

**CASA ESPERANZA MONTESSORI, INC.**

Financial Statements  
Year Ended June 30, 2023



**CASA ESPERANZA MONTESSORI, INC.**  
**Table of Contents**  
**As of June 30, 2023**

<u>Exhibit</u>		<u>Page</u>
	Financial Section:	
	Independent Auditors' Report	1 - 3
	Management's Discussion and Analysis	4 - 11
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position	12
2	Statement of Activities	13
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds	14
	Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	14
4	Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	15
5	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	16
6	Statement of Net Position – Proprietary Fund	17
7	Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund	18
8	Statement of Cash Flows – Proprietary Fund	19
	Notes to the Financial Statements	20 - 37
	<u>Statement</u>	
	Statements of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:	
1	All Governmental Fund Types	38 - 39
2	Proprietary Fund Types	40
	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>	41 - 42
	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	43 - 45
	Schedule of Findings and Questioned Costs	46 – 47
	Corrective Action Plan	48
	Summary Schedule of Prior Audit Findings	49
	Schedule of Expenditures of Federal and State Awards	50



## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

#### ***Opinions***

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, 2023 and the related notes to the financial statements, which collectively comprise Casa Esperanza Montessori, Inc.'s basic financial statements as listed in the table of contents.

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, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Casa Esperanza Montessori, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Audit of 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raises substantial doubt about Casa Esperanza Montessori, Inc.'s ability to continue as a going concern for the twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards* we

- Exercised professional judgement and maintained professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsible to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Casa Esperanza Montessori, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Casa Esperanza Montessori, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information is the responsibility of management, 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 Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Casa Esperanza Montessori, Inc.'s basic financial statements. The budgetary schedules, as well as the accompanying schedule of expenditures of federal and state awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 combining and individual fund financial statements, budgetary schedules, other schedules and the schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2023 on our consideration of Casa Esperanza Montessori, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Casa Esperanza Montessori, Inc.'s 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 26, 2023

**Management's Discussion and Analysis**  
**Casa Esperanza Montessori, Inc.**  
**June 30, 2023**

As management of Casa Esperanza Montessori, Inc. (the School), we offer readers of the School's audited financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2023. We encourage readers to read the information presented herein in conjunction with additional information that we have furnished in the School's financial statements which follow this narrative.

