

**CASA ESPERANZA MONTESSORI, INC.**

Financial Statements  
Year Ended June 30, 2021

**CASA ESPERANZA MONTESSORI, INC.**  
**Table of Contents**  
**As of June 30, 2021**

<u>Exhibit</u>		<u>Page</u>
	Financial Section:	
	Independent Auditors' Report	1 - 3
	Management's Discussion and Analysis	4 - 10
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position	11
2	Statement of Activities	12
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds	13
	Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	13
4	Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	14
5	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	15
6	Statement of Net Position – Proprietary Fund	16
7	Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund	17
8	Statement of Cash Flows – Proprietary Fund	18
	Notes to the Financial Statements	19 - 51
	<u>Statement</u>	
	Required Supplementary Information	
	Schedule of the School's Proportionate Share of the Net Pension Liability - Teachers' and State Employees' Retirement System	52
	Schedule of the School's Contributions – Teachers' and State Employees' Retirement System	53
	Schedule of the School's Proportionate Share of the Net OPEB Liability – Retiree Health Benefit Fund	54
	Schedule of the School's Contributions – Retiree Health Benefit Fund	55
	Schedule of the School's Proportionate Share of the Net OPEB Asset – Disability Income Plan of North Carolina	56
	Schedule of the School's Contributions – Disability Income Plan of North Carolina	57
	Statements of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:	
1	All Governmental Fund Types	58 - 59
2	Proprietary Fund Types	60

Compliance Section:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	61 - 62
Independent Auditors' Report on Compliance for Each Major State Program and on Internal Control over Compliance Required by the Uniform Guidance and the State Single Audit Implementation Act	63 - 64
Schedule of Findings and Questioned Costs	65 - 66
Summary Schedule of Prior Audit Findings	67
Schedule of Expenditures of Federal and State Awards	68



Certified Public Accountants

## 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. as of and for the year ended June 30, 2021, 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, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 10 and the Schedules of the School's Proportionate Share of the Net Pension and OPEB Liabilities and the Schedules of School Contributions on pages 52 through 57, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

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

The budgetary schedules and the 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 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 20, 2021 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 the report is solely 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Casa Esperanza Montessori, Inc.'s internal control over financial reporting and compliance.

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

Raleigh, North Carolina  
October 20, 2021

**Management's Discussion and Analysis**  
**Casa Esperanza Montessori, Inc**  
**June 30, 2021**

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, 2021. 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.

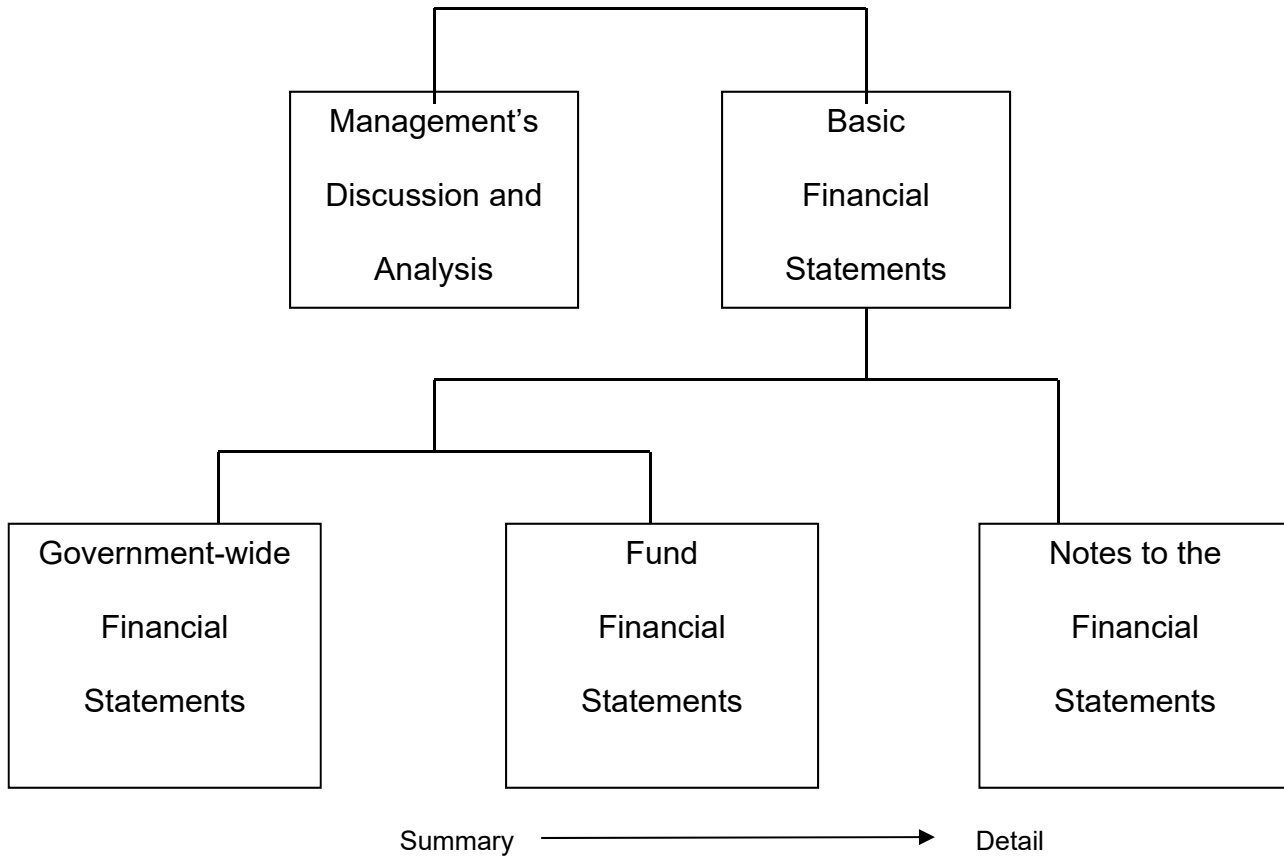
**Financial Highlights**

- The liabilities of Casa Esperanza Montessori, Inc exceeded its assets at the close of the fiscal year by \$(5,745,968) (*net position*).
- The School's total net position increased by \$954,108.
- As of the close of the current fiscal year, Casa Esperanza Montessori, Inc's governmental funds reported combined ending fund balances of \$1,380,747, an increase of \$356,757 in comparison with the prior year.
- Enrollment at the School is strong, with 561 charter (using the 20<sup>th</sup> day enrollment count) and 12 private pre-school students for the 2020 – 2021 year, compared to 537 charter and 12 private pre-school students for the 2019-2020 school year, compared to 510 charter and 20 private pre-school students for the 2018-2019 school year. These enrollment numbers are as of school day 20 which is the student headcount used for State reimbursements.
- Casa Esperanza Montessori, Inc. had long-term obligation for pension, OPEB, and accrued compensated absences in the amount of \$6,413,706 for governmental activities and \$272,579 business activities.
- The school has communicated it's intent to leave the North Carolina Teachers' and State Employees' Retirement System (TSERS) effective October 1, 2021. The school will be required to pay a withdrawal liability of \$2,832,556 to leave the plan. While this decision has no impact on June 30, 2021 financials, the pension and OPEB disclosures should be reviewed with this in mind.
- In February of 2021, the school purchased a 13 acre parcel of land approximately 5 miles north of it's current location for \$1,500,000. This purchase and related acquisition and closing costs were financed with a short term loan. School leadership has been working with Truist Capital Markets to market a bond package to investors that would refinance this land loan and provide adequate funding to build a new school building and pay the pension withdrawal liability. This bond issuance is expected in FY22.

