

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

Financial Statements
Year Ended June 30, 2015

CASA ESPERANZA MONTESSORI, INC.
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As of June 30, 2015

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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, 2015, 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, 2015, 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.

Adjustments to Prior Period Financial Statements

As discussed in Note 7 to the financial statements, the School adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Additionally, the School transferred net assets to governmental activities and the general fund in what was previously reported as net assets in business-type activities and the proprietary fund. Our opinion is not modified with respect to these matters.

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 40 and 41, 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, as well as the accompanying schedule of expenditures of federal and state awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit Implementation Act* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The 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 12, 2015 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, J. & Fuchs, P.A.
October 12, 2015

Management's Discussion and Analysis
Casa Esperanza Montessori, Inc
June 30, 2015

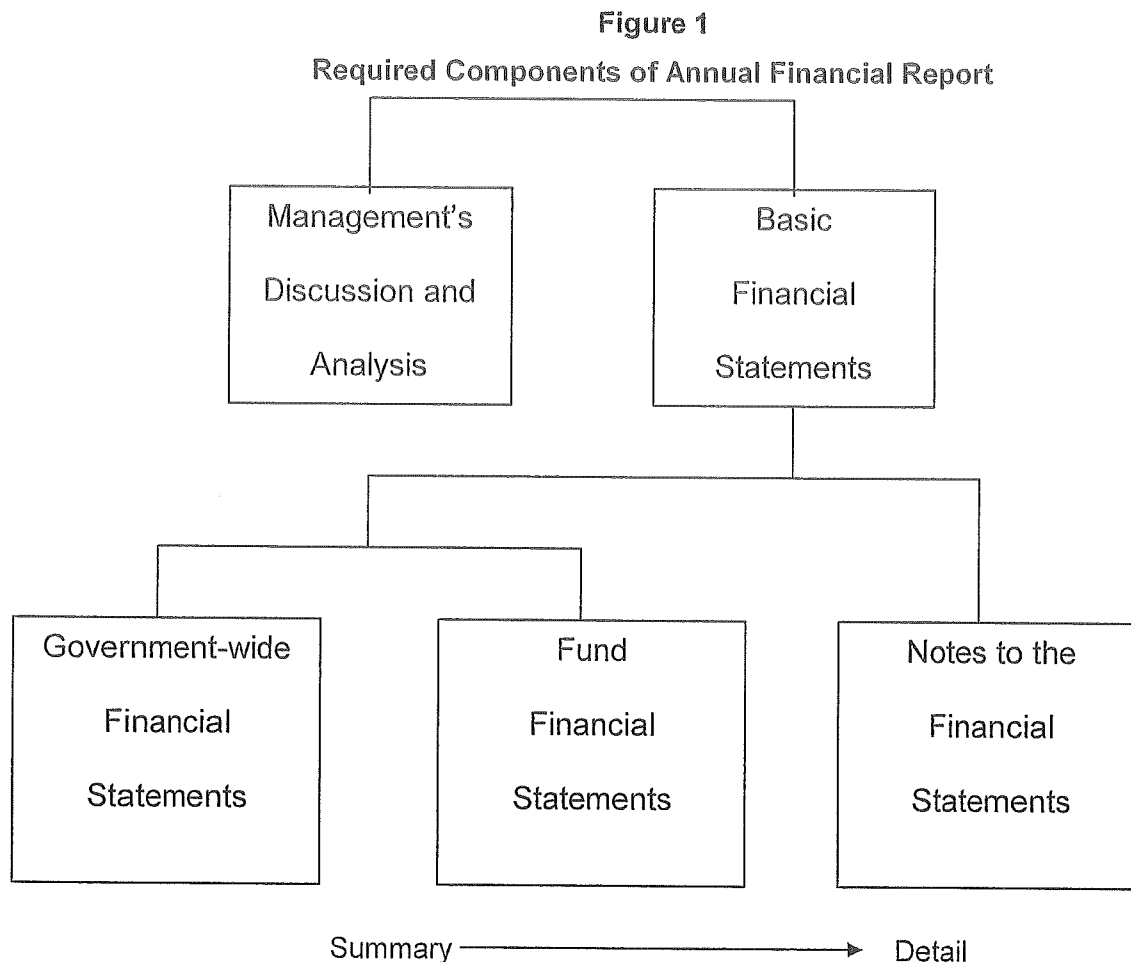
As management of Casa Esperanza Montessori, Inc, we offer readers of Casa Esperanza Montessori, Inc's financial statements this narrative overview and analysis of the financial activities of Casa Esperanza Montessori, Inc (School) for the fiscal year ended June 30, 2015. We encourage readers to read 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 \$129,629 (*net position*).