**Financial Highlights**

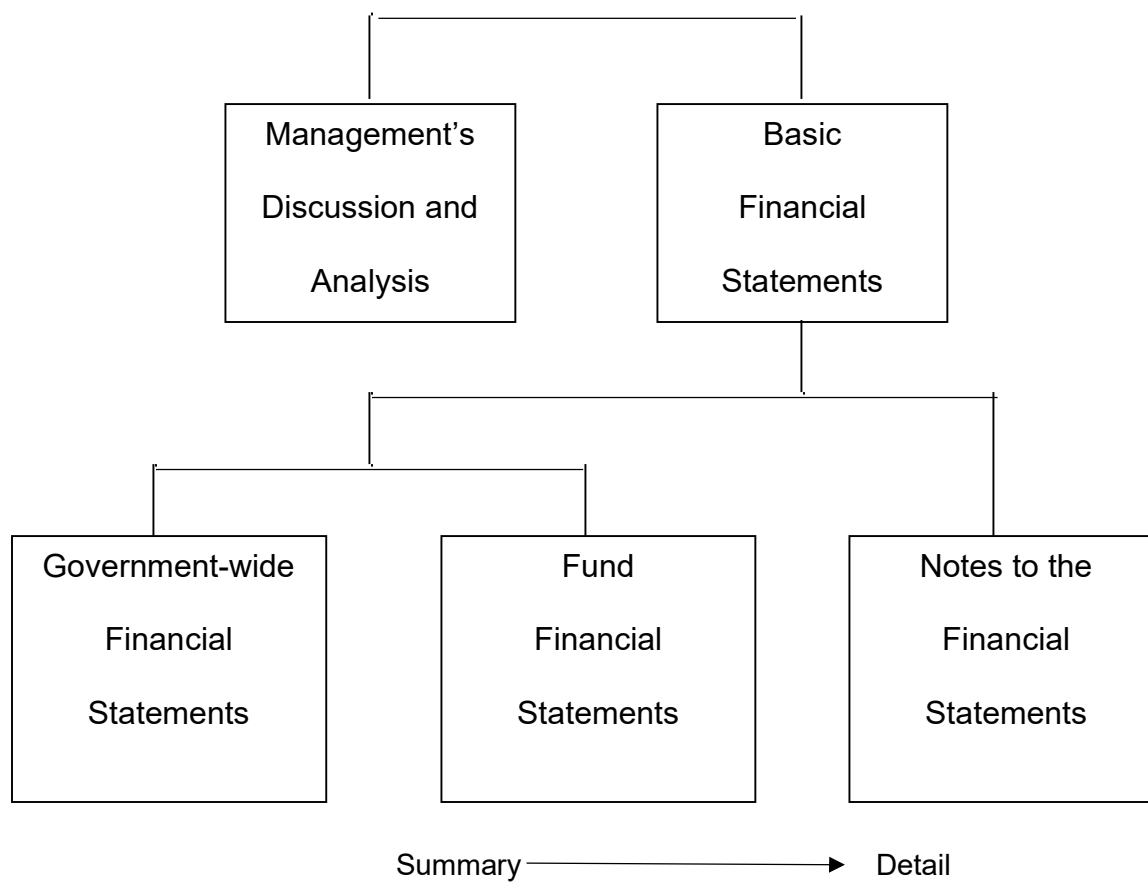
- The School's net position decreased by \$105,881 in fiscal year 2023 primarily due to an increase in interest expense of \$340,715 over the prior fiscal year.
- Total net position stood at (\$1,165,728) due to liabilities of \$22,982,739 exceeding its assets of \$21,817,011.
- Enrollment at the School remains strong with 613 charter school students enrolled as of the September 2022 count date versus 567 at the same point in the prior year. Additionally, the School's preschool and half-day programs experienced increased attendance with 30 students compared to 12 in the prior year.
- The School moved into its new facility at 10510 Star Road in Wake Forest, North Carolina and also made its first principal repayment of \$245,000 on the \$21,610,000 of bonds payable issued in December 2021 to finance the acquisition and construction of the School's property and facilities.
- The School's State and local government funding increased from \$5,540,595 to \$6,322,936 from 2022 to 2023 due to the increased enrollment previously described and an increase in per pupil funding of around 4%.
- As a result of the additional funding, the School was able to increase its expenditures for instructional programs from \$4,800,944 to \$5,306,096, an increase of approximately 11%.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the School'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 distinct financial perspectives of the School using 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 the School.

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 and are more detailed than the government-wide financial 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** (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 can also be found in this section of the statements.



## **Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the School's finances, similar in format to the financial statements 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 most of the funding for these functions. The business-type activities are those services for which the School charges its students and other customers. This includes the School's preschool and after school programs.

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 used to maintain control over resources that have been segregated for specific activities or objectives. The School, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related statutory requirements, such as the North Carolina General Statutes or the School's budget ordinance. All of the funds of the School can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for 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 fiscal year. Governmental funds are reported using the modified accrual accounting method, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view to help determine if there has been an increase or a decrease in the financial resources available to finance the School's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is an integral part of the fund financial statements.

The School adopts an annual budget for each of its funds, although it is not required to do so by the General Statutes. Since the budget is not required by law, 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 which activities will be pursued and which services the School will provide during the year. It also authorizes the School to obtain funds from identified sources to finance these current period activities. The budgetary statement demonstrates how well the School has complied with the budget ordinance and whether the School has succeeded in providing the services as originally planned.

**Management's Discussion and Analysis**  
**Casa Esperanza Montessori, Inc.**  
**June 30, 2023**

**Proprietary Funds** – The School 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. The School uses enterprise funds to account for its preschool 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 begin on page 20 of this report.