**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.

**Figure 1**  
**Required Components of Annual Financial Report**



### **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.



**Management Discussion and Analysis**  
**Casa Esperanza Montessori, Inc.**  
**June 30, 2021**

**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 started from page 19.

**Management Discussion and Analysis**  
**Casa Esperanza Montessori, Inc.**  
**June 30, 2021**

**Government-Wide Financial Analysis**

- As noted earlier, net position may serve over time as one useful indicator of a school's financial condition. The liabilities of Casa Esperanza Montessori, Inc. exceeded assets by \$5,745,968 as of June 30, 2021. As of June 30, 2020, the net position of Casa Esperanza Montessori, Inc. stood at (\$6,700,076). The School's net position increased by \$954,108 for the fiscal year ended June 30, 2021, compared to an increase of \$741,445 in 2020. The School has invested \$205,486 (net of depreciation) in capital assets mainly in leasehold improvements for the facilities that house the School and also invested \$1,500,000 in land for the year ended June 30, 2021. This land is intended to be used for a new school building, and has been financed with a short term loan. Casa Esperanza Montessori, Inc uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Of the total net position, \$454,140 is restricted for net capital assets, while \$7,822 is restricted for the DIPNC OPEB plan. The remaining unrestricted net position is a deficit of \$(6,207,930). In 2021, the security deposit related to the facility lease was \$90,000.

Casa Esperanza Montessori recorded net pension liability of \$2,136,095, pension deferred outflow of resources of \$772,086, and pension deferred inflows of resources of \$249,559 as of June 30, 2021. As a result of the implementation of Governmental Accounting Standards Board Statement 68 *Accounting and Financial Reporting for Pensions* for the year ended June 30, 2014, Casa Esperanza Montessori annually records pension related liability and deferrals including amounts resulting from the proration of State-wide changes in assumptions and difference between projected and actual earnings on plan investments.

Casa Esperanza Montessori recorded a net OPEB ("other postemployment benefits") asset of \$7,822, a net OPEB liability of \$4,516,040, OPEB deferred outflows of resources of \$489,668, and OPEB deferred inflows of resources of \$2,812,447 as of June 30, 2021. As a result of the implementation of Governmental Accounting Standards Board statement 75 *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* during the year ended June 30, 2019, Casa Esperanza Montessori annually records an OPEB related asset, liability, and related deferrals including amounts resulting from the proration of plan-wide changes in assumptions and differences between projected and actual earnings on plan investments.

**Management Discussion and Analysis  
Casa Esperanza Montessori, Inc.  
June 30, 2021**

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

**Figure 2**

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$1,532,195	\$ 1,041,288	\$904,874	\$870,160	\$2,437,069	\$ 1,911,448
Capital assets	1,984,140	203,069			1,984,140	203,069
	<u>3,516,335</u>	<u>1,244,357</u>	<u>904,874</u>	<u>870,160</u>	<u>4,421,209</u>	<u>2,114,517</u>
Deferred outflows of resources	1,227,292	1,275,553	34,462	52,675	1,261,754	1,328,228
Current liabilities	1,674,010	10,050	6,630	6,905	1,680,640	16,955
Long-term liabilities	6,413,706	7,324,998	272,579	333,815	6,686,285	7,658,813
Total liabilities	<u>8,087,716</u>	<u>7,335,048</u>	<u>279,209</u>	<u>340,720</u>	<u>8,366,925</u>	<u>7,675,768</u>
Deferred inflows of resources	2,948,798	2,357,942	113,208	109,111	3,062,006	2,467,053
Net Position						
Net Investment in capital assets	454,140	203,069	-	-	454,140	203,069
Restricted	7,438	7,248	384	381	7,822	7,629
Unrestricted	<u>(6,754,465)</u>	<u>(7,383,397)</u>	<u>546,535</u>	<u>472,623</u>	<u>(6,207,930)</u>	<u>(6,910,774)</u>
Total Net Position	<u>\$(6,292,887)</u>	<u>\$(7,173,080)</u>	<u>\$546,919</u>	<u>\$473,004</u>	<u>\$(5,745,968)</u>	<u>\$(6,700,076)</u>

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

- The School adopted a combined annual budget for all funds. The School's performance was measured using these budgets on a monthly basis, allowing changes in spending as needed to stay within the budget.
- The School received \$25,135 in donations and fundraising during the fiscal year.

Management Discussion and Analysis  
 Casa Esperanza Montessori, Inc.  
 June 30, 2021

Casa Esperanza Montessori, Inc  
 Changes in Net Position  
 Figure 3

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 35,246	\$ 317,124	\$ 35,246	\$ 317,124
Operating grants and contributions	174,857	104,594	-	-	174,857	104,594
General revenues: County, State, and Federal funds	5,195,483	5,031,197	-	-	5,195,483	5,031,197
Donations and other revenues	36,875	105,585	-	-	36,875	105,585
<b>Total revenues</b>	<b>5,407,215</b>	<b>5,241,376</b>	<b>35,246</b>	<b>317,124</b>	<b>5,442,461</b>	<b>5,558,500</b>
<b>Expenses:</b>						
Instructional programs	3,391,231	3,748,274	-	-	3,391,231	3,748,274
Support services	980,190	836,036	-	-	980,190	836,036
Community services		164	-	-	-	164
Loan fees	55,000	-	-	-	55,000	-
Preschool	-	-	61,932	232,581	61,932	232,581
<b>Total expenses</b>	<b>4,426,421</b>	<b>4,584,474</b>	<b>61,932</b>	<b>232,581</b>	<b>4,488,353</b>	<b>4,817,055</b>
<b>Increase in net position before transfers</b>	<b>980,794</b>	<b>656,902</b>	<b>(26,686)</b>	<b>84,543</b>	<b>954,108</b>	<b>741,445</b>
<b>Transfers</b>	<b>(100,601)</b>	<b>(222,721)</b>	<b>100,601</b>	<b>222,721</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in net position</b>	<b>880,193</b>	<b>434,181</b>	<b>73,915</b>	<b>307,264</b>	<b>954,108</b>	<b>741,445</b>
<b>Net position - beginning, previously reported</b>	<b>(7,173,080)</b>	<b>(7,607,261)</b>	<b>473,004</b>	<b>165,740</b>	<b>(6,700,076)</b>	<b>(7,441,521)</b>
<b>Net position - ending</b>	<b>\$ (6,292,887)</b>	<b>\$ (7,173,080)</b>	<b>\$ 546,919</b>	<b>\$ 473,004</b>	<b>\$ (5,745,968)</b>	<b>\$ (6,700,076)</b>

**Governmental activities:** Governmental activities increased the School's net position by \$880,193, compared with \$434,181 increase from prior year.

**Business-type activities:** Business-type activities increased Casa Esperanza Montessori, Inc's net position by \$73,915, compared with \$307,264 increase from prior year.

**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.

**Management Discussion and Analysis**  
**Casa Esperanza Montessori, Inc.**  
**June 30, 2021**

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 \$1,242,895, an increase of \$310,740 over prior year.

At June 30, 2021, the governmental funds of Casa Esperanza Montessori, Inc reported a combined fund balance of \$1,380,747.

**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 \$546,535.

**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, 2021, totals \$1,984,140 (net of accumulated depreciation). These assets include land, construction in progress, leasehold improvements and instructional equipment.