- The school's total net position increased from operations by \$331,262 and decreased by \$871,099 as a result of the implementation of Governmental Accounting Standards Board statement 68 *Accounting and Financial Reporting for Pensions*.
- As of the close of the current fiscal year, Casa Esperanza Montessori, Inc's governmental funds reported combined ending fund balances of \$328,707 an increase of \$69,185 in comparison with the prior year.
- Enrollment at the School continues to increase, with 458 charter and 21 private pre-school students, compared to 397 charter and 23 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 \$129,629 as of June 30, 2015. As of June 30, 2014, the net position of Casa Esperanza Montessori, Inc. stood at \$669,466 (prior to restatement), after restatement the net position was a deficit of \$201,633. The School's net position increased by \$331,262 for the fiscal year ended June 30, 2015, compared to an increase of \$26,725 in 2014 (prior to restatement). The School has invested \$187,973 (net of depreciation) in capital assets mainly in leasehold improvements for the facilities that house the School. For the year ended June 30, 2015 the net increase in capital assets was \$384. 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 a deficit of \$148,344 is unrestricted. In 2014, the amount of net position invested in capital assets net of related debt was \$187,589. Of the remaining net position \$90,000 is restricted for a security deposit. The remaining \$391,877 (prior to restatement) was unrestricted net position for that year. As a result of the implementation of Governmental Accounting Standards Board statement 68 *Accounting and Financial Reporting for Pensions* the June 30, 2014 unrestricted net position was restated to a deficit of \$479,222.