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as one useful indicator of a School's financial condition. The liabilities of the School exceeded its assets by (\$1,165,728). This net position total was comparable to the previous year's total of (\$1,059,847). The negative net position is not unexpected and resulted from the board's decision to relocate the School facilities and incur \$21,610,000 of bonds payable to finance the acquisition and construction of the School's property and facilities. This can be further analyzed in three components:

- Net investment in capital assets totaled (\$7,353,696) and reflects the School's investment in capital assets (e.g., land, building improvements, and furniture and equipment), net of depreciation and less any related debt still outstanding that was issued to acquire those items. The School uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the School's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The net position amount is determined by subtracting \$21,365,000 of bonds payable from the capital asset balance of \$14,011,304.
- Restricted net position totaled \$3,710,953 and is set aside for debt service reserves and repayments.
- Unrestricted net position of \$1,425,946 comprises the remaining portion of total net position and results from the School operating within its budget and ensuring that operating revenues supporting school operations exceed expenditures.

**Figure 2**  
**Casa Esperanza Montessori, Inc.**  
**Net Position**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
<b>Assets</b>						
Current and Other Assets	\$ 6,754,638	\$ 14,717,044	\$ 1,051,069	\$ 1,163,703	\$ 7,805,707	\$ 15,880,747
Capital Assets, net	14,011,304	8,593,504		-	14,011,304	8,593,504
Total assets	20,765,942	23,310,548	1,051,069	1,163,703	21,817,011	24,474,251
<b>Liabilities</b>						
Current Liabilities	141,177	2,004,527	-	1,626	141,177	2,006,153
Long-term Liabilities	22,841,562	23,527,945	-	-	22,841,562	23,527,945
Total Liabilities	22,982,739	25,532,472	-	1,626	22,982,739	25,534,098
<b>Net Position</b>						
Net Invest. in Cap. Assets	(7,353,696)	(13,016,496)	-	-	(7,353,696)	(13,016,496)
Restricted	3,710,953	11,309,209	-	-	3,710,953	11,309,209
Unrestricted	\$ 1,425,946	\$ (514,637)	\$ 1,051,069	\$ 1,162,077	\$ 2,477,015	\$ 647,440
Total Net Position	\$ (2,216,797)	\$ (2,221,924)	\$ 1,051,069	\$ 1,162,077	\$ (1,165,728)	\$ (1,059,847)

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

- The School adopted an annual budget. The School's performance was measured using this budget on a monthly basis, allowing changes to be made in spending as needed to remain within the confines of the budget.
- The School applied for and was awarded several federal grants to assist with meeting the educational needs of the student population.
- The School's State and local government funding increased from \$5,540,595 to \$6,322,936 from 2022 to 2023 due to the increased enrollment previously described and an increase in per pupil funding of around 4%.

**Management's Discussion and Analysis**  
**Casa Esperanza Montessori, Inc.**  
**June 30, 2023**

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Charges for Services	\$ -	\$ -	\$ 534,322	\$ 259,885	\$ 534,322	\$ 259,885
Operating Grants & Contributions	416,472	306,203			416,472	306,203
County & State Funds	6,322,936	5,540,595			6,322,936	5,540,595
Donations and Other Revenues	225,733	57,434			225,733	57,434
<b>Total Revenue</b>	<b>6,965,141</b>	<b>5,904,232</b>	<b>534,322</b>	<b>259,885</b>	<b>7,499,463</b>	<b>6,164,117</b>
Instructional Programs	5,306,096	4,800,944			5,306,096	4,800,944
Support Services	1,091,189	651,630			1,091,189	651,630
Bond & Loan Issuance Costs	-	734,805			-	734,805
Interest on Long-term Debt	1,102,633	761,918			1,102,633	761,918
Preschool & After Care		-	105,426	138,952	105,426	138,952
<b>Total Expenses</b>	<b>7,499,918</b>	<b>6,949,297</b>	<b>105,426</b>	<b>138,952</b>	<b>7,605,344</b>	<b>7,088,249</b>
Change in Operating Net Position	\$ (534,777)	\$ (1,045,065)	\$ 428,896	\$ 120,933	\$ (105,881)	\$ (924,132)
<b>Other Items</b>						
Transfers	539,904	(143,284)	(539,904)	143,284	-	-
Benefit Plans Termination Gain	-	5,261,068	-	350,941	-	5,612,009
Loss on Disposal of Capital Assets	-	(1,756)	-	-	-	(1,756)
<b>Total Other Items</b>	<b>539,904</b>	<b>5,116,028</b>	<b>(539,904)</b>	<b>494,225</b>	<b>-</b>	<b>5,610,253</b>
Change in Net Position	5,127	4,070,963	(111,008)	615,158	(105,881)	4,686,121
Beginning Net Position	\$ (2,221,924)	\$ (6,292,887)	\$ 1,162,077	\$ 546,919	(1,059,847)	(5,745,968)
Ending Net Position	\$ (2,216,797)	\$ (2,221,924)	\$ 1,051,069	\$ 1,162,077	\$ (1,165,728)	\$ (1,059,847)