	Governmental Activities		Business Type Activities		Total Activities	
	2021	2020	2021	2020	2021	2020
Land	\$1,500,000	\$ -	\$ -	\$ -	\$1,500,000	\$ -
Construction in progress	278,652	-	-	-	278,652	-
Instructional equipment	136,430	109,134	-	-	136,430	109,134
Leasehold improvements	69,058	93,935	-	-	69,058	93,935
<b>Total</b>	<b>\$1,984,140</b>	<b>\$203,069</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$1,984,140</b>	<b>\$ 203,069</b>

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

**Long-term Debt.** As of June 30, 2021, Casa Esperanza Montessori, Inc had no long term debt outstanding.

**Economic Factors**

The following key economic indicators reflect the financial health of the School:

- COVID-19 has impacted school operations significantly in both operations and instruction. The 20/21 school year was largely virtual, with Casa Esperanza returning to campus several times throughout the school year to in person instruction when allowable based upon perimeters established by the board and school leadership. Funding has been more than sufficient to prevent negative financial impacts to the school as the state of NC funded Charter schools based upon the projected allotments provided to DPI during the summer of 2020. While the school started the year with a 1-to-1 device to students ratio, grant funds were used to improve the teachers’ home computing/teaching environment.
- While there is growing interest in charter schools across the Triangle area, there is also growing competition from new or expanding charter schools.
- 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, 2021**

**Exhibit 1**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,385,077	\$ 904,490	\$ 2,289,567
Accounts receivable	1,828	-	1,828
Net OPEB asset	7,438	384	7,822
Prepaid expenses	47,852	-	47,852
Security deposit	90,000	-	90,000
Capital assets (Note 1):			
Land	1,500,000	-	1,500,000
Construction in progress	278,652	-	278,652
Other capital assets, net of depreciation	205,488	-	205,488
 Total capital assets	 1,984,140	 -	 1,984,140
 Total assets	 3,516,335	 904,874	 4,421,209
 <b>PENSION DEFERRED OUTFLOWS OF RESOURCES</b>	 762,036	 10,050	 772,086
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>465,256</b>	<b>24,412</b>	<b>489,668</b>
 <b>LIABILITIES</b>			
Accounts payable	144,010	-	144,010
Deferred revenues	-	6,630	6,630
Note payable	1,530,000	-	1,530,000
Long-term liabilities:			
Net pension liability	2,108,328	27,767	2,136,095
Net OPEB liability	4,271,228	244,812	4,516,040
Due within one year	34,150	-	34,150
 Total liabilities	 8,087,716	 279,209	 8,366,925
 <b>PENSION DEFERRED INFLOWS OF RESOURCES</b>	 246,315	 3,244	 249,559
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>2,702,483</b>	<b>109,964</b>	<b>2,812,447</b>
 <b>NET POSITION</b>			
Net investment in capital assets	454,140	-	454,140
Restricted for:			
DIPNC OPEB plan	7,438	384	7,822
Unrestricted	(6,754,465)	546,535	(6,207,930)
 Total net position	 \$ (6,292,887)	 \$ 546,919	 \$ (5,745,968)

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

**CASA ESPERANZA MONTESSORI, INC.**  
**Statement of Activities**  
**For the Year Ended June 30, 2021**

**Exhibit 2**

<b>Functions/Programs</b>	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>						
Governmental activities:						
Instructional services	\$ 3,391,231	\$ -	\$ 160,180	\$ (3,231,051)	\$ -	\$ (3,231,051)
Support services	980,190	-	14,677	(965,513)	-	(965,513)
Loan fees	55,000	-	-	(55,000)	-	(55,000)
Total governmental activities	4,426,421	-	174,857	(4,251,564)	-	(4,251,564)
Business-type activities:						
Preschool	61,932	35,246	-	-	(26,686)	(26,686)
Total business-type activities	61,932	35,246	-	-	(26,686)	(26,686)
Total primary government	\$ 4,488,353	\$ 35,246	\$ 174,857	(4,251,564)	(26,686)	(4,278,250)
General revenues:						
Unrestricted county appropriations				1,667,008	-	1,667,008
Unrestricted State appropriations				3,528,475	-	3,528,475
Contributions and donations				24,841	-	24,841
Fundraising				294	-	294
Field trip and student fees				36	-	36
Miscellaneous, unrestricted				11,704	-	11,704
Transfers				(100,601)	100,601	-
Total general revenues and transfers				5,131,757	100,601	5,232,358
Change in net position				880,193	73,915	954,108
Net position - beginning				(7,173,080)	473,004	(6,700,076)
Net position - ending				\$ (6,292,887)	\$ 546,919	\$ (5,745,968)

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

**CASA ESPERANZA MONTESSORI, INC.**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2021**

**Exhibit 3**

	Major Funds		Non-Major Fund	Total Governmental Funds
	General	State Public School	Federal Grants	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,385,077	\$ -	\$ -	\$ 1,385,077
Accounts receivable	1,828	-	-	1,828
Prepaid expenses	47,852	-	-	47,852
Security deposit	90,000	-	-	90,000
Total assets	\$ 1,524,757	\$ -	\$ -	\$ 1,524,757
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 144,010	\$ -	\$ -	\$ 144,010
Total liabilities	144,010	-	-	144,010
Fund balances:				
Nonspendable:				
Prepaid expenses	47,852	-	-	47,852
Security deposit	90,000	-	-	90,000
Unassigned	1,242,895	-	-	1,242,895
Total fund balances	1,380,747	-	-	1,380,747
Total liabilities and fund balances	\$ 1,524,757	\$ -	\$ -	

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

Net OPEB Asset	7,438
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,984,140
Deferred outflows of resources related to pensions	762,036
Deferred outflows of resources related to OPEB	465,256

Some liabilities are not due and payable in the current period and therefore are not reported in the funds:

Note payable	(1,530,000)
Net pension liability	(2,108,328)
Net OPEB liability	(4,271,228)
Accrued compensated absences	(34,150)
Deferred inflows of resources related to pensions	(246,315)
Deferred inflows of resources related to OPEB	(2,702,483)
Net position of governmental activities	\$ (6,292,887)

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**  
**For the Year Ended June 30, 2021**

**Exhibit 4**

	Major Funds		Non-Major Fund	Total Governmental Funds
	General	State Public School	Federal Grants	
<b>REVENUES</b>				
State of North Carolina	\$ -	\$ 3,528,475	\$ -	\$ 3,528,475
Boards of Education	1,667,008	-	-	1,667,008
U.S. Government	-	29,806	145,051	174,857
Contributions and donations	24,841	-	-	24,841
Fundraising	294	-	-	294
Field trip and student fees	36	-	-	36
Miscellaneous	11,704	-	-	11,704
	<b>1,703,883</b>	<b>3,558,281</b>	<b>145,051</b>	<b>5,407,215</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
Instructional services	461,119	3,017,496	130,374	3,608,989
Support services	466,548	500,353	14,677	981,578
<b>Capital outlay:</b>	1,793,858	40,432	-	1,834,290
<b>Debt service:</b>				
Loan fees	55,000	-	-	55,000
	<b>2,776,525</b>	<b>3,558,281</b>	<b>145,051</b>	<b>6,479,857</b>
Deficiency of revenues over expenditures	(1,072,642)	-	-	(1,072,642)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from long-term debt	1,530,000	-	-	1,530,000
Transfers to other funds	(100,601)	-	-	(100,601)
	<b>1,429,399</b>	<b>-</b>	<b>-</b>	<b>1,429,399</b>
Net change in fund balance	356,757	-	-	356,757
Fund balance - beginning	1,023,990	-	-	1,023,990
Fund balance - ending	<b>\$ 1,380,747</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,380,747</b>

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**  
**For the Year Ended June 30, 2021**

**Exhibit 5**

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

Net change in fund balance - total governmental funds	\$ 356,757
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 capital outlays exceeded depreciation in the current period.	1,781,071
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,530,000)
Contributions to the pension plan in the current fiscal year are not included on the statement of activities	341,252
Contributions to the OPEB plan in the current fiscal year are not included on the statement of activities	244,041
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	(536,463)
Net OPEB expense	237,540
Accrued compensated absences	(14,005)
Total changes in net position of governmental activities	\$ 880,193

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, 2021**

**Exhibit 6**

	Enterprise Fund
	Major Fund
	Preschool
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 904,490
OPEB asset	384
Total assets	904,874
<b>PENSION DEFERRED OUTFLOWS OF RESOURCES</b>	10,050
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	24,412
<b>LIABILITIES</b>	
Deferred revenues	6,630
Noncurrent liabilities:	
Net pension liability	27,767
Net OPEB liability	244,812
Total liabilities	279,209
<b>PENSION DEFERRED INFLOWS OF RESOURCES</b>	3,244
<b>DEFERRED INFLOWS OF RESOURCES</b>	109,964
<b>NET POSITION</b>	
Restricted for:	
DIPNC OPEB plan	384
Unrestricted	546,535
Total net position	\$ 546,919