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

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 337,014	\$ 259,522	\$ 361,500	\$ 222,355	\$ 698,514	\$ 481,877
Capital assets	187,973	187,589	-	-	187,973	187,589
Total assets	\$ 524,987	\$ 447,111	\$ 361,500	\$ 222,355	\$ 886,487	\$ 669,466
Deferred outflows of resources	\$ 177,842		\$ 6,987		\$ 184,829	\$ -
Long-term liabilities outstanding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other liabilities	188,802	-	7,091	-	195,893	-
Total liabilities	\$ 188,802	\$ -	\$ 7,091	\$ -	\$ 195,893	\$ -
Deferred inflows of resources	\$ 717,603	-	\$ 28,191	-	\$ 745,794	\$ -
Net Position						
Invested in capital assets net of related debt	\$ 187,973	\$ 187,589	\$ -	\$ -	\$ 187,973	\$ 187,589
Restricted	90,000	90,000	-	-	90,000	90,000
Unrestricted	(481,549)	169,522	333,205	222,355	(148,344)	391,877
Total Net Position	\$ (203,576)	\$ 447,111	\$ 333,205	\$ 222,355	\$ 129,629	\$ 669,466

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 \$131,745 in donations and fundraising during the fiscal year.

Casa Esperanza Montessori, Inc
Changes in Net Position
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2015	2014 (Restated)	2015	2014 (Restated)	2015	2014 (Restated)
Revenues:						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 366,875	\$ 309,902	\$ 366,875	\$ 309,902
Operating grants and contributions	68,554	69,104	-	-	68,554	69,104
General revenues:						
County, State, and Federal funds	3,216,550	2,812,342	-	-	3,216,550	2,812,342
Donations and other revenues	180,891	145,398	-	-	180,891	145,398
Total revenues	<u>3,465,995</u>	<u>3,026,844</u>	<u>366,875</u>	<u>309,902</u>	<u>3,832,870</u>	<u>3,336,746</u>
Expenses:						
Instructional programs	2,523,200	2,320,830	-	-	2,523,200	2,320,830
Support services	813,062	787,540	-	-	813,062	787,540
Non Programmed charges	-	-	-	-	-	-
Community services	16,115	17,395	-	-	16,115	17,395
Private program fund	-	-	149,231	184,256	149,231	184,256
Total expenses	<u>3,352,377</u>	<u>3,125,765</u>	<u>149,231</u>	<u>184,256</u>	<u>3,501,608</u>	<u>3,310,021</u>
Increase in net position before transfers	113,618	(98,921)	217,644	125,646	331,262	26,725
Transfers	55,000	70,830	(55,000)	(70,830)	-	-
Increase (decrease) in net position	168,618	(28,091)	162,644	54,816	331,262	26,725
Net position - beginning of year, as previously reported	447,111	-	222,355	-	669,466	-
Prior period adjustment	(819,305)	-	(51,794)	-	(871,099)	-
Net position- beginning of year, as restated	(372,194)	475,202	170,561	167,539	(201,633)	-
Net position, June 30	\$ (203,576)	\$ 447,111	\$ 333,205	\$ 222,355	\$ 129,629	\$ 26,725

Governmental activities: Governmental activities increased the School's net position by \$113,618 before transfers.

Business-type activities: Business-type activities increased Casa Esperanza Montessori, Inc's net position by \$217,644 before transfer of funds to governmental activities of \$55,000.

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 \$238,707 an increase of \$69,185 over prior year.

At June 30, 2015, the governmental funds of Casa Esperanza Montessori, Inc reported a combined fund balance of \$328,707.

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 \$333,205. 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, 2015, totals \$187,973 (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**

	Governmental Activities	
	2015	2014
Leasehold improvements	\$ 169,599	\$ 168,120
Instructional equipment	18,374	19,469
Other	-	-
Total	\$ 187,973	\$ 187,589

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

Long-term Debt. As of June 30, 2015, 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, 2015

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 247,014	\$ 361,500	\$ 608,514
Security deposit	90,000	-	90,000
Capital assets (Note 1):			
Other capital assets, net of depreciation	187,973	-	187,973
Total capital assets	187,973	-	187,973
Total assets	524,987	361,500	886,487
DEFERRED OUTFLOWS OF RESOURCES	177,842	6,987	184,829
LIABILITIES			
Accounts payable	8,307	-	8,307
Noncurrent liabilities:			
Net pension liability	180,495	7,091	187,586
Total liabilities	188,802	7,091	195,893
DEFERRED INFLOWS OF RESOURCES	717,603	28,191	745,794
NET POSITION			
Net investment in capital assets	187,973	-	187,973
Restricted for:			
Security deposit	90,000	-	90,000
Unrestricted	(481,549)	333,205	(148,344)
Total net position	\$ (203,576)	\$ 333,205	\$ 129,629

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (2,454,646)	\$ -	\$ (2,454,646)
(813,062)	-	(813,062)
(16,115)	-	(16,115)
(3,283,823)	-	(3,283,823)
-	217,644	217,644
-	217,644	217,644
(3,283,823)	217,644	(3,066,179)
938,378	-	938,378
2,278,172	-	2,278,172
124,804	-	124,804
6,941	-	6,941
24,042	-	24,042
25,104	-	25,104
55,000	(55,000)	-
3,452,441	(55,000)	3,397,441
168,618	162,644	331,262
447,111	222,355	669,466
(819,305)	(51,794)	(871,099)
(372,194)	170,561	(201,633)
\$ (203,576)	\$ 333,205	\$ 129,629