**Governmental activities.** Governmental activities increased the School's net position by \$5,127 with operating revenues and transfers of \$7,505,045 slightly exceeding operating expenses of \$7,499,918.

**Business-type activities.** Business-type activities produced net income of \$428,896, enabling a transfer of \$539,904 to improve the governmental activities net position described in the previous paragraph.

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

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The general fund is the chief operating fund of the School. At the end of the current fiscal year, the unassigned general fund balance was \$1,386,228 and the total fund balance of the general fund was \$5,323,898, with \$3,710,953 of the total amount set aside and restricted for debt service payments and \$226,717 of the total considered non-spendable as it was used for prepaid expenses and a security deposit.

**Management's Discussion and Analysis**  
**Casa Esperanza Montessori, Inc.**  
**June 30, 2023**

**Proprietary Funds.** The School's proprietary funds provide the same type of information found in the government-wide statements but in more detail. The unrestricted net position of the Preschool and After School Care Fund at the end of the fiscal year amounted to \$1,051,069. Other factors concerning the finances of this fund have already been addressed in the discussion of the School's business-type activities.

**Right-to-Use Leased Asset and Lease Liability**

The School recorded a right-to-use lease asset and related lease liability for its leased facility as a result of implementing GASB 87 in fiscal year 2022. The right-to-use leased asset's value of \$2,274,178 is recorded net of \$894,758 of amortization for a book value of \$1,379,420. The offsetting lease liability of \$1,476,562 is being amortized at approximately \$475,000 per year through maturity in July 2026.

**Capital Asset and Debt Administration**

**Capital assets.** The School's investment in capital assets as of June 30, 2023, totaled \$14,011,304, net of accumulated depreciation. Capital assets include land, construction in progress, buildings and improvements, and furniture and equipment as shown in the table below.

**Figure 4**  
**Casa Esperanza Montessori, Inc.**  
**Capital Assets, Net of Depreciation**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Land	\$ 1,517,998	\$ 1,517,998	\$ -		\$ 1,517,998	\$ 1,517,998
Construction in Progress	-	6,912,919	-		-	6,912,919
Building	12,337,094	-	-	-	12,337,094	-
Instructional Equipment	113,279	108,314	-		113,279	108,314
Leasehold Improvements	42,933	54,273	-	-	42,933	54,273
<b>Total</b>	<b>\$ 14,011,304</b>	<b>\$ 8,593,504</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,011,304</b>	<b>\$ 8,593,504</b>

Additional information about the School's capital assets can be found in Note 2.A.4 of the basic financial statements.

**Management's Discussion and Analysis**  
**Casa Esperanza Montessori, Inc.**  
**June 30, 2023**

**Long-term Debt.** As of June 30, 2023, the School had total long-term obligations outstanding of \$22,841,562. The changes in these obligations and balance as of June 30, 2023, are shown in the table below:

**Figure 5**  
**Casa Esperanza Montessori, Inc.**  
**Long-Term Obligations**

Long-Term Obligations	Balance 6/30/22	Increases	Decreases	Balance 6/30/23	Current Portion
Bonds Payable	\$ 21,610,000	\$ -	\$ 245,000	\$ 21,365,000	\$ 260,000
Lease Liability	1,886,495	-	409,933	\$ 1,476,562	442,474
Compensated Absences	31,450	-	31,450	\$ -	-
<b>Total</b>	<b>\$ 23,527,945</b>	<b>\$ -</b>	<b>\$ 686,383</b>	<b>\$ 22,841,562</b>	<b>\$ 702,474</b>

**Economic Factors**

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

- The board's decision to relocate the School to a new campus with purpose-built classroom facilities, ample parking, improved pick-up and drop-off access for students, and large outdoor learning and recreation spaces, has generated new interest in the School which bodes well for future enrollment.
- The School has benefitted from increased State and local government per pupil funding fueled by the positive environment for school choice in North Carolina.