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

**CASA ESPERANZA MONTESSORI, INC.**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Fund**  
**For the Year Ended June 30, 2021**

**Exhibit 7**

	Enterprise Fund
	Major Fund
	Preschool
<b>OPERATING REVENUES</b>	
Tuition and other charges	\$ 35,246
Total operating revenues	35,246
<b>OPERATING EXPENSES</b>	
Salaries and benefits	26,983
Pre-School expenses	34,949
Total operating expenses	61,932
Operating loss	(26,686)
Transfers from other funds	100,601
Change in net position	73,915
Total net position - beginning	473,004
Total net position - ending	\$ 546,919

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

**CASA ESPERANZA MONTESSORI, INC.**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended June 30, 2021**

**Exhibit 8**

	Enterprise Fund
	Major Fund
	Preschool
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 35,516
Cash paid for goods and services	(34,949)
Cash paid to employees for services	(66,457)
Net cash used by operating activities	(65,890)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from other funds	100,601
Net cash provided by noncapital financing activities	100,601
Net increase in cash and cash equivalents	34,711
Balance - beginning	869,779
Balance - ending	\$ 904,490
Reconciliation of operating income to net cash used by operating activities	
Operating loss	\$ (26,686)
Changes in assets, deferred outflows and inflows of resources, and liabilities:	
Decrease (increase) in net OPEB asset	(3)
Decrease (increase) in pension deferred outflows of resources	16,755
Decrease (increase) in deferred outflows	1,458
Increase (decrease) in deferred revenues	(275)
Increase (decrease) in net pension liability	(46,969)
Increase (decrease) in net OPEB liability	(14,267)
Increase (decrease) in pension deferred inflows of resources	(2,371)
Increase (decrease) in deferred inflows	6,468
Net cash used by operating activities	\$ (65,890)

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

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The School is a North Carolina non-profit corporation incorporated in February 2001. Pursuant to the provisions of the Charter School Act of 1996 as amended (the "Act"), Casa Esperanza Montessori, Inc. has been approved to operate Casa Esperanza Montessori School, a public school serving approximately 546 students. The School operates under an approved charter received from the SBE and applied for under the provisions of G.S. 115C-218.1. G.S. 115C-218.6(b)(1) provides that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act ("SBFCA"), and requires the financial statements to be prepared in accordance with GAAP. The current charter is effective until June 30, 2027, and may be renewed for subsequent periods of ten (10) years unless one of the conditions in G.S. 115C-218.6(b) applies in which case the SBE may renew the charter for a shorter period or not renew the charter. Management believes that the charter will be renewed in the ordinary course of business.

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

*Blended Component Unit:* Casa Esperanza Holding, LLC ("LLC") was formed in October 2020 as a North Carolina non-profit corporation. The LLC was created primarily as a vehicle to finance and own real estate and school facilities utilized by the School. GASB Statement No. 14 as amended, The Financial Reporting Entity, requires blending when 1) a component unit's governing body is substantively the same as the governing body of the primary government, 2) a component unit provides services entirely, or almost entirely, to the primary government, 3) a component unit's total debt outstanding, including leases, is expected to be repaid entirely, or almost entirely, with resources of the primary government, or 4) the primary government is the sole corporate member of the component unit. The LLC provides services almost entirely to the School, including owning real property to be leased to the School. Therefore, the LLC is reported as a blended component unit included in the general fund in the School's financial statements. The LLC did not issue separate financial statements.

**CASA ESPERANZA MONTESSORI, INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2021

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

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

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of 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. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The School reports one non-major governmental fund, the Federal Grant 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. Non-exchange 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. 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.



**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

1. Summary of Significant Accounting Policies (Continued)

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 the supplemental data represents the budget of the School at June 30, 2021. 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 and investment and to maximize investment income. All cash held with original maturities of three months or less are considered cash and cash equivalents. The School had no cash equivalents at June 30, 2021.

3. Accounts Receivable

Accounts receivable consist of amounts owed to the School from local school boards and employees. The School has reviewed the receivable balances and determined the amounts to be fully collectible.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. 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.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

1. Summary of Significant Accounting Policies (Continued)

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

6. Capital Assets

The School's donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other capital assets are recorded at original cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

It is the policy of 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	5 - 15
Instructional Equipment	5 - 7

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The School has two items that meet this criterion – pension and OPEB related deferrals and contributions made to the plans subsequent to the measurement date. 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 two items that meet the criterion for this category – pension and OPEB related deferrals.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

1. Summary of Significant Accounting Policies (Continued)

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

8. 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. Debt issuance costs are expensed in the reporting period in which they are incurred.

In fund financial statements, governmental fund types recognize debt premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Compensated Absences

The liability for compensated absences reported in the government-wide statements consist of unpaid, accumulated personal time-off balances. Employees may accumulate up to seventy two (72) 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 current portion of the liability is recorded as such in the government-wide financial statements.

10. Net Position and 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 (out of five possible classifications) designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

**CASA ESPERANZA MONTESSORI, INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2021

1. Summary of Significant Accounting Policies (Continued)

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

10. Net Position and Fund Balances (Continued)

Fund Balance (Continued)

The governmental fund types classify fund balances as follows:

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

**Security Deposit** – portion of fund balance not available for appropriation because it represents the year-end balance of a security deposit on the school facility, which is not an expendable, available resource.

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

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

The School has a revenue spending policy that provides guidance for programs with multiple revenue sources. The finance officer of 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 finance officer has the authority to deviate from this policy if it is in the best interest of the School.

11. 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.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

1. Summary of Significant Accounting Policies (Continued)

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

11. Reconciliation Between Government-Wide and Fund Statements (Continued)

The net adjustment of \$(7,673,634) represents the amount that the net position is less than the total fund balances of governmental funds and consists of several elements as follows:

Capital assets used in governmental activities are not financial resources and therefore not reported in the fund (total capital assets on government-wide statement in governmental activities column).	\$ 2,452,104
Less accumulated depreciation	(467,964)
Net OPEB asset	7,438
Pension related deferred outflows of resources	762,036
OPEB related deferred outflows of resources	465,256
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the funds statements:	
Note payable	(1,530,000)
Net pension liability	(2,108,328)
Net OPEB liability	(4,271,228)
Accrued compensated absences	(34,150)
Deferred inflows of resources related to pension	(246,315)
Deferred inflows of resources related to OPEB	<u>(2,702,483)</u>
Total adjustment	<u>\$ (7,673,634)</u>

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

1. Summary of Significant Accounting Policies (Continued)

F. Revenues, Expenditures, and Expenses

1. Funding

The School is funded by the SBE receiving (i) an amount equal to the average per pupil allocation for the average daily membership (ADM) from the local school administrative unit allotments in which the School is located (i.e. 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-218.105(a)).

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

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

For the fiscal year ended June 30, 2021, the School received funding from the Boards of Education for Wake County (\$1,547,702), Durham County (\$74,079), Johnston County (\$13,744), Franklin County (\$19,797), Granville County (\$3,472), Harnett County (\$813), and Wilson County (\$7,401).

Furthermore, the School has received donations of cash and/or equipment from private organizations. The cash is available to be used 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 the fund balance of the governmental funds and the change in the net position of governmental activities as reported on the government-wide statement of activities.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

1. Summary of Significant Accounting Policies (Continued)

F. Revenues, Expenditures, and Expenses (Continued)

2. Reconciliation Between Government-Wide and Fund Statements (Continued)

The net difference of \$523,436 between the two amounts represents the amount that the change in fund balances of governmental funds exceed the change in net position of governmental activities and consists of the following elements:

Capital outlay expenditures recorded in the fund statements but capitalized as assets on the statement of activities.	\$ 1,834,290
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(53,219)
Proceeds from debt are accrued in the government-wide statements but are recorded as other financing sources on the fund statements.	(1,530,000)
Contributions to the pension plan in the current fiscal year are not included on the statement of activities.	341,252
Contributions to the OPEB plans in the current fiscal year are not included on the statement of activities.	244,041
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 the governmental funds.	
Pension expense	(536,463)
OPEB expense	237,540
Accrued compensated absences	<u>(14,005)</u>
Total	<u>\$ 523,436</u>

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

1. Summary of Significant Accounting Policies (Continued)

F. Revenues, Expenditures, and Expenses (Continued)

3. Defined Benefit Pension Plan and OPEB Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' and State Employees' Retirement System (TSERS), the Retiree Health Benefit Fund (RHBF), and the Disability Income Plan of NC (DIPNC) and additions to/deductions from TSERS, RHBF, and DIPNC's fiduciary net position have been determined on the same basis as they are reported by TSERS, RHBF, and DIPNC. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The School's employer contributions are recognized when due and the School has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of TSERS, RHBF, and DIPNC. Investments are reported at fair value.

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, 2021, the School had deposits with banks and savings and loans with a carrying amount of \$2,289,567. The bank balance with the financial institutions was \$2,341,079 of which \$2,091,079 was uninsured. The School does not have a deposit policy for custodial credit risk.



**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

A. Assets (Continued)

2. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ -	\$ 1,500,000	\$ -	\$ 1,500,000
Construction in Progress	-	<u>278,652</u>	-	<u>278,652</u>
Total capital assets not being depreciated	-	<u>1,778,652</u>	-	<u>1,778,652</u>
Capital assets being depreciated:				
Instructional equipment	173,444	55,638	-	229,082
Leasehold improvements	<u>444,370</u>	-	-	<u>444,370</u>
Total capital assets being depreciated	<u>617,814</u>	<u>55,638</u>	-	<u>673,452</u>
Less accumulated depreciation:				
Instructional equipment	64,310	28,342	-	92,652
Leasehold improvements	<u>350,435</u>	<u>24,877</u>	-	<u>375,312</u>
Total accumulated depreciation	<u>414,745</u>	<u>\$ 53,219</u>	<u>\$ -</u>	<u>467,964</u>
Total capital assets being depreciated, net	<u>203,069</u>			<u>205,488</u>
Total governmental activities capital assets, net	<u>\$ 203,069</u>			<u>\$ 1,984,140</u>

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

Instructional programs	\$ 39,914
Supporting services	<u>13,305</u>
	<u>\$ 53,219</u>

**CASA ESPERANZA MONTESSORI, INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities

1. Pension Plan and Other Postemployment 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 – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, State Superintendent and the State Director of Human Resources, who serve as ex-officio members. The Teachers' and State Employees' Retirement System is included in the Annual Comprehensive Financial Report (ACFR) for the State of North Carolina. The State's ACFR includes financial statements and required supplementary information for TSERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

*Benefits Provided.* TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, 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. 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. 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.

**CASA ESPERANZA MONTESSORI, INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

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

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or 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, 2021, was 14.78% 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 \$345,758, for the year ended June 30, 2021.

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

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

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

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

At June 30, 2021, the School reported a liability of \$2,136,095 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 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, 2020 and at June 30, 2019, the School's proportions were .018% and .020%, respectively.

For the year ended June 30, 2021, the School recognized pension expense of \$507,838. At June 30, 2021, the School 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	\$ 117,710	\$ -
Changes of assumptions	72,388	-
Net difference between projected and actual earnings on pension plan investments	236,230	-
Changes in proportion and differences between School contributions and proportionate share of contributions	-	249,559
School contributions subsequent to the measurement date	<u>345,758</u>	<u>-</u>
	<u>\$ 772,086</u>	<u>\$ 249,559</u>

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

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

\$345,758 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, 2021. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2022	\$ 30,390
2023	37,420
2024	38,583
2025	70,376
2026	-
Thereafter	-

*Actuarial Assumptions.* The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

The plan actuary 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 assumptions used for the December 31, 2019 actuarial valuation are based on the experience study prepared as of December 31, 2014 and adopted by the Board of Trustees on January 21, 2016. Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income 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, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 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 3.05%. All rates of return and inflation are annualized.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

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

*Discount rate.* The discount rate used to measure the total pension liability was 7.00%. 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 liability 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 7.00 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
	(6.00%)	(7.00%)	(8.00%)
School's proportionate share of the net pension liability	\$ 3,844,473	\$ 2,136,095	\$ 703,123

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued ACFR for the State of North Carolina.

As disclosed in footnote 5, the School has provided a notice of intent to withdraw from TSERS.

**CASA ESPERANZA MONTESSORI, INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Other Postemployment Benefits

1. Healthcare Benefits

*Plan description.* The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established in Chapter 135, Article 1 of the General Statutes. It is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments also participate.

Management of the plan is vested in the State Health Plan Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members. RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the State Health Plan. The State Treasurer, with the approval of the State Health Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the State Health Plan.

The financial statements and other required disclosures for the plan are presented in the State of North Carolina's ACFR, which can be found at <https://www.osc.nc.gov/public-information/reports>.

*Benefits provided.* Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan (MA-PDP) options of the self-funded Traditional 70/30 preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the TSERS, the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), the University Employees' Optional Retirement Program (ORP), and a small number



**CASA ESPERANZA MONTESSORI, INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Other Postemployment Benefits (Continued)

1. Healthcare Benefits (Continued)

of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly 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 or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 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 noncontributory premium.

Section 35.21 (c) and (d) of Session Law 2017-57 repeals retiree medical benefits for employees first hired January 1, 2021. The new legislation amends Article 3B of Chapter 135 of the General Statutes to require that retirees must earn contributory retirement service in TSERS (or in an allowed local system unit), CJRS, or LRS prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1 and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

*Contributions.* By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to RHBF are irrevocable. Also by law, fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer the RHBF, including costs to conduct required actuarial valuations of state—supported retired employees' health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis are determined by the

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Other Postemployment Benefits (Continued)

1. Healthcare Benefits (Continued)

General Assembly in the Appropriations Bill. For the current fiscal year, the School contributed 6.68% of covered payroll which amounted to \$156,269.

At June 30, 2021, School reported a liability of \$4,516,040 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019. The total OPEB liability was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions. The School's proportion of the net OPEB liability was based on a projection of the School's present value of future salary, actuarially determined. At June 30, 2020 and June 30, 2019, the School's proportions were 0.016% and 0.018%, respectively.

\$156,269 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2022	\$ 771,768
2023	771,272
2024	457,353
2025	229,733
2026	255,907
Thereafter	-

*Actuarial assumptions.* Common actuarial assumptions for both OPEB plans follow individual note disclosures for each OPEB plan.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Other Postemployment Benefits (Continued)

1. Healthcare Benefits (Continued)

Inflation	3.00%
Salary increases	3.50 to 8.10%, including 3.0% inflation and productivity factor
Investment rate of return	7.00%
 <u>Healthcare cost trend rates</u>	
Medical	6.50% grading down to 5.00% by 2024 for non-MA and MA coverage.
Prescription drug	9.50% grading down to 5.00% by 2028.
Administrative costs	3.00%
Post-Retirement Mortality Rates	RP-2014 Health Annuitant Mortality Table for males and females, adjusted for Collar for some Participants, further adjusted with scaling factors varying before and after age 78, and projected for mortality improvement using Scale MP-2015

*Discount rate.* The discount rate used to measure the total OPEB liability for the RHBF was 2.21% at June 30, 2020 compared to 3.5% at June 30, 2019. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 2.21% was used as the discount rate used to measure the total OPEB liability and is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2020.

*Sensitivity of the School's proportionate share of the net OPEB liability to changes in the discount rate.* The following presents the School's proportionate share of the net OPEB liability, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.21 percent) or 1-percentage point higher (3.21 percent) than the current discount rate:

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Other Postemployment Benefits (Continued)

1. Healthcare Benefits (Continued)

	1% Decrease (1.21%)	Discount Rate (2.21%)	1% Increase (3.21%)
Net OPEB liability	\$ 5,355,738	\$ 4,516,040	\$ 3,839,524

*Sensitivity of the School's proportionate share of the net OPEB liability to changes in the healthcare trend rates.* The following presents the School's proportionate share of the net OPEB liability, as well as what the School's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher than the current healthcare trend rates:

	1% Decrease	Healthcare Trend Rates Medical – 5.00- 6.50%	1% increase
Medical – 4.00-5.50%		Pharmacy – 5.00- 9.50%	Medical – 6.00-7.50%
Pharmacy – 4.00- 8.50%		Medicare Advantage – 5.00-6.50%	Pharmacy – 6.00- 10.50%
Medicare Advantage – 4.00- 5.50%		Administrative – 3.00%	Medicare Advantage – 6.00-7.50%
Administrative – 2.00%			Administrative – 4.00%
Net OPEB liability	\$ 3,640,745	\$ 4,516,040	\$ 5,685,990

*OPEB plan fiduciary net position.* Detailed information about the OPEB plan's fiduciary net position is available in the separately issued ACFR for the State of North Carolina.

As disclosed in footnote 5, the School has provided a notice of intent to withdraw from the RHBF.

2. 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, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain Local Education Agencies, and ORP.

**CASA ESPERANZA MONTESSORI, INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Other Postemployment Benefits (Continued)

2. Disability Benefits (Continued)

Management of the plan is vested in the State Health Plan Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members. Management of the plan is vested in the State Health Plan Board of Trustees, which consists of 13 members – eight appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex-officio members.

The financial statements and other required disclosures for the plan are presented in the State of North Carolina's ACFR, which can be found at <https://www.osc.nc.gov/public-information/reports>.

*Benefits Provided.* Long-term disability benefits are payable as an OPEB 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. 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 TSERS or ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing 5 years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of service at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual

**CASA ESPERANZA MONTESSORI, INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Other Postemployment Benefits (Continued)

2. Disability Benefits (Continued)

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 and local supplements 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, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from the TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System or the University Employees' Optional Retirement Program.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to the Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this sections unless the employee has been approved and is in receipt of primary Social Security disability benefits.

*Contributions.* 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 does not provide for automatic post-retirement benefit increases. Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State fiscal year. For the fiscal year ended June 30, 2021, employers made a statutory contribution of 0.09% of covered payroll which was equal to the actuarially required contribution. School contributions to the plan were \$2,105 for the year ended June 30, 2021.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Other Postemployment Benefits (Continued)

2. Disability Benefits (Continued)

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 an other postemployment benefit.

***OPEB Assets, OPEB Expense, and Deferred Outflows and Inflows of Resources of Related to OPEB***

At June 30, 2021, the School reported an asset of \$7,822 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2020, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2019. The total OPEB asset was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions. The School's proportion of the net OPEB asset was based on a projection of the School's present value of future salary, actuarially determined. At June 30, 2020, the School's proportion was 0.016%.

\$2,105 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as an increase or decrease of the net OPEB asset or liability, respectively, in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2022	\$ 1,664
2023	1,132
2024	591
2025	937
2026	114
Thereafter	444

*Actuarial assumptions.* Common actuarial assumptions for both OPEB plans follow individual note disclosures for each OPEB plan.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Other Postemployment Benefits (Continued)

2. Disability Benefits (Continued)

Inflation	3.00%
Salary increases	3.50 to 8.10%, including 3.5% inflation and productivity factor
Investment rate of return	3.75%, net of OPEB plan expense, including inflation

*Sensitivity of the School's proportionate share of the net OPEB asset to changes in the discount rate.* The following presents the School's proportionate share of the net OPEB asset, as well as what the School's proportionate share of the net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower (2.75 percent) or 1-percentage point higher (4.75 percent) than the current discount rate:

	1% Decrease <u>(2.75%)</u>	Discount Rate <u>(3.75%)</u>	1% Increase <u>(4.75%)</u>
Net DIPNC OPEB asset	\$ 6,755	\$ 7,822	\$ 8,858

*Common actuarial assumptions for both OPEB plans.* The total OPEB liability was determined by an actuarial valuation performed as of December 31, 2019 using the following actuarial assumptions, applied to all periods in the measurement, unless otherwise specified. The total OPEB liability was calculated through the use of update procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2020. The update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal cost method was utilized.

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, 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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.



**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Other Postemployment Benefits (Continued)

2. Disability Benefits (Continued)

DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2020. The long-term expected rate of return was determined based on the combination of expected future real rates of return and expected inflation. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2020 is 1.2%.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Opportunistic Fixed Income	7.0%	6.0%
Inflation Sensitive	6.0%	4.0%
Total	<u>100%</u>	

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Other Postemployment Benefits (Continued)

2. Disability Benefits (Continued)

***Total OPEB Expense, OPEB Liabilities, and Deferred Outflows and Inflows of Resources of Related to OPEB***

Following is information related to the proportionate share and pension expense:

	RHBF	DIPNC	Total
OPEB Expense	\$ (259,436)	\$ 5,253	\$ (254,183)
OPEB Liability (Asset)	4,516,040	(7,822)	4,508,218
Proportionate share of the net OPEB liability (asset)	0.01628%	0.01590%	-
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	4,091	5,666	9,757
Changes of assumptions	198,055	608	198,663
Net difference between projected and actual earnings on OPEB plan investments	9,514	-	9,514
Changes in proportion and differences between School contributions and proportionate share of contributions	112,216	1,144	113,360
School contributions subsequent to the measurement date	156,269	2,105	158,374
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	176,673	-	176,673
Changes of assumptions	1,832,682	616	1,833,298
Net difference between projected and actual earnings on plan investments	-	1,325	1,325
Changes in proportion and differences between School contributions and proportionate share of contributions	800,555	596	801,151

As disclosed in footnote 5, the School has provided a notice of intent to withdraw from the DIPNC.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Deferred Outflows and Inflows of Resources

The balance in deferred outflows and inflows of resources at June 30, 2021 is composed of the following elements:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 9,757	\$ 176,673
Changes of assumptions	198,663	1,833,298
Net difference between projected and actual earnings on pension plan investments	9,514	1,325
Changes in proportion and differences between School contributions and proportionate share of contributions	113,360	801,151
School contributions subsequent to the measurement date	<u>158,374</u>	<u>-</u>
	<u>\$ 489,668</u>	<u>\$ 2,812,447</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.

As authorized by G.S. 115C-218.70(a)(4), the School also participates in the Teachers' and State Employees' Comprehensive Major Medical Plan (the "Medical Plan"), a self-funded risk financing pool of the State administered by Blue Cross and Blue Shield of North Carolina. Through this plan, permanent full-time employees of the School are eligible to receive health care benefits. The School pays the full cost of coverage for employees enrolled in the medical plan.

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

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Risk Management (Continued)

The School has elected not to carry flood insurance because the School is not in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency.

The School carries fidelity bond coverage in the amount of \$250,000 for all its employees.

4. Long-Term Obligations

a. Note Payable

The School has a bridge loan with a real estate investment trust with an outstanding balance of \$1,530,000 as of June 30, 2021. Interest of 6.50% and principal are due upon maturity in October 2021. The note is secured by real estate.

b. 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, 2021:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Current Portion</u>
<b>Governmental Activities:</b>					
Net pension liability	\$ 1,950,965	\$ 157,363	\$ -	\$ 2,108,328	\$ -
Net OPEB liability	5,354,433	-	1,083,205	4,271,228	-
Note payable	-	1,530,000	-	1,530,000	-
Compensated Absences	19,600	14,550	-	34,150	34,150
	<u>\$ 7,324,998</u>	<u>\$ 1,701,913</u>	<u>\$ 1,083,205</u>	<u>\$ 7,943,706</u>	<u>\$ 34,150</u>
<b>Business-Type Activities:</b>					
Net pension liability	\$ 74,736	\$ -	\$ 46,969	\$ 27,767	\$ -
Net OPEB liability	259,079	-	14,267	244,812	-
	<u>\$ 333,815</u>	<u>\$ -</u>	<u>\$ 61,236</u>	<u>\$ 272,579</u>	<u>\$ -</u>

c. Operating Lease

The School entered into an eight-year lease agreement for its building in August 2006. In April 2014, the School amended its lease agreement to extend the maturity date and expand the square footage of space utilized. Monthly lease payments range from \$16,358 to \$44,088 through maturity in July 2026. Additionally, the School has an office equipment lease which matures in December 2022 and has lease payments of \$612. Lease payments for the year ended June 30, 2021 totaled \$576,752 under these lease agreements.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Long-Term Obligations (Continued)

c. Operating Lease (Continued)

Future minimum lease payments are as follows:

<u>Year Ending</u>	
June 30, 2022	\$ 480,751
June 30, 2023	490,134
June 30, 2024	499,891
June 30, 2025	513,694
June 30, 2026	527,870
Thereafter	<u>44,088</u>
	<u>\$ 2,556,428</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 plus 2% (5.25% at June 30, 2021). No amounts are outstanding under this agreement at June 30, 2021, and no amounts were drawn on the line during the year ended June 30, 2021.

	<u>Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Balance</u>
	<u>July 1, 2020</u>	<u>                    </u>	<u>                    </u>	<u>June 30, 2021</u>
Line of Credit	\$ <u>          -          </u>	\$ <u>          -          </u>	\$ <u>          -          </u>	\$ <u>          -          </u>

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2021, consist of the following:

From the General Fund to the Enterprise

Fund to fund operating expenses of the program \$ 100,601

D. Fund Balance

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

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2021

2. Detail Notes on All Funds (Continued)

D. Fund Balance (Continued)

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

Total fund balance	\$ 1,380,747
Less:	
Prepaid items	(47,852)
Security deposit	(90,000)
Remaining fund balance	\$ 1,242,895

3. 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 monies 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.

4. Uncertainties

As a result of the COVID-19 outbreak in the United States, economic uncertainties have arisen which may have a negative impact of the School's financial results in the future. The extent of the impact of COVID-19 on the operational and financial performance will depend on certain developments, including duration and spread of the outbreak, impact on students, employees and vendors, all of which are uncertain at this time. The extent to which COVID-19 may impact the School's financial condition or results in the future is uncertain.

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 September 20, 2021, which is the date the financial statements were available to be issued.

In July 2021, the School provided a notice of intent to withdraw from the Teachers' and State Employees' Retirement System, the Retiree Health Benefit Fund, and the Disability Income Plan of North Carolina, the pension and other postemployment obligation plans that the School currently participates in. A complete withdrawal is scheduled to occur on October 1, 2021 for a withdrawal liability of \$2,832,556. The withdrawal liability is due within 90 days of the complete withdrawal date and the amount is due to the Plans by December 31, 2021.

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

	2021	2020	2019	2018	2017	2016	2015	2014
School's proportion of the net pension liability (asset)	0.018%	0.020%	0.020%	0.021%	0.020%	0.018%	0.016%	0.017%
School's proportionate share of the net pension liability (asset)	\$ 2,136,095	\$ 2,025,701	\$ 1,960,352	\$ 1,696,383	\$ 1,872,213	\$ 655,964	\$ 187,586	\$ 1,019,931
School's covered-employee payroll	\$ 2,278,667	\$ 2,381,496	\$ 2,337,878	\$ 2,420,930	\$ 2,240,336	\$ 2,019,991	\$ 1,712,684	\$ 1,698,363
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	93.74%	85.06%	83.85%	70.07%	83.57%	32.47%	10.95%	60.05%
Plan fiduciary net position as a percentage of the total pension liability	85.98%	87.56%	87.61%	89.51%	87.32%	94.64%	98.24%	90.60%

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

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 345,758	\$ 295,543	\$ 292,686	\$ 252,023	\$ 241,609	\$ 204,991	\$ 184,829	\$ 148,832
Contributions in relation to the contractually required contribution	<u>345,758</u>	<u>295,543</u>	<u>292,686</u>	<u>252,023</u>	<u>241,609</u>	<u>204,991</u>	<u>184,829</u>	<u>148,832</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,339,361	\$ 2,278,667	\$ 2,381,496	\$ 2,337,878	\$ 2,420,930	\$ 2,240,336	\$ 2,019,991	\$ 1,712,684
Contributions as a percentage of covered-employee payroll	14.78%	12.97%	12.29%	10.78%	9.98%	9.15%	9.15%	8.69%



**CASA ESPERANZA MONTESSORI, INC.**  
**SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**  
**Retiree Health Benefit Fund**  
**Last Five Fiscal Years \***

	2021	2020	2019	2018	2017
School's proportion of the net OPEB liability (asset)	0.016%	0.018%	0.018%	0.019%	0.018%
School's proportionate share of the net OPEB liability (asset)	\$ 4,516,040	\$ 5,613,512	\$ 5,106,604	\$ 6,111,570	\$ 7,736,162
School's covered-employee payroll	\$ 2,278,667	\$ 2,381,496	\$ 2,337,878	\$ 2,420,930	\$ 2,240,336
School's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	198.19%	235.71%	218.43%	252.45%	345.31%
Plan fiduciary net position as a percentage of the total OPEB liability	6.92%	4.40%	4.40%	3.52%	2.41%

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

**CASA ESPERANZA MONTESSORI, INC.**  
**SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS**  
 Retiree Health Benefit Fund  
 Last Eight Fiscal Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 156,269	\$ 147,430	\$ 149,320	\$ 145,182	\$ 144,534	\$ 129,043	\$ 114,129	\$ 95,225
Contributions in relation to the contractually required contribution	<u>156,269</u>	<u>147,430</u>	<u>149,320</u>	<u>145,182</u>	<u>144,534</u>	<u>129,043</u>	<u>114,129</u>	<u>95,225</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,339,361	\$ 2,278,667	\$ 2,381,496	\$ 2,337,878	\$ 2,420,930	\$ 2,240,336	\$ 2,019,991	\$ 1,712,684
Contributions as a percentage of covered-employee payroll	6.68%	6.47%	6.27%	6.21%	5.97%	5.76%	5.65%	5.56%

**CASA ESPERANZA MONTESSORI, INC.**  
**SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET OPEB ASSET**  
**Disability Income Plan of North Carolina**  
**Last Five Fiscal Years \***

	2021	2020	2019	2018	2017
School's proportion of the net OPEB asset (liability)	0.016%	0.018%	0.018%	0.019%	0.018%
School's proportionate share of the net OPEB asset (liability)	\$ 7,822	\$ 7,629	\$ 5,431	\$ 11,711	\$ 11,445
School's covered-employee payroll	\$ 2,278,667	\$ 2,381,496	\$ 2,337,878	\$ 2,420,930	\$ 2,240,336
School's proportionate share of the net OPEB asset (liability) as a percentage of its covered-employee payroll	0.34%	0.32%	0.23%	0.48%	0.51%
Plan fiduciary net position as a percentage of the total OPEB liability	115.57%	113.00%	108.47%	116.23%	116.06%

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

**CASA ESPERANZA MONTESSORI, INC.**  
**SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS**  
 Disability Income Plan of North Carolina  
 Last Eight Fiscal Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 2,105	\$ 2,279	\$ 3,334	\$ 3,273	\$ 9,200	\$ 9,185	\$ 8,281	\$ 7,536
Contributions in relation to the contractually required contribution	<u>2,105</u>	<u>2,279</u>	<u>3,334</u>	<u>3,273</u>	<u>9,200</u>	<u>9,185</u>	<u>8,281</u>	<u>7,536</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,339,361	\$ 2,278,667	\$ 2,381,496	\$ 2,337,878	\$ 2,420,930	\$ 2,240,336	\$ 2,019,991	\$ 1,712,684
Contributions as a percentage of covered-employee payroll	0.09%	0.10%	0.14%	0.14%	0.38%	0.41%	0.41%	0.44%

**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, 2021**

	2021		Favorable (Unfavorable) Variance
	Final Budget	Actual	
Revenues:			
State of North Carolina Board(s) of Education	\$ 3,485,134	\$ 3,558,281	\$ 73,147
Wake County	1,521,611	1,547,702	26,091
Durham County	73,152	74,079	927
Johnston County	12,681	13,744	1,063
Franklin County	19,191	19,797	606
Granville County	3,858	3,472	(386)
Harnett County	1,209	813	(396)
Wilson County	8,799	7,401	(1,398)
U.S. Government	188,689	145,051	(43,638)
Contributions and donations	45,000	24,841	(20,159)
Fundraising	-	294	294
Field trip and student fees	16,830	36	(16,794)
Miscellaneous	47,540	11,704	(35,836)
<b>Total revenues</b>	<b>5,423,694</b>	<b>5,407,215</b>	<b>(16,479)</b>
Expenditures:			
Current:			
Instructional services:			
Regular services	3,284,673	2,984,801	299,872
Special services	101,594	213,885	(112,291)
Alternative programs	2,500	14,888	(12,388)
School leadership services	520,820	227,086	293,734
Co-curricular programs	22,750	14,462	8,288
School based support services	75,349	153,867	(78,518)
<b>Total instructional services</b>	<b>4,007,686</b>	<b>3,608,989</b>	<b>398,697</b>
Support services:			
Curriculum services	3,500	-	3,500
Operational support	151,679	139,449	12,230
Technology support	42,000	52,722	(10,722)
Financial and human resources support	203,190	186,215	16,975
Policy, leadership and public relations support	608,770	603,192	5,578
<b>Total support services</b>	<b>1,009,139</b>	<b>981,578</b>	<b>27,561</b>
Capital outlay	1,834,290	1,834,290	-
Debt service:			
Loan Fees	55,000	55,000	-
<b>Total Debt Service</b>	<b>55,000</b>	<b>55,000</b>	<b>-</b>
<b>Total expenditures</b>	<b>6,906,115</b>	<b>6,479,857</b>	<b>426,258</b>

**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, 2021**  
**(Continued)**

	2021		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Other financing sources (uses):			
Proceeds from long-term debt	\$ -	\$ 1,530,000	\$ (1,530,000)
Appropriated fund balance	1,482,421	-	(1,482,421)
Transfer to other funds	-	(100,601)	(100,601)
	1,482,421	1,429,399	(3,113,022)
Excess of revenue over expenditures	\$ -	\$ 356,757	\$ (2,703,243)

**CASA ESPERANZA MONTESSORI, INC.**  
**Proprietary Fund Types**  
**Statement of Revenues and Expenses**  
**Budget and Actual (Non - GAAP)**  
**For the Year Ended June 30, 2021**

	2021		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Revenues:			
Tuition and other charges	\$ 50,000	\$ 35,246	\$ (14,754)
Total revenues	50,000	35,246	(14,754)
Expenditures:			
Salaries and benefits	57,750	26,983	30,767
Pre-School expenses	-	34,949	(34,949)
Total expenditures	57,750	61,932	(4,182)
Revenues over (under) expenditures	(7,750)	(26,686)	(18,936)
Other financing sources (uses):			
Net position appropriated	7,750	100,601	92,851
Total other financing sources (uses)	7,750	100,601	92,851
Revenues and other sources over (under) expenditures	\$ -	73,915	\$ 73,915
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Change in net position		\$ 73,915	



Certified Public Accountants

**INDEPENDENT AUDITORS' 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**

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 financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Casa Esperanza Montessori, Inc. (the "School"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Casa Esperanza Montessori, Inc.'s basic financial statements, and have issued our report thereon dated October 20, 2021.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Casa Esperanza Montessori, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 Casa Esperanza Montessori, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 may 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***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 & Tucker, P.A.*

Raleigh, North Carolina  
October 20, 2021



## Certified Public Accountants

### INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT

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

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

We have audited Casa Esperanza Montessori, Inc.'s (the "School") 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 Casa Esperanza Montessori, Inc.'s major state programs for the year ended June 30, 2021. 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 state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

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

Our responsibility is to express an opinion on compliance for each of 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina* and the *State Single Audit Implementation Act*. Those standards, the Uniform Guidance, and the *State Single Audit Implementation Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about 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 Casa Esperanza Montessori, Inc.'s compliance.

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

In our opinion, 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, 2021.

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

Management of 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 Casa Esperanza Montessori, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Casa Esperanza Montessori, Inc.'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Raleigh, North Carolina  
October 20, 2021

**CASA ESPERANZA MONTESSORI, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2021

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

State Awards

Internal control over major State programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?

Yes  No

Identification of major State programs:

Program Name  
State Public School Fund

SECTION II – FINANCIAL STATEMENT FINDINGS

No findings.

**CASA ESPERANZA MONTESSORI, INC.**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
For the Year Ended June 30, 2021

SECTION III – STATE AWARD FINDINGS AND QUESTIONED COSTS

None.

**CASA ESPERANZA MONTESSORI, INC.**  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2021

**Finding 2020 - 1**

Status: Corrected. The School had teacher licenses maintained on file to show evidence that teachers are licensed to serve children with disabilities.

**CASA ESPERANZA MONTESSORI, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
For the Year Ended June 30, 2021

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expendi- tures</u>
<b>Federal Grants:</b>			
<b>Cash Assistance:</b>			
<u>U.S. Department of Education</u>			
Passed-through the N.C. Department of Public Instruction:			
Improving America School Act of 1994 (IASA)			
Title I - Basic Education	84.010	PRC 050	\$ 14,889
Title VI-B Handicapped	84.027	PRC 060	84,046
IDEA VI-B Special Needs Targeted Assistance	84.027A	PRC 118	2,362
NC ACCESS	84.027	PRC 160	29,078
CARES ACT	84.425D	PRC 163	<u>14,676</u>
Total U.S. Department of Education			<u>145,051</u>
<u>U.S. Treasury</u>			
Passed-through the N.C. Department of Public Instruction:			
COVID Supplemental Funds - Nondigital Resources	21.019	PRC 123	752
COVID Supplemental Funds - Student Computers and Devices	21.019	PRC 124	18,760
COVID Supplemental Funds - Personnel Computers and Devices	21.019	PRC 126	1,829
COVID Supplemental Funds - Cybersecurity	21.019	PRC 135	8,361
COVID Supplemental Funds - Personal Protective Equipment	21.019	PRC 137	<u>104</u>
Total U.S. Treasury			<u>29,806</u>
Total Federal Assistance			<u>174,857</u>
<b>State Grants:</b>			
<b>Cash Assistance:</b>			
N.C. Department of Public Instruction:			
State Public School Fund - Charter Schools	xxxx	PRC 036	<u>3,528,475</u>
Total State Assistance			<u>3,528,475</u>
Total Federal and State Assistance			<u>\$ 3,703,332</u>

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

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the School under the programs of the federal government and the State of North Carolina for the year ended June 30, 2021. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and State Single Audit Implementation Act*. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited.

Note 3: Indirect Cost Rate

The School has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.