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

CASA ESPERANZA MONTESSORI, INC.
Balance Sheet
Governmental Funds
June 30, 2015

Exhibit 3

	Major Funds		Non-Major Fund	Total Governmental Funds
	General	State Public School	Federal Grants	
ASSETS				
Cash and cash equivalents	\$ 247,014	\$ -	\$ -	\$ 247,014
Security deposit	90,000	-	-	90,000
Total assets	<u>\$ 337,014</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 337,014</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 8,307	\$ -	\$ -	\$ 8,307
Total liabilities	<u>8,307</u>	<u>-</u>	<u>-</u>	<u>8,307</u>
Fund balances:				
Restricted:				
Security deposit	90,000	-	-	90,000
Unassigned	238,707	-	-	238,707
Total fund balances	<u>328,707</u>	<u>-</u>	<u>-</u>	<u>328,707</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 337,014</u>	<u>\$ -</u>	<u>\$ -</u>	

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.	187,973
Deferred outflows of resources related to pensions	177,842
Net pension liability	(180,495)
Deferred inflows of resources related to pensions	<u>(717,603)</u>
Net position of governmental activities	<u>\$ (203,576)</u>

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, 2015

Exhibit 4

	Major Funds		Non-Major Fund	Total Governmental Funds
	General	State Public School	Federal Grants	
REVENUES				
State of North Carolina	\$ -	\$ 2,278,172	\$ -	\$ 2,278,172
Boards of Education	938,378	-	-	938,378
U.S. Government	-	-	68,554	68,554
Contributions and donations	124,804	-	-	124,804
Fundraising	6,941	-	-	6,941
Field trip and student fees	24,042	-	-	24,042
Miscellaneous	25,104	-	-	25,104
Total revenues	1,119,269	2,278,172	68,554	3,465,995
EXPENDITURES				
Current:				
Instructional services	488,266	2,049,939	68,554	2,606,759
Support services	584,610	223,328	-	807,938
Community services	16,115	-	-	16,115
Capital outlay:	29,334	4,905	-	34,239
Total expenditures	1,118,325	2,278,172	68,554	3,465,051
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	55,000	-	-	55,000
Total other financing sources (uses)	55,000	-	-	55,000
Net change in fund balance	55,944	-	-	55,944
Fund balance - beginning	259,522	-	-	259,522
Equity Transfer (Note 7)	13,241	-	-	13,241
Fund balance - ending	\$ 328,707	\$ -	\$ -	\$ 328,707

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, 2015

Exhibit 5

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

Net change in fund balance - total governmental funds	\$ 55,944
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.	384
Contributions to the pension plan in the current fiscal year are not included on the statement of activities	177,842
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>(65,552)</u>
Total changes in net position of governmental activities	<u>\$ 168,618</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, 2015

Exhibit 6

	<u>Enterprise Fund</u>
	<u>Major Fund</u>
	<u>Pre-School</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 361,500
Total assets	<u>361,500</u>
DEFERRED OUTFLOWS OF RESOURCES	6,987
LIABILITIES	
Current liabilities:	
Accounts payable	<u>-</u>
Total current liabilities	<u>-</u>
Noncurrent liabilities:	
Net pension liability	<u>7,091</u>
Total liabilities	<u>7,091</u>
DEFERRED INFLOWS OF RESOURCES	28,191
NET POSITION	
Unrestricted	<u>333,205</u>
Total net position	<u><u>\$ 333,205</u></u>

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, 2015

Exhibit 7

	<u>Enterprise Fund</u>
	<u>Major Fund</u>
	<u>Pre-School</u>
OPERATING REVENUES	
Tuition and other charges	\$ 366,875
	<u>366,875</u>
Total operating revenues	
OPERATING EXPENSES	127,298
Salaries and benefits	<u>21,933</u>
Pre-School expenses	
	<u>149,231</u>
Total operating expenses	
	<u>217,644</u>
Operating income	
	<u>(55,000)</u>
Transfers to other funds	
	162,644
Change in net position	
	222,355
Total net position - beginning, as previously report	
	(51,794)
Restatement (Note 7)	
	<u>170,561</u>
Total net position - beginning, as restated	
	<u>\$ 333,205</u>
Total net position - ending	

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, 2015

Exhibit 8

	<u>Enterprise Fund</u>
	<u>Major Fund</u>
	<u>Pre-School</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 366,875
Cash paid for goods and services	(21,933)
Cash paid to employees for services	<u>(137,556)</u>
Net cash provided by operating activities	<u>207,386</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(55,000)
Equity transfer	<u>(13,241)</u>
Net cash used by noncapital financing activities	<u>(68,241)</u>
Net increase in cash and cash equivalents	139,145
Balance - beginning of the year	<u>222,355</u>
Balance - end of the year	<u><u>\$ 361,500</u></u>
 Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 217,644
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Pension expense	(3,271)
Changes in assets and liabilities:	
Decrease in accounts receivable	-
Increase in accounts payable	-
(Increase) decrease in deferred outflows of resources for pension plan contributions in current fiscal year	<u>(6,987)</u>
Net cash provided by operating activities	<u><u>\$ 207,386</u></u>

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, 2015

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 458 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, 2015

1. Summary of Significant Accounting Policies (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, 2015

1. Summary of Significant Accounting Policies (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, 2015. 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.

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.

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.

CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

1. Summary of Significant Accounting Policies (Continued)

5. Capital Assets

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

It is the policy of the School to capitalize all capital assets costing more than \$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:

	<u>Years</u>
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 one item that meets this criterion - 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.

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.

CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

1. Summary of Significant Accounting Policies (Continued)

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. 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.

CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

1. Summary of Significant Accounting Policies (Continued)

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 \$(532,283) consists of several elements as follows:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	\$ 465,567
Less accumulated depreciation	(277,594)
Pension related deferred outflows of resources:	
Contributions made to the pension plan in current fiscal year	177,842
Net pension liability	(180,495)
Deferred inflows of resources related to pension:	
Differences between contributions and proportional share of contributions and changes in proportion	(65,699)
Differences between expected and actual experience	(42,073)
Difference between projected and actual earnings on plan investments	(609,831)
Total adjustment	<u>\$ (532,283)</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)].

CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

1. Summary of Significant Accounting Policies (Continued)

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, 2015, 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.

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 \$112,674 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.	\$ 34,239
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(33,855)
Contributions to the pension plan in the current fiscal year are not included on the statement of activities	177,842
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>(65,552)</u>
Total	<u>\$ 112,674</u>

CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

1. Summary of Significant Accounting Policies (Continued)

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.

2. Detail Notes on All Funds

A. Assets

1. Deposits

At June 30, 2015, the School had deposits with banks and savings and loans with a carrying amount of \$608,514. The bank balance with the financial institutions was \$615,091 of which \$365,091 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, 2015, 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	\$ 82,692	\$ 8,025	\$ -	\$ 90,717
Leasehold improvements	348,636	26,214	-	374,850
Loan fees	5,000	-	5,000	-
Total assets	<u>436,328</u>	<u>34,239</u>	<u>5,000</u>	<u>465,567</u>
Less accumulated depreciation for:				
Instructional equipment	63,223	9,120	-	72,343
Leasehold improvements	180,516	24,735	-	205,251
Loan fees	5,000	-	5,000	-
Total accumulated depreciation	<u>248,739</u>	<u>\$ 33,855</u>	<u>\$ 5,000</u>	<u>277,594</u>
Governmental activities capital assets, net	<u>\$ 187,589</u>			<u>\$ 187,973</u>

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$ 25,391
Supporting services	<u>8,464</u>
	<u>\$ 33,855</u>

CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

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.

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, 2015

2. Detail Notes on All Funds (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, 2015, 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 \$184,829 for the year ended June 30, 2015.

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.

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

At June 30, 2015, the School reported a liability of \$187,586 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 asset was determined by an actuarial valuation as of December 31, 2013. 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, 2015 and 2014, the School's proportion was .016% and .017%, respectively.

CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

2. Detail Notes on All Funds (Continued)

For the year ended June 30, 2015, the School recognized pension expense of \$62,281. At June 30, 2015, 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	\$ -	\$ 43,726
Net difference between projected and actual earnings on pension plan investments	-	633,789
Changes in proportion and differences between School contributions and proportionate share of contributions	-	68,279
School contributions subsequent to the measurement date	<u>184,829</u>	<u>-</u>
	<u>\$ 184,829</u>	<u>\$ 745,794</u>

\$184,829 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, 2016. 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>
2016	\$ 188,000
2017	188,000
2018	188,000
2019	<u>181,794</u>
	<u>\$ 745,794</u>

Actuarial Assumptions. The total pension liability in the December 31, 2013 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

CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

2. Detail Notes on All Funds (Continued)

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, 2013 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.

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 return 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, 2015 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	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation	4.5%	3.7%
	<u>100%</u>	

CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

2. Detail Notes on All Funds (Continued)

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.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

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:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
School's proportionate share of the net pension liability (asset)	\$ 1,346,629	\$ 187,586	\$ (791,056)

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, 2015

2. Detail Notes on All Funds (Continued)

B. Liabilities

1. Pension Plan Obligations

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, 2015

2. Detail Notes on All Funds (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 20, 2015, 2014, and 2013, the School paid all annual required contributions to the Plan for postemployment healthcare benefits of \$114,129, \$95,225, and \$92,731, respectively. These contributions represented 5.65%, 5.56%, and 5.46% 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.

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

CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

2. Detail Notes on All Funds (Continued)

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.

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, 2015

2. Detail Notes on All Funds (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, 2015, 2014, and 2013, the School paid all annual required contributions to the DIPNC for disability benefits of \$8,281, \$7,536, and \$7,473, respectively. These contributions represented 0.41%, 0.44%, 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, 2015 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	\$ -	\$ 43,726
Net difference between projected and actual earnings on pension plan investments	-	633,789
Changes in proportion and differences between School contributions and proportionate share of contributions related to pension plan	-	68,279
School contributions subsequent to the measurement date for pension plan	<u>184,829</u>	<u>-</u>
	<u>\$ 184,829</u>	<u>\$ 745,794</u>

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.

CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

3. Detail Notes on All Funds (Continued)

3. Risk Management (Continued)

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. Claims of Judgements

At June 30, 2015, the School was a defendant to a lawsuit. In the opinion of the School's management and the School's attorney, the ultimate effect of these legal matters will not have a material adverse effect in the School's financial position.

5. 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, 2015:

	Balance June 30, 2014	Increases	Decreases	Balance June 30, 2015	Current Portion
Governmental Activities:					
Net pension liability	\$ 981,377	\$ -	\$ 800,882	\$ 180,495	\$ -
Business-Type Activities:					
Net pension liability	\$ 38,553	\$ -	\$ 31,462	\$ 7,091	\$ -

CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

2. Detail Notes on All Funds (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 mature in December 2018. Lease payments for the year ended June 30, 2015 totaled \$324,213 under these lease agreements. Future minimum lease payments are as follows:

Year Ending

June 30, 2016	\$ 406,436
June 30, 2017	417,621
June 30, 2018	428,838
June 30, 2019	438,441
June 30, 2020	448,419
June 30, 2021 – 2025	2,434,180
June 30, 2026 – 2027	571,958
	<u>\$ 5,145,893</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 (3.25% at June 30, 2015) plus 2%. No amounts are outstanding under this agreement at June 30, 2015.

6. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2015, consist of the following:

From the Enterprise Fund to the General Fund to repay the general fund for the operating expenses of the program.	<u>\$ 55,000</u>
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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.

CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

3. Fund Balance (Continued)

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

Total fund balance	\$ 328,707
Less:	
Restricted for security deposit	<u>(90,000)</u>
Remaining fund balance	<u>\$ 238,707</u>

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. 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 12, 2015, which is the date the financial statements were available to be issued.

6. Change in Accounting Principles/Restatement and Prior Period Adjustment

The School implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the School to record beginning net pension liability and the effects on net position of contributions made by the School during the measurement period (fiscal year 2014). As a result, net position for the governmental activities decreased by \$832,546 and business type activities by \$38,553.

Additionally, the School has transferred net assets to governmental activities and the general fund in what was previously reported as net assets in business-type activities and the proprietary fund. The School was receiving contributions and donations in previous years into their proprietary fund which should have been recorded in their general fund. As a result, net position for the business-type activities and proprietary fund decreased by \$13,241 while net position for the governmental-activities and general fund increased by \$13,241.

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

	2015	2014
School's proportion of the net pension liability (asset)	0.016%	0.017%
School's proportionate share of the net pension liability (asset)	\$ 187,586	\$ 1,019,931
School's covered-employee payroll	\$ 2,019,991	\$ 1,712,684
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	9.29%	59.55%
Plan fiduciary net position as a percentage of the total pension liability	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 Two Fiscal Years

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 184,829	\$ 148,832
Contributions in relation to the contractually required contribution	<u>184,829</u>	<u>148,832</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 2,019,991	\$ 1,712,684
Contributions as a percentage of covered-employee payroll	15.21%	14.69%

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, 2015

Statement 1

	2015		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Revenues:			
State of North Carolina	\$ 2,278,120	\$ 2,278,172	\$ 52
Board(s) of Education			
Wake County	819,078	868,126	49,048
Durham County	48,603	48,603	-
Johnston County	7,102	7,102	-
Franklin County	8,445	8,445	-
Granville County	2,880	2,880	-
Wayne County	881	881	-
Harnett County	980	980	-
Wilson County	1,361	1,361	-
U.S. Government	76,997	68,554	(8,443)
Contributions and donations	105,100	124,804	19,704
Fundraising	-	6,941	6,941
Field trip and student fees	20,000	24,042	4,042
Miscellaneous	5,000	25,104	20,104
Total revenues	3,374,547	3,465,995	91,448
Expenditures:			
Current:			
Instructional services:			
Regular services	1,999,759	2,051,086	(51,327)
Special services	162,854	166,628	(3,774)
Alternative programs	20,278	20,747	(469)
School leadership services	290,443	297,170	(6,727)
School based support services	70,151	71,128	(977)
Total instructional services	2,543,485	2,606,759	(63,274)
Support services:			
Pupil services	50,392	76,098	(25,706)
Operational support	39,444	114,186	(74,742)
Technology support	13,854	20,131	(6,277)
Financial and human resources support	153,084	236,273	(83,189)
Policy, leadership and public relations support	613,584	361,250	252,334
Total support services	870,358	807,938	62,420
Community services	1,525	16,115	(14,590)
Capital outlay	53,492	34,239	19,253
Total expenditures	3,468,860	3,465,051	3,809

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, 2015
(Continued)

Statement 1

	2015		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Other financing sources (uses):			
Transfers			
Appropriated fund balance	\$ 60,709	\$ -	\$ (60,709)
Transfer from other funds	33,604	55,000	21,396
	94,313	55,000	(39,313)
Excess of revenue over expenditures	\$ -	\$ 55,944	\$ 55,944

CASA ESPERANZA MONTESSORI, INC.
Proprietary Fund
Statement of Revenues and Expenses
Budget and Actual (Non - GAAP)
Year Ended June 30, 2015

Statement 2

	2015		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Revenues:			
Tuition and other charges	\$ 344,344	\$ 366,875	\$ 22,531
Total revenues	<u>344,344</u>	<u>366,875</u>	<u>22,531</u>
Expenditures:			
Salaries and benefits	195,600	127,298	68,302
Pre-School expenses	<u>54,421</u>	<u>21,933</u>	<u>32,488</u>
Total expenditures	<u>250,021</u>	<u>149,231</u>	<u>100,790</u>
Revenues over (under) expenditures	<u>94,323</u>	<u>217,644</u>	<u>123,321</u>
Other financing sources (uses):			
Transfers to other funds	(33,604)	(55,000)	(21,396)
Fund balance appropriated	<u>(60,719)</u>	<u>-</u>	<u>60,719</u>
Total other financing sources (uses)	<u>(94,323)</u>	<u>(55,000)</u>	<u>39,323</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>162,644</u>	<u>\$ 162,644</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Change in net position		<u>\$ 162,644</u>	

Caroline P. Abbott
Jeffrey A. Brovet
Kristen T. Hoyle
David A. Johnson

TJT
Thomas, Judy & Tucker, P.A.
Certified Public Accountants

Chris P. Judy
James K. Tiller
David W. Tucker

**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, 2015, 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 12, 2015.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider 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 2015-1.

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 & Fink, P.A.

October 12, 2015

Caroline P. Abbott
Jeffrey A. Brovet
Kristen T. Hoyle
David A. Johnson

TJT
Thomas, Judy & Tucker, P.A.
Certified Public Accountants

Chris P. Judy
James K. Tiller
David W. Tucker

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR STATE
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 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, 2015. 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 applicable sections of OMB Circular A- 133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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, 2015.

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 OMB Circular A-133 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 2015-1. 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 OMB Circular A-133, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Thomas, Judy & Fuchs, P.A.

October 12, 2015

CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2015

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ 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 that is not considered to be a material weakness? ☐ Yes ☒ None Reported

Type of auditor's 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, 2015

SECTION II – FINANCIAL STATEMENT FINDINGS

No Findings.

SECTION III – STATE AWARD FINDINGS AND QUESTIONED COSTS

Finding 2015 - 1

Tuition and Fees Policy

Criteria: In accordance with G.S. 115C-218.50, a charter 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.

Condition: The School has not adopted a policy regarding fees that complies with the statute.

Cause: With no policy in place, it is possible that the School could charge tuition and/or fees that are not in compliance with the statute.

Questioned Costs: None. Per evidence obtained, the School has not charged tuition or fees that are not in compliance with G.S. 115C-218.50.

Recommendation: We recommend that the School adopt a policy regarding tuition and fees that are in compliance with the statute.

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, 2015

SECTION III – STATE AWARD FINDINGS AND QUESTIONED COSTS

Finding: 2015 - 1

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

Corrective Action: The School will adopt a policy which will be approved by the board of directors which will be in accordance with G.S. 115C-218.50, and state 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.

Proposed Completion Date: October 31, 2015

CASA ESPERANZA MONTESSORI, INC., NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2015

Finding 2014 - 1

Status: Corrected. The School reviewed current policies and the criteria and underlying guidance prior to recording additional liabilities to determine that amounts were recorded are in accordance with U.S. GAAP.

CASA ESPERANZA MONTESSORI, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2015

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expendi- tures
Federal Grants:			
Cash Assistance:			
<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	\$ 20,747
Title VI-B Handicapped	84.027	PRC 060	45,939
Improving Teacher Quality	84.367	PRC 103	<u>1,868</u>
Total U.S. Department of Education			<u>68,554</u>
Total Federal Assistance			<u>68,554</u>
State Grants:			
Cash Assistance:			
N.C. Department of Public Instruction:			
State Public School Fund - Charter Schools		PRC 036	<u>2,278,172</u>
Total State Assistance			<u>2,278,172</u>
Total Federal and State Assistance			<u><u>\$ 2,346,726</u></u>

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

Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of Casa Esperanza Montessori, Inc., and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.