**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., 10510 Star Road, Wake Forest, NC 27587, telephone (919) 855-9811.

**CASA ESPERANZA MONTESSORI, INC.**  
**Statement of Net Position**  
**June 30, 2023**

**Exhibit 1**

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,359,362	\$ 1,051,069	\$ 2,410,431
Restricted cash and cash equivalents	3,710,953	-	3,710,953
Accounts receivable	78,186	-	78,186
Prepaid expenses	136,717	-	136,717
Security deposit	90,000	-	90,000
Right to use leased assets, net of amortization	1,379,420	-	1,379,420
Capital assets (Note 1):			
Land	1,517,998	-	1,517,998
Other capital assets, net of depreciation	12,493,306	-	12,493,306
 Total capital assets	 14,011,304	 -	 14,011,304
 Total assets	 20,765,942	 1,051,069	 21,817,011
<b>LIABILITIES</b>			
Accounts payable	51,320	-	51,320
Accrued interest	89,857	-	89,857
Long-term liabilities:			
Due within one year	702,474	-	702,474
Due in more than one year	22,139,088	-	22,139,088
 Total liabilities	 22,982,739	 -	 22,982,739
<b>NET POSITION</b>			
Net investment in capital assets	(7,353,696)	-	(7,353,696)
Restricted	3,710,953	-	3,710,953
Unrestricted	1,425,946	1,051,069	2,477,015
 Total net position	 \$ (2,216,797)	 \$ 1,051,069	 \$ (1,165,728)

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, 2023**

**Exhibit 2**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>						
Governmental activities:						
Instructional services	\$ 5,306,096	\$ -	\$ 405,491	\$ (4,900,605)	\$ -	\$ (4,900,605)
Support services	1,091,189	-	10,981	(1,080,208)	-	(1,080,208)
Interest on long-term debt	1,102,633	-	-	(1,102,633)	-	(1,102,633)
Total governmental activities	7,499,918	-	416,472	(7,083,446)	-	(7,083,446)
Business-type activities:						
Preschool	105,426	534,322	-	-	428,896	428,896
Total business-type activities	105,426	534,322	-	-	428,896	428,896
Total primary government	\$ 7,605,344	\$ 534,322	\$ 416,472	(7,083,446)	428,896	(6,654,550)
General revenues:						
Unrestricted county appropriations				2,025,973	-	2,025,973
Unrestricted State appropriations				4,296,963	-	4,296,963
Contributions and donations				1,209	-	1,209
Fundraising				7,590	-	7,590
Interest earnings				193,266	-	193,266
Field trip and student fees				23,668	-	23,668
Transfers				539,904	(539,904)	-
Total general revenues and transfers				7,088,573	(539,904)	6,548,669
Change in net position				5,127	(111,008)	(105,881)
Net position - beginning				(2,221,924)	1,162,077	(1,059,847)
Net position - ending				\$ (2,216,797)	\$ 1,051,069	\$ (1,165,728)

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



**CASA ESPERANZA MONTESSORI, INC.**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2023**

**Exhibit 3**

	Major Funds			Non-Major Fund	Total Governmental Funds
	General	State Public School	Capital Projects	Federal Grants	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,359,362	\$ -	\$ -	\$ -	\$ 1,359,362
Restricted cash and cash equivalents	3,710,953	-	-	-	3,710,953
Accounts receivable	78,186	-	-	-	78,186
Prepaid expenses	136,717	-	-	-	136,717
Security deposit	90,000	-	-	-	90,000
Total assets	<u>\$ 5,375,218</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,375,218</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 51,320	\$ -	\$ -	\$ -	\$ 51,320
Total liabilities	<u>51,320</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,320</u>
Fund balances:					
Nonspendable:					
Prepaid expenses	136,717	-	-	-	136,717
Security deposit	90,000	-	-	-	90,000
Restricted:					
Bonds	3,710,953	-	-	-	3,710,953
Unassigned	<u>1,386,228</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,386,228</u>
Total fund balances	<u>5,323,898</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,323,898</u>
Total liabilities and fund balances	<u>\$ 5,375,218</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,011,304
Right to use leased assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,379,420
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accrued interest	(89,857)
Long-term debt	<u>(22,841,562)</u>
Net position of governmental activities	<u>\$ (2,216,797)</u>

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

**CASA ESPERANZA MONTESSORI, INC.**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2023**

**Exhibit 4**

	Major Funds			Non-Major Fund	Total Governmental Funds
	General	State Public School	Capital Projects	Federal Grants	
<b>REVENUES</b>					
State of North Carolina	\$ -	\$ 4,296,963	\$ -	\$ -	\$ 4,296,963
Boards of Education	2,025,973	-	-	-	2,025,973
U.S. Government	88,768	-	-	327,704	416,472
Contributions and donations	1,209	-	-	-	1,209
Fundraising	7,590	-	-	-	7,590
Field trip and student fees	4,182	-	-	-	4,182
Miscellaneous	19,486	-	-	-	19,486
Net interest income	-	-	193,266	-	193,266
<b>Total revenues</b>	<b>2,147,208</b>	<b>4,296,963</b>	<b>193,266</b>	<b>327,704</b>	<b>6,965,141</b>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Instructional services	728,517	3,675,666	-	327,704	4,731,887
Support services	417,132	621,297	-	-	1,038,429
<b>Capital outlay:</b>	44,443	-	5,584,397	-	5,628,840
<b>Debt service:</b>					
Principal	409,933	-	245,000	-	654,933
Interest	76,529	-	1,028,719	-	1,105,248
<b>Total expenditures</b>	<b>1,676,554</b>	<b>4,296,963</b>	<b>6,858,116</b>	<b>327,704</b>	<b>13,159,337</b>
Deficiency of revenues under expenditures	470,654	-	(6,664,850)	-	(6,194,196)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer to the capital projects fund	(864,009)	-	864,009	-	-
Transfers from other funds	539,904	-	-	-	539,904
<b>Total other financing sources (uses)</b>	<b>(324,105)</b>	<b>-</b>	<b>864,009</b>	<b>-</b>	<b>539,904</b>
<b>Net change in fund balance</b>	<b>146,549</b>	<b>-</b>	<b>(5,800,841)</b>	<b>-</b>	<b>(5,654,292)</b>
Fund balance - beginning	1,552,006	-	9,426,184	-	10,978,190
Transfer to general fund	3,625,343	-	(3,625,343)	-	-
<b>Fund balance - ending</b>	<b>\$ 5,323,898</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,323,898</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, 2023**

**Exhibit 5**

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

Net change in fund balance - total governmental funds	\$ (5,654,292)
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.	5,417,801
Right to use leased asset capital outlay expenditures which were capitalized, net of amortization	(447,379)
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. This amount is the net effect of these differences in the treatment of long-term debt and related items.	654,933
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.	
Change in accrued interest	2,615
Accrued compensated absences	31,449
	<hr/>
Total changes in net position of governmental activities	<u><u>\$ 5,127</u></u>

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

**CASA ESPERANZA MONTESSORI, INC.**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2023**

**Exhibit 6**

	<u>Enterprise Fund</u>
	<u>Major Fund</u>
	<u>Preschool</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	<u>\$        1,051,069</u>
Total assets	<u>1,051,069</u>
<b>NET POSITION</b>	
Unrestricted	<u>1,051,069</u>
Total net position	<u><u>\$        1,051,069</u></u>

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

**CASA ESPERANZA MONTESSORI, INC.**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Fund**  
**For the Year Ended June 30, 2023**

**Exhibit 7**

	<u>Enterprise Fