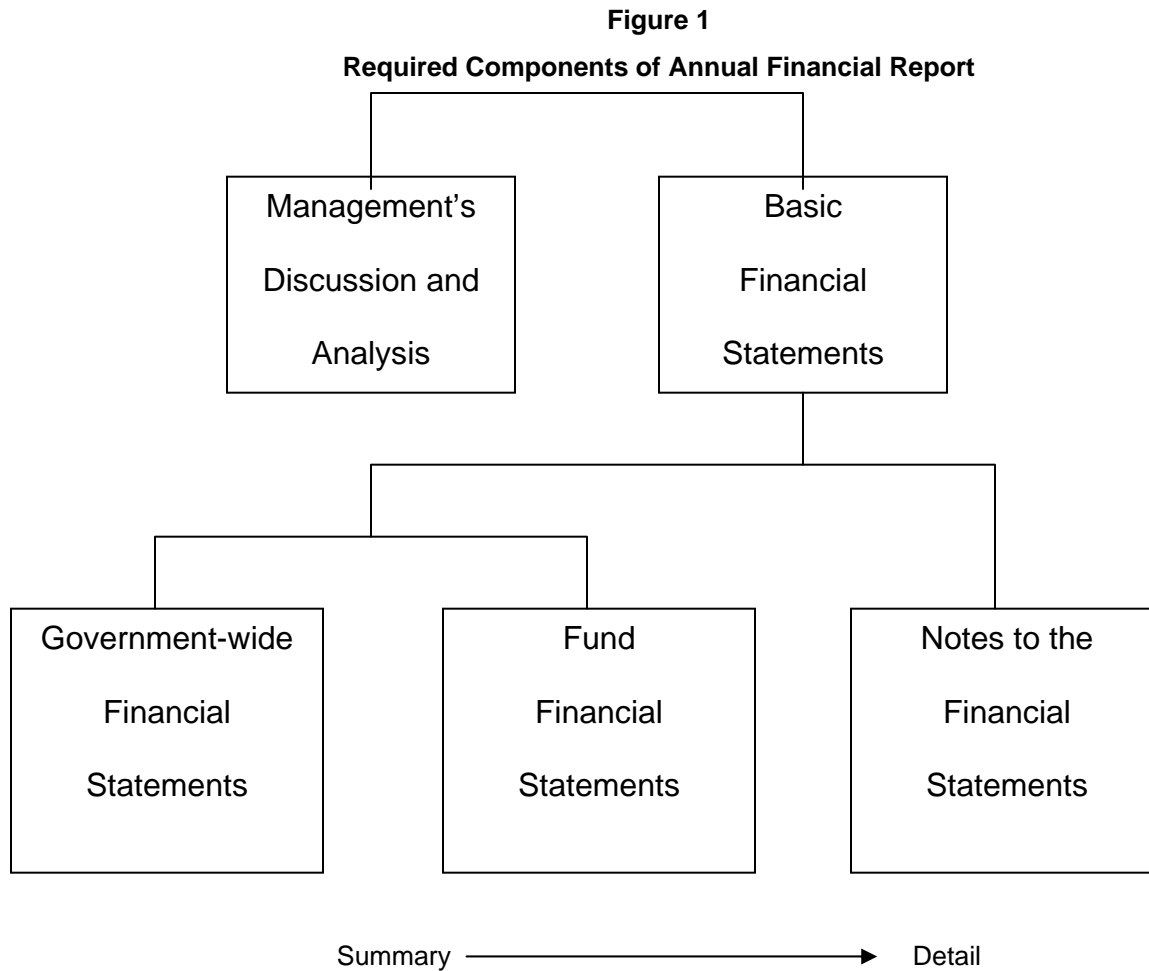
As management of Casa Esperanza Montessori, Inc., we offer readers of Casa Esperanza Montessori, Inc.'s financial statements this narrative overview and analysis of the financial activities of Casa Esperanza Montessori, Inc. (School) for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the School's financial statements, which follow this narrative.

**Financial Highlights**

- The assets of Casa Esperanza Montessori, Inc. exceeded its liabilities at the close of the fiscal year by \$293,657 (*net position*).
- The School's total net position increased by \$164,028
- As of the close of the current fiscal year, Casa Esperanza Montessori, Inc.'s governmental funds reported combined ending fund balances of \$513,528 an increase of \$184,821 in comparison with the prior year.
- Enrollment at the School decreased in the current year, with 450 charter and 17 private pre-school students, compared to 458 charter and 21 private pre-school students in the prior year.
- Casa Esperanza Montessori, Inc. does not have any long-term debt.

**Overview of the Financial Statements**

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



### **Basic Financial Statements**

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the School's government. These statements are more detailed than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

Immediately following the fund financial statements are the **Notes to the Financial Statements** (i.e. "Notes"). The Notes offer a detailed explanation of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the School's individual funds. Budgetary information for the School also can be found in this section of the statements.

## **Government-wide Financial Statements**

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

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

The government-wide statements are divided into two categories: 1) governmental activities, and 2) business-type activities. The governmental activities include most of the School's basic functions such as instructional services and business services. State, county, and federal funds provide virtually all of the funding for these functions. The business-type are those services for which the School charges its students.

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

## **Fund Financial Statements**

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

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the School's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and monies remaining at year-end that will be available for spending in the next year. Governmental funds are reported using the *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the School's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

**Proprietary Funds** – Casa Esperanza Montessori, Inc. has one proprietary fund which is an enterprise fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Casa Esperanza Montessori, Inc. uses its enterprise fund to account for its pre-school and before and after school childcare functions.

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

#### **Government-Wide Financial Analysis**

- As noted earlier, net position may serve over time as one useful indicator of a school's financial condition. The assets of Casa Esperanza Montessori, Inc. exceeded liabilities by \$293,657 as of June 30, 2016. As of June 30, 2015, the net position of Casa Esperanza Montessori, Inc. stood at \$129,629. The School's net position increased by \$164,028 for the fiscal year ended June 30, 2016, compared to an increase of \$331,262 in 2015. The School has invested \$181,107 (net of depreciation) in capital assets mainly in leasehold improvements for the facilities that house the School for the year ended June 30, 2016. Casa Esperanza Montessori, Inc. uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although Casa Esperanza Montessori, Inc.'s investment in its capital assets is reported net of the outstanding related debt, Casa Esperanza Montessori, Inc. has no outstanding debt. Of the remaining net position \$90,000 is restricted for a security deposit. The remaining balance of \$22,550 is unrestricted. In 2015, the amount of net position invested in capital assets net of related debt was \$187,973. Of the remaining net position \$90,000 is restricted for a security deposit. The remaining balance of net position is a deficit of \$148,344 is unrestricted for that year.



**Casa Esperanza Montessori, Inc.  
 Net Position**

**Figure 2**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Current and other assets</b>	\$ 522,569	\$ 337,014	\$ 201,097	\$ 361,500	\$ 723,666	\$ 698,514
<b>Capital assets</b>	181,107	187,973	-	-	181,107	187,973
<b>Total assets</b>	<u>\$ 703,676</u>	<u>\$ 524,987</u>	<u>\$ 201,097</u>	<u>\$ 361,500</u>	<u>\$ 904,773</u>	<u>\$ 886,487</u>
<b>Deferred outflows of resources</b>	\$ 236,362	\$ 177,842	\$ 13,441	\$ 6,987	\$ 249,803	\$ 184,829
<b>Long-term liabilities outstanding</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Other liabilities</b>	629,714	188,802	35,291	7,091	665,005	195,893
<b>Total liabilities</b>	<u>\$ 629,714</u>	<u>\$ 188,802</u>	<u>\$ 35,291</u>	<u>\$ 7,091</u>	<u>\$ 665,005</u>	<u>\$ 195,893</u>
<b>Deferred inflows of resources</b>	\$ 185,374	\$ 717,603	\$ 10,540	\$ 28,191	\$ 195,914	\$ 745,794
<b>Net Position</b>						
<b>Invested in capital assets net of related debt</b>	\$ 181,107	\$ 187,973	\$ -	\$ -	\$ 181,107	\$ 187,973
<b>Restricted</b>	90,000	90,000	-	-	90,000	90,000
<b>Unrestricted</b>	(146,157)	(481,549)	168,707	333,205	22,550	(148,344)
<b>Total Net Position</b>	<u>\$ 124,950</u>	<u>\$ (203,576)</u>	<u>\$ 168,707</u>	<u>\$ 333,205</u>	<u>\$ 293,657</u>	<u>\$ 129,629</u>

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

- The School adopted a combined annual budget for all funds. The School's performance was measured using these budgets on a monthly basis, allowing changes in spending as needed to stay within the budget.
- The School received \$64,356 in donations and fundraising during the fiscal year.

**Casa Esperanza Montessori, Inc.**  
**Changes in Net Position**  
**Figure 3**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ -	\$ -	\$ 365,204	\$ 366,875	\$ 365,204	\$ 366,875
Operating grants and contributions	72,743	68,554	-	-	72,743	68,554
<b>General revenues:</b>						
County, state, and federal funds	3,493,889	3,216,550	-	-	3,493,889	3,216,550
Donations and other revenues	110,307	180,891	-	-	110,307	180,891
<b>Total revenues</b>	<b>3,676,939</b>	<b>3,465,995</b>	<b>365,204</b>	<b>366,875</b>	<b>4,042,143</b>	<b>3,832,870</b>
<b>Expenses:</b>						
Instructional programs	2,697,776	2,523,200	-	-	2,697,776	2,523,200
Support services	920,926	813,062	-	-	920,926	813,062
Community services	12,666	16,115	-	-	12,666	16,115
Private program fund	-	-	246,747	149,231	246,747	149,231
<b>Total expenses</b>	<b>3,631,368</b>	<b>3,352,377</b>	<b>246,747</b>	<b>149,231</b>	<b>3,878,115</b>	<b>3,501,608</b>
<b>Increase in net position before transfers</b>	<b>45,571</b>	<b>113,618</b>	<b>118,457</b>	<b>217,644</b>	<b>164,028</b>	<b>331,262</b>
<b>Transfers</b>	<b>282,955</b>	<b>55,000</b>	<b>(282,955)</b>	<b>(55,000)</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in net position</b>	<b>328,526</b>	<b>168,618</b>	<b>(164,498)</b>	<b>162,644</b>	<b>164,028</b>	<b>331,262</b>
<b>Net position - beginning of year, as previously reported</b>	<b>(203,576)</b>	<b>447,111</b>	<b>333,205</b>	<b>222,355</b>	<b>129,629</b>	<b>669,466</b>
<b>Prior period adjustment</b>	<b>-</b>	<b>(819,305)</b>	<b>-</b>	<b>(51,794)</b>	<b>-</b>	<b>(871,099)</b>
<b>Net position- beginning of year, as restated</b>	<b>(203,576)</b>	<b>(372,194)</b>	<b>333,205</b>	<b>170,561</b>	<b>129,629</b>	<b>(201,633)</b>
<b>Net position, June 30</b>	<b>\$ 124,950</b>	<b>\$ (203,576)</b>	<b>\$ 168,707</b>	<b>\$ 333,205</b>	<b>\$ 293,657</b>	<b>\$ 129,629</b>

**Governmental activities:** Governmental activities increased the School's net position by \$45,571 before transfers.

**Business-type activities:** Business-type activities increased Casa Esperanza Montessori, Inc.'s net position by \$118,457 before transfer of funds to governmental activities of \$282,955.

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

As noted earlier, Casa Esperanza Montessori, Inc. uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The general fund is the chief operating fund of Casa Esperanza Montessori, Inc. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$423,528 an increase of \$184,821 over prior year.

At June 30, 2016, the governmental funds of Casa Esperanza Montessori, Inc. reported a combined fund balance of \$513,528.

**Proprietary Funds.** The School's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Pre-school Fund at the end of the fiscal year amounted to \$168,707. The Pre-school fund transferred a portion of its net assets to the general fund to subsidize instructional activities.

**Capital Asset and Debt Administration**

**Capital assets.** Casa Esperanza Montessori, Inc.'s investment in capital assets for its governmental and business-type activities as of June 30, 2016, totals \$181,107 (net of accumulated depreciation). These assets include leasehold improvements, equipment and furniture, and electronic equipment.

**Casa Esperanza Montessori, Inc.'s  
 Capital Assets (net of depreciation)  
 Figure 4**

	<b>Activities</b>	
	2016	2015
<b>Leasehold improvements</b>	\$ 166,750	\$ 169,599
<b>Instructional equipment</b>	13,635	18,374
<b>Other</b>	722	-
<b>Total</b>	\$ 181,107	\$ 187,973

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

**Long-term Debt.** As of June 30, 2016, Casa Esperanza Montessori, Inc. had no debt outstanding.

### **Economic Factors**

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

- Cutbacks in federal funding to education in general have resulted in a reduction of federal revenue for the School.
- The high growth rate of the Triangle and surrounding area should increase the demand for placement in the School over the next 3 years.
- The unemployment rate in the Triangle is lower than both the State and national averages.

### **Requests for Information**

This report is designed to provide an overview of the School's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Board Chair, Casa Esperanza Montessori, Inc., 2600 Sumner Blvd #130, Raleigh, NC 27616, and telephone (919) 855-9811.

**CASA ESPERANZA MONTESSORI, INC.**  
**Statement of Net Position**  
**June 30, 2016**

**Exhibit 1**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 432,569	\$ 201,097	\$ 633,666
Security deposit	90,000	-	90,000
Capital assets (Note 1):			
Other capital assets, net of depreciation	181,107	-	181,107
Total capital assets	181,107	-	181,107
Total assets	703,676	201,097	904,773
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	236,362	13,441	249,803
<b>LIABILITIES</b>			
Accounts payable	9,041	-	9,041
Noncurrent liabilities:			
Net pension liability	620,673	35,291	655,964
Total liabilities	629,714	35,291	665,005
<b>DEFERRED INFLOWS OF RESOURCES</b>	185,374	10,540	195,914
<b>NET POSITION</b>			
Net investment in capital assets	181,107	-	181,107
Restricted for:			
Security deposit	90,000	-	90,000
Unrestricted	(146,157)	168,707	22,550
Total net position	\$ 124,950	\$ 168,707	\$ 293,657

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

**CASA ESPERANZA MONTESSORI, INC.**  
**Statement of Activities**  
**Year Ended June 30, 2016**

**Exhibit 2**

<b>Functions/Programs</b>	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>						
Governmental activities:						
Instructional services	\$ 2,697,776	\$ -	\$ 72,743	\$ (2,625,033)	\$ -	\$ (2,625,033)
Support services	920,926	-	-	(920,926)	-	(920,926)
Community services	12,666	-	-	(12,666)	-	(12,666)
Total governmental activities	3,631,368	-	72,743	(3,558,625)	-	(3,558,625)
Business-type activities:						
Pre-School	246,747	365,204	-	-	118,457	118,457
Total business-type activities	246,747	365,204	-	-	118,457	118,457
Total primary government	\$ 3,878,115	\$ 365,204	\$ 72,743	(3,558,625)	118,457	(3,440,168)
General revenues:						
Unrestricted county appropriations				1,070,784	-	1,070,784
Unrestricted State appropriations				2,423,105	-	2,423,105
Contributions and donations				60,709	-	60,709
Fundraising				3,647	-	3,647
Field trip and student fees				22,258	-	22,258
Miscellaneous, unrestricted				23,693	-	23,693
Transfers				282,955	(282,955)	-
Total general revenues and transfers				3,887,151	(282,955)	3,604,196
Change in net position				328,526	(164,498)	164,028
Net position - beginning of year				(203,576)	333,205	129,629
Net position - ending				\$ 124,950	\$ 168,707	\$ 293,657

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

**CASA ESPERANZA MONTESSORI, INC.**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2016**

**Exhibit 3**

	Major Funds		Non-Major Fund	Total Governmental Funds
	General	State Public School	Federal Grants	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 432,569	\$ -	\$ -	\$ 432,569
Security deposit	90,000	-	-	90,000
<b>Total assets</b>	<b>\$ 522,569</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 522,569</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 9,041	\$ -	\$ -	\$ 9,041
<b>Total liabilities</b>	<b>9,041</b>	<b>-</b>	<b>-</b>	<b>9,041</b>
Fund balances:				
Restricted:				
Security deposit	90,000	-	-	90,000
Unassigned	423,528	-	-	423,528
<b>Total fund balances</b>	<b>513,528</b>	<b>-</b>	<b>-</b>	<b>513,528</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 522,569</b>	<b>\$ -</b>	<b>\$ -</b>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	181,107
Deferred outflows of resources related to pensions	236,362
Net pension liability	(620,673)
Deferred inflows of resources related to pensions	(185,374)
Net position of governmental activities	<b>\$ 124,950</b>

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

**CASA ESPERANZA MONTESSORI, INC.**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**Year Ended June 30, 2016**

**Exhibit 4**

	Major Funds		Non-Major Fund	Total Governmental Funds
	General	State Public School	Federal Grants	
<b>REVENUES</b>				
State of North Carolina	\$ -	\$ 2,423,105	\$ -	\$ 2,423,105
Boards of Education	1,070,784	-	-	1,070,784
U.S. Government	-	-	72,743	72,743
Contributions and donations	60,709	-	-	60,709
Fundraising	3,647	-	-	3,647
Field trip and student fees	22,258	-	-	22,258
Miscellaneous	23,693	-	-	23,693
<b>Total revenues</b>	<b>1,181,091</b>	<b>2,423,105</b>	<b>72,743</b>	<b>3,676,939</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
Instructional services	443,609	2,294,242	72,743	2,810,594
Support services	794,513	128,863	-	923,376
Community services	12,666	-	-	12,666
<b>Capital outlay:</b>	<b>28,437</b>	<b>-</b>	<b>-</b>	<b>28,437</b>
<b>Total expenditures</b>	<b>1,279,225</b>	<b>2,423,105</b>	<b>72,743</b>	<b>3,775,073</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds	282,955	-	-	282,955
<b>Total other financing sources (uses)</b>	<b>282,955</b>	<b>-</b>	<b>-</b>	<b>282,955</b>
<b>Net change in fund balance</b>	<b>184,821</b>	<b>-</b>	<b>-</b>	<b>184,821</b>
Fund balance - beginning	328,707	-	-	328,707
Fund balance - ending	<u>\$ 513,528</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 513,528</u>

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



**CASA ESPERANZA MONTESSORI, INC.**  
**Reconciliation of the Statement of**  
**Revenues, Expenditures, and Changes in Fund Balance of**  
**Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2016**

**Exhibit 5**

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

Net change in fund balance - total governmental funds	\$ 184,821
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(6,866)
Contributions to the pension plan in the current fiscal year are not included on the statement of activities	193,961
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Pension expense	<u>(43,390)</u>
Total changes in net position of governmental activities	<u><u>\$ 328,526</u></u>

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

**CASA ESPERANZA MONTESSORI, INC.**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2016**

**Exhibit 6**

	Enterprise Fund
	Major Fund
	Pre-School
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 201,097
Total assets	201,097
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	13,441
<b>LIABILITIES</b>	
Noncurrent liabilities:	
Net pension liability	35,291
Total liabilities	35,291
<b>DEFERRED INFLOWS OF RESOURCES</b>	10,540
<b>NET POSITION</b>	
Unrestricted	168,707
Total net position	\$ 168,707

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

**CASA ESPERANZA MONTESSORI, INC.**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Fund**  
**Year Ended June 30, 2016**

**Exhibit 7**

	Enterprise Fund
	Major Fund
	Pre-School
<b>OPERATING REVENUES</b>	
Tuition and other charges	\$ 365,204
Total operating revenues	365,204
<b>OPERATING EXPENSES</b>	
Salaries and benefits	216,240
Pre-School expenses	30,507
Total operating expenses	246,747
Operating income	118,457
Transfers to other funds	(282,955)
Change in net position	(164,498)
Total net position - beginning	333,205
Total net position - ending	\$ 168,707

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

**CASA ESPERANZA MONTESSORI, INC.**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**Year Ended June 30, 2016**

**Exhibit 8**

	Enterprise Fund
	Major Fund
	Pre-School
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 365,204
Cash paid for goods and services	(30,507)
Cash paid to employees for services	(212,145)
Net cash provided by operating activities	122,552
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	(282,955)
Net cash used by noncapital financing activities	(282,955)
Net decrease in cash and cash equivalents	(160,403)
Balance - beginning of the year	361,500
Balance - end of the year	\$ 201,097
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 118,457
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Pension expense	8,138
Changes in assets and liabilities:	
(Increase) decrease in deferred outflows of resources for pension plan contributions in current fiscal year	(4,043)
Net cash provided by operating activities	\$ 122,552

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

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2016

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

Casa Esperanza Montessori, Inc., North Carolina is a public school operated by a non-profit corporation, serving approximately 450 students. The School operates under an approved charter received from the SBE, and applied for under the provisions of General Statute (G.S.) 115C-238.29B. G.S. 115C-238.29F (f) (1) states that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act (SBFCA). G.S. 115C-447 also requires financial statements to be prepared in accordance with GAAP.

B. Basis of Presentation

*Government-wide Statements:* The statement of net position and the statement of activities display information about the School. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the School. Governmental activities generally are financed through intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the School and for each function of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the School's funds, including the fiduciary fund. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – 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 nonmajor funds.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2016

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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 nonexchange transactions or ancillary activities.

The School reports the following major governmental funds:

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

*State Public School Fund.* The State Public School Fund includes appropriations from the Department of Public Instruction for specific operating needs of the School and is reported as a special revenue fund.

The School reports the following major enterprise fund:

*Preschool Fund.* The Preschool Fund is used to account for the activity of the pre-kindergarten program, the before and after school care program and the inter-sessional care program.

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. Nonexchange transactions, in which the School gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Budgetary Data

Annual budgets are adopted for all funds, on a school-wide basis. 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 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 these financial statements represents the budget of the School at June 30, 2016. All appropriations lapse at year end.

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

1. Deposits and Investments

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

2. Cash and Cash Equivalents

The School pools money from several funds to facilitate disbursement. Therefore, all cash is essentially demand deposits and is considered cash and cash equivalents. All cash held with original maturities of three months or less are considered cash and cash equivalents.

3. Accounts receivable

Accounts receivable consists of amounts owed to the School from third parties. The School has reviewed the receivable balances and determined the amounts to be fully collectible.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016

1. Summary of Significant Accounting Policies (Continued)

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

4. Security Deposit

Payments made by the School in accordance with its facility lease agreement reflect amounts applicable to a future accounting period and are recorded as security deposits.

5. Capital Assets

The School's donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 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 the School to capitalize all capital assets costing more than \$500 with an estimated useful life of three 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:

	Years
Leasehold Improvements	15
Instructional Equipment	5 to 7

6. Deferred Outflows/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. The School has two items that meet this criterion – pension related deferrals and contributions made to the pension plan in the current fiscal year. 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. The School has one item that meets this criterion - pension related deferrals.



**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016

1. Summary of Significant Accounting Policies (Continued)

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

7. 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.

8. Compensated Absences

The School offers its employees both sick days and leave days. Employees may accumulate up to five (5) days earned vacation leave with such leave being fully vested when earned. The School accounts for its leave on a first-in, first-out basis, such that the oldest available leave is used first. The employees of the School are not paid for accumulated leave when they separate from the School. Therefore, no accrual for sick or leave days has been made in the government-wide financial statements.

9. Net Position/Fund Balances

*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 two 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:

Restricted Fund Balance – This classification includes revenue sources that are restricted to specific purpose externally imposed by creditors or imposed by law.

Security Deposit – portion of fund balance and net position not available for appropriation because it represents a security deposit due to a requirement with the School's facility lease agreement.

Unassigned Fund Balance – This classification includes 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.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016

1. Summary of Significant Accounting Policies (Continued)

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

9. Net Position/Fund Balances (Continued)

Casa Esperanza Montessori, Inc. has a revenue spending policy that provides guidance for programs with multiple revenue sources. The School will use resources in the following hierarchy: federal funds, State funds, local non-board of education funds, and 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 balances, assigned fund balance and lastly unassigned fund balance. The School has the authority to deviate from this policy if it is in the best interest of the School.

10. Reconciliation Between Government-wide and Fund 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 \$(338,578) consists of several elements as follows:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	\$ 494,004
Less accumulated depreciation	(312,897)
Pension related deferred outflows of resources:	
Contributions made to the pension plan in current fiscal year	193,961
Differences between contributions and proportional share of contributions and changes in proportion	42,401
Net pension liability	(620,673)
Deferred inflows of resources related to pension:	
Differences between contributions and proportional share of contributions and changes in proportion	(47,558)

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016

1. Summary of Significant Accounting Policies (Continued)

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

10. Reconciliation Between Government-wide and Fund Statements (Continued)

	Differences between expected and actual experience	(70,571)
	Difference between projected and actual earnings on plan investments	<u>(67,245)</u>
	Total adjustment	<u>\$ (338,578)</u>

F. Revenues, Expenditures, and Expenses

1. Funding

Casa Esperanza Montessori, Inc., North Carolina is funded by the State Board of Education, receiving (i) an amount equal to the average per pupil allocation for the average daily membership (ADM) from the local school administrative unit allotments in which the School is located (i.e. Wake County Board of Education) for each child attending the School except for the allocation for children with special needs and (ii) an additional amount for each child attending the School who is a child with special needs [G.S. 115C-238.29H(a)].

Additionally, the appropriate local school administrative unit(s) transfers to the School, for each student who resides in the local administrative unit and attends the charter school, an amount equal to the per pupil local current expense appropriation to the respective local school administrative unit for the fiscal year [G.S. 115C-238.29H(b)]. For the fiscal year ended June 30, 2016, Casa Esperanza Montessori, Inc., North Carolina received funding from the Boards of Education for Wake, Durham, Johnston, Franklin, Granville, Wayne, Harnett and Wilson County Schools.

Furthermore, Casa Esperanza Montessori, Inc., North Carolina has received donations of cash and/or equipment from private organizations. The cash is available to be used throughout the year for the School's various programs and activities.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016

1. Summary of Significant Accounting Policies (Continued)

F. Revenues, Expenditures, and Expenses (Continued)

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 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 \$143,105 between the two amounts consists of the following elements:

Capital outlay expenditures recorded in the fund statements but capitalized as assets on the statement of activities.	\$ 28,437
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(35,303)
Contributions to the pension plan in the current fiscal year are not included on the statement of activities.	193,961
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements.	
Pension expense	<u>(43,390)</u>
Total	<u>\$ 143,105</u>

G. Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016

2. Detail Notes on All Funds

A. Assets

1. Deposits

At June 30, 2016, the School had deposits with banks and savings and loans with a carrying amount of \$633,666. The bank balance with the financial institutions was \$641,227 of which \$391,227 was not covered by federal depository insurance. The School does not have a deposit policy for custodial credit risk.

2. Capital Assets

Capital asset activity for the year ended June 30, 2016, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets being depreciated:				
Instructional equipment	\$ 90,717	\$ 4,990	\$ -	\$ 95,707
Leasehold improvements	<u>374,850</u>	<u>23,447</u>	<u>-</u>	<u>398,297</u>
Total assets	<u>465,567</u>	<u>28,437</u>	<u>-</u>	<u>494,004</u>
Less accumulated depreciation for:				
Instructional equipment	72,343	9,007	-	81,350
Leasehold improvements	<u>205,251</u>	<u>26,296</u>	<u>-</u>	<u>231,547</u>
Total accumulated depreciation	<u>277,594</u>	<u>\$ 35,303</u>	<u>\$ -</u>	<u>312,897</u>
Governmental activities capital assets, net	<u>\$ 187,973</u>			<u>\$ 181,107</u>

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$ 26,477
Supporting services	<u>8,826</u>
	<u>\$ 35,303</u>

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities

1. Pension Plan Obligations

a. Teachers' and State Employees' Retirement System

*Plan Description.* The School is a participating employer in the statewide Teachers' and State Employees' Retirement System (TSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. TSERS membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the employees of Local Education Agencies and charter schools. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

*Benefits Provided.* TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60 (10 years for members joining on or after August 1, 2011). Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Teachers' and State Employees' Retirement System (Continued)

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions.* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. School employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The School's contractually required contribution rate for the year ended June 30, 2016, was 9.15% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the School were \$204,991 for the year ended June 30, 2016.

*Refunds of Contributions.* School employees who have terminated service as a contributing member of TSERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by TSERS.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Teachers' and State Employees' Retirement System (Continued)

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

At June 30, 2016, the School reported a liability of \$655,964 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The School's proportion of the net pension liability was based on a projection of the School's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2016 and 2015, the School's proportion was .018% and .016%, respectively.

For the year ended June 30, 2016, the School recognized pension expense of \$58,515. At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 74,582
Net difference between projected and actual earnings on pension plan investments	-	71,068
Changes in proportion and differences between School contributions and proportionate share of contributions	44,812	50,264
School contributions subsequent to the measurement date	<u>204,991</u>	<u>-</u>
	<u>\$ 249,803</u>	<u>\$ 195,914</u>



**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Teachers' and State Employees' Retirement System (Continued)

\$204,991 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2017	\$ (91,013)
2018	(91,013)
2019	(84,534)
2020	115,458

*Actuarial Assumptions.* The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 9.10 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Teachers' and State Employees' Retirement System (Continued)

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including TSERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Teachers' and State Employees' Retirement System (Continued)

*Discount rate.* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the School's proportionate share of the net pension asset to changes in the discount rate.* The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the School's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	<u>1%</u> Decrease <u>(6.25%)</u>	<u>Discount Rate</u> <u>(7.25%)</u>	<u>1%</u> Increase <u>(8.25%)</u>
School's proportionate share of the net pension liability (asset)	\$ 1,974,274	\$ 655,965	\$ (462,772)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Other Postemployment Benefits

1. Healthcare Benefits

*Plan Description.* The postemployment healthcare benefits are provided through a cost-sharing multiple-employer defined benefit plan administered by the Executive Administrator and the Board of Trustees of the Comprehensive Major Medical Plan (the Plan). The Executive Administrator and the Board of Trustees of the Plan establishes premium rates except as may be established by the General Assembly in an appropriation act. The Plan's benefit and contribution provisions are established by Chapter 135-7 Article 1, and Chapter 135, Article 3 of the General Statutes and may be amended only by the North Carolina General Assembly. By General Statute, the Plan accumulates contributions from employers and any earnings on those contributions in the Retiree Health Benefit Fund. These assets shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries.

These contributions are irrevocable. Also by law, these assets are not subject to the claims of creditors of the employers making contributions to the Plan.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the State's Comprehensive Major Medical Plan (also, referred to as the State Health Plan). An electronic version of this report is available by accessing the North Carolina Office of the State Comptroller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

*Funding Policy.* The Comprehensive Major Medical Plan is administered by the Executive Administrator and Board of Trustees of the Plan, which establishes premium rates except as may be established by the General Assembly in an appropriation act. The healthcare benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees become eligible for Medicare. For employees first hired on and after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium. For employees hired before October 1, 2006, healthcare benefits are provided to retirees (at no charge to the retirees who have at least five years of contributing retirement membership prior to disability or retirement.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Other Postemployment Benefits (Continued)

1. Healthcare Benefits (Continued)

In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees at the State's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal years ended June 30, 2016, 2015, and 2014, the School paid all annual required contributions to the Plan for postemployment healthcare benefits of \$129,043, \$114,129, and \$95,225, respectively. These contributions represented 5.76%, 5.65%, and 5.56% of covered payroll, respectively.

2. Long-term Disability Benefits

*Plan Description.* Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan. The DIPNC is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System. Long-term disability benefits are payable as another postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan accumulates contributions from employers and any earnings on those contributions in the Disability Income Plan Trust Fund. The plan does not provide for automatic post-retirement benefit increases.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the DIPNC. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and by clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Other Postemployment Benefits (Continued)

2. Long-term Disability Benefits (Continued)

*Funding Policy.* An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees Retirement System of North Carolina, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the Retirement System; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the Retirement System after (1) reaching the age of 65 and completing five years of creditable service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Other Postemployment Benefits (Continued)

2. Long-term Disability Benefits (Continued)

The monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one twelfth of the annual longevity payment to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled. The monthly benefit shall be further reduced by the amount of any monthly payments from the Department of Veterans Affairs, any other federal agency or any payments made under the provisions of G.S. 127A-108, to which the participant or beneficiary may be entitled on account of the same disability. Provided in any event, the benefits payable shall be no less than \$10 a month. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS. For members who obtain five years of membership service on or after August 1, 2007, the monthly long-term disability benefit is reduced by the primary Social Security retirement benefit to which you might be entitled should you become age 62 during the first 36 months. After 36 months of long-term disability, there will be no further payments from DIPNC unless the member is approved for and are in receipt of primary Social Security disability benefits. It is payable so long as the member remains disabled and is in receipt of a primary Social Security disability benefit until eligible for an unreduced service retirement benefit. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Other Postemployment Benefits (Continued)

2. Long-term Disability Benefits (Continued)

The School's contributions are established in the Appropriations Bill by the General Assembly. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as another postemployment benefit. For the fiscal years ended June 30, 2016, 2015, and 2014, the School paid all annual required contributions to the DIPNC for disability benefits of \$9,185, \$8,281, and \$7,536, respectively. These contributions represented 0.41%, 0.41%, and 0.44% of covered payroll, respectively.

2. Deferred Outflows and Inflows of Resources

The amount of deferred outflows and inflows of resources at June 30, 2016 is composed of the following elements:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience related to pension	\$ -	\$ 74,582
Net difference between projected and actual earnings on pension plan investments	-	71,068
Changes in proportion and differences between School contributions and proportionate share of contributions related to pension plan	44,812	50,264
School contributions subsequent to the measurement date for pension plan	<u>204,991</u>	<u>-</u>
	<u>\$ 249,803</u>	<u>\$ 195,914</u>



**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Risk Management

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

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

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

The School has elected not to carry flood insurance because the School is not 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 School carries fidelity bond coverage in the amount of \$250,000 for all its employees.

4. Long-Term Obligations

Changes in General Long Term Obligations

The following is a summary of changes in the School's long-term obligations for the fiscal year ended June 30, 2016:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Current</u> <u>Portion</u>
Governmental Activities:					
Net pension liability	\$ 180,495	\$ 440,178	\$ -	\$ 620,673	\$ -
Business-Type Activities:					
Net pension liability	\$ 7,091	\$ 28,200	\$ -	\$ 35,291	\$ -

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

Operating Lease

The School entered into an eight-year lease agreement for its building starting August 22, 2006. In April 2014, the School amended their lease agreement to extend the maturity date and expand the square footage of space utilized. Monthly lease payments range from \$16,358 to \$44,088 through maturity in July 2026. Additionally, the School has an office equipment lease which matures in December 2018. Lease payments for the year ended June 30, 2016 totaled \$498,330 under these lease agreements. Future minimum lease payments are as follows:

Year Ending

June 30, 2017	\$ 417,621
June 30, 2018	428,838
June 30, 2019	438,441
June 30, 2020	448,419
June 30, 2021	460,726
June 30, 2022 – 2026	2,501,324
June 30, 2027	<u>44,088</u>
	<u>\$ 4,739,457</u>

Line of Credit

The School has a line of credit agreement with a local financial institution with a maximum borrowing capacity of \$100,000. The obligation is payable on demand. Interest is payable monthly at the prime rate (3.50% at June 30, 2016) plus 2%. No amounts are outstanding under this agreement at June 30, 2016.

5. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2016, consist of the following:

From the Enterprise Fund to the General Fund to repay the general fund for the operating expenses of the program. \$ 282,955

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2016

3. Fund Balance

Casa Esperanza Montessori, Inc. has a revenue spending policy that provides guidance for programs with multiple revenue sources. The School will use resources in the following hierarchy; federal funds, State funds, local non-board of education funds, and 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 School may deviate from this policy if it is in the best interest of the School.

The following schedule provides information on the portion of general fund balance that is available for appropriation:

Total fund balance	\$ 513,528
Less:	
Restricted for security deposit	(90,000)
Remaining fund balance	\$ 423,528

4. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

5. Change in Accounting Principle

The School implemented Governmental Accounting Standards Board (GASB) Statement 72, *Fair Value Measurement and Application*, in the fiscal year ended June 30, 2016. In accordance with GASB Statement 72, guidance is provided for determining fair value measurements for financial reporting and disclosure purposes.

6. Significant Effects of Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through October 28, 2016, which is the date the financial statements were available to be issued.

**CASA ESPERANZA MONTESSORI, INC.**  
**SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**Teachers' and State Employees' Retirement System**  
**Last Three Fiscal Years \***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
School's proportion of the net pension liability (asset)	0.018%	0.016%	0.017%
School's proportionate share of the net pension liability (asset)	\$ 655,964	\$ 187,586	\$ 1,019,931
School's covered-employee payroll	\$ 2,240,336	\$ 2,019,991	\$ 1,712,684
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	29.28%	9.29%	59.55%
Plan fiduciary net position as a percentage of the total pension liability	94.64%	98.24%	90.60%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

**CASA ESPERANZA MONTESSORI, INC.**  
**SCHEDULE OF CONTRIBUTIONS**  
**Teachers' and State Employees' Retirement System**  
**Last Three Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 204,991	\$ 184,829	\$ 148,832
Contributions in relation to the contractually required contribution	<u>204,991</u>	<u>184,829</u>	<u>148,832</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,240,336	\$ 2,019,991	\$ 1,712,684
Contributions as a percentage of covered-employee payroll	9.15%	9.15%	8.69%

**CASA ESPERANZA MONTESSORI, INC.**  
**All Governmental Fund Types**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2016**

**Statement 1**

	2016		Favorable (Unfavorable) Variance
	Final Budget	Actual	
<b>Revenues:</b>			
State of North Carolina Board(s) of Education	\$ 2,421,893	\$ 2,423,105	\$ 1,212
Wake County	986,850	991,147	4,297
Durham County	58,558	59,561	1,003
Johnston County	8,557	7,519	(1,038)
Franklin County	10,175	5,829	(4,346)
Granville County	3,470	3,031	(439)
Wayne County	1,061	864	(197)
Harnett County	1,181	1,132	(49)
Wilson County	1,640	1,701	61
U.S. Government	66,693	72,743	6,050
Contributions and donations	59,000	60,709	1,709
Fundraising	-	3,647	3,647
Field trip and student fees	6,390	22,258	15,868
Miscellaneous	4,000	23,693	19,693
Total revenues	<u>3,629,468</u>	<u>3,676,939</u>	<u>47,471</u>
<b>Expenditures:</b>			
<b>Current:</b>			
<b>Instructional services:</b>			
Regular services	2,082,321	2,264,142	(181,821)
Special services	169,578	132,185	37,393
Alternative programs	21,113	10,535	10,578
School leadership services	302,434	314,528	(12,094)
School based support services	73,046	89,204	(16,158)
Total instructional services	<u>2,648,492</u>	<u>2,810,594</u>	<u>(162,102)</u>
<b>Support services:</b>			
Pupil services	56,497	67,294	(10,797)
Operational support	44,226	99,833	(55,607)
Technology support	15,535	21,028	(5,493)
Financial and human resources support	171,631	235,043	(63,412)
Policy, leadership and public relations support	744,555	500,178	244,377
Total support services	<u>1,032,444</u>	<u>923,376</u>	<u>109,068</u>
Community services	996	12,666	(11,670)
Capital outlay	5,293	28,437	(23,144)
Total expenditures	<u>3,687,225</u>	<u>3,775,073</u>	<u>(87,848)</u>

**CASA ESPERANZA MONTESSORI, INC.**  
**All Governmental Fund Types**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2016**  
**(Continued)**

**Statement 1**

	2016		Favorable (Unfavorable) Variance
	Final Budget	Actual	
Other financing sources (uses):			
Transfers			
Appropriated fund balance	\$ 57,757	\$ -	\$ (57,757)
Transfer from other funds	-	282,955	282,955
	57,757	282,955	225,198
Excess of revenue over expenditures	\$ -	\$ 184,821	\$ 184,821

**CASA ESPERANZA MONTESSORI, INC.**  
**Proprietary Fund Types**  
**Statement of Revenues and Expenses**  
**Budget and Actual (Non - GAAP)**  
**Year Ended June 30, 2016**

**Statement 2**

	2016		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Revenues:			
Tuition and other charges	\$ 358,180	\$ 365,204	\$ 7,024
Total revenues	358,180	365,204	7,024
Expenditures:			
Salaries and benefits	231,810	216,240	15,570
Pre-School expenses	53,926	30,507	23,419
Total expenditures	285,736	246,747	38,989
Revenues over (under) expenditures	72,444	118,457	46,013
Other financing sources (uses):			
Transfers to other funds	-	(282,955)	(282,955)
Fund balance appropriated	(72,444)	-	72,444
Total other financing sources (uses)	(72,444)	(282,955)	(210,511)
Revenues and other sources over (under) expenditures	\$ -	(164,498)	\$ (164,498)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Change in net position		\$ (164,498)	



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

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Casa Esperanza Montessori, Inc.  
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Casa Esperanza Montessori, Inc. North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Casa Esperanza Montessori, Inc.'s basic financial statements, and have issued our report thereon dated October 28, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Casa Esperanza Montessori, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Casa Esperanza Montessori, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Casa Esperanza Montessori, Inc.'s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Casa Esperanza Montessori, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2016-1.

## **Response to Findings**

Casa Esperanza Montessori, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Thomas, Judy & Duck, P.A.*

October 28, 2016

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR STATE PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Casa Esperanza Montessori, Inc.  
Raleigh, North Carolina

**Report on Compliance for Each Major State Program**

We have audited the Casa Esperanza Montessori, Inc., North Carolina's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of its major state programs for the year ended June 30, 2016. The Casa Esperanza Montessori, Inc.'s major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Casa Esperanza Montessori, Inc.'s major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the applicable sections of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Casa Esperanza Montessori, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Casa Esperanza Montessori, Inc.'s compliance.

## **Opinion on Each Major State Program**

In our opinion, the Casa Esperanza Montessori, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2016.

## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with applicable sections of section the Uniform Guidance as described in the *Audit Manual for Governmental Auditors in North Carolina* and which are described in the accompanying schedule of findings and questioned costs as item 2016-1. Our opinion on each major state program is not modified with respect to these matters.

The Casa Esperanza Montessori, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying corrective action plan. Casa Esperanza Montessori, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control Over Compliance**

Management of the Casa Esperanza Montessori, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Casa Esperanza Montessori, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses therefore, material weaknesses or significant deficiencies, may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-1 that we consider to be significant deficiencies.

Casa Esperanza Montessori, Inc.'s response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Casa Esperanza Montessori, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Thomas, Judy & Ducka, P.A.*

October 28, 2016

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Fiscal Year Ended June 30, 2016

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness identified?  Yes  No
- Significant deficiencies identified?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  No

State Awards

Internal control over major State programs:

- Material weakness identified?  Yes  No
- Significant deficiency identified?  Yes  None Reported

Type of auditors' report issued on compliance for major State programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?  Yes  No

Identification of major State programs:

Program Name  
State Public School Fund

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
For the Fiscal Year Ended June 30, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS

No Findings.

SECTION III – STATE AWARD FINDINGS AND QUESTIONED COSTS

**Finding 2016 - 1**

Cash Management Policy

Criteria: In accordance with criteria established by the State of North Carolina, no more than three business days should elapse between the date State funds are deposited to the School's account and the date of the actual disbursement.

Condition: Out of eight deposits selected for testing, two state funding deposits were not disbursed within three business days.

Cause: The School was aware of the requirement that no more than three business days should elapse between the date State funds are deposited to the School's account and the date of actual disbursement. However, when determining the funding request, the School was utilizing incorrect reports to determine requested funding amounts.

Effect: When making draw requests, the School intends to only request State funding from expenses already paid by the School specifically to ensure that amounts are spent within three days of the receipt of funding. However, the School utilized income statement expense reports that included amounts expensed on the income statement but unpaid (amounts included in accounts payable) when determining request amounts. This resulted in unspent dollars of \$30,922 for the November 18, 2015 deposit and unspent dollars of \$27,594 for the November 30, 2015 deposit.

Questioned Costs: The funding deposit on November 18, 2015 of \$108,012 resulted in unspent dollars after three business days of \$30,922. The funding deposit on November 30, 2015 of \$141,409 resulted in unspent dollars after three business days of \$27,594.

Recommendation: We recommend that the School adopt a policy whereby each funding deposit is monitored based upon expenses already paid in cash to ensure all dollars are spent within three business days.

Views of responsible officials and planned corrective actions: The School agrees with this finding and will implement the recommendation.

**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
**CORRECTIVE ACTION PLAN**  
For the Fiscal Year Ended June 30, 2016

SECTION III – STATE AWARD FINDINGS AND QUESTIONED COSTS

Finding: 2016 - 1

Name of Contact Person: Christina Riordan, School Finance and Development Director

Corrective Action: The School Finance Director used the income statement to order money and was basing her calculations on expenses that were booked instead of when the check was processed. The School Finance Director is aware of her mistake and has made corrections to how she calculates requests for state money.

Proposed Completion Date: December 31, 2016



**CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA**  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Fiscal Year Ended June 30, 2016

**Finding 2015 - 1**

Status: The School adopted a policy that was approved by the board of directors in accordance with G.S. 115C-218.50, and stated that the School shall not charge tuition or fees except those that are charged by the local school administrative unit in which the charter school is located.

**CASA ESPERANZA MONTESSORI, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
Year Ended June 30, 2016

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expendi- tures</u>
<b>Federal Grants:</b>			
<b>Cash Assistance:</b>			
<u>U.S. Department of Education</u>			
Passed-through the N.C. Department of Public Instruction:			
Improving America School Act of 1994 (IASA)			
Title I - Basic Education	84.010	PRC 050	\$ 10,535
Title VI-B Handicapped	84.027	PRC 060	60,567
Improving Teacher Quality	84.367	PRC 103	1,641
Total U.S. Department of Education			72,743
Total Federal Assistance			72,743
<b>State Grants:</b>			
<b>Cash Assistance:</b>			
N.C. Department of Public Instruction:			
State Public School Fund - Charter Schools		PRC 036	2,422,385
Indian Gaming Fund		PRC 025	720
Total State Assistance			2,423,105
Total Federal and State Assistance			\$ 2,495,848

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Casa Esperanza Montessori, Inc. under the programs of the federal government and the State of North Carolina for the year ended June 30, 2016. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of Casa Esperanza Montessori, Inc. it is not intended to and does not present the financial position, changes in net position, or cash flows of Casa Esperanza Montessori, Inc.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited. Casa Esperanza Montessori, Inc. has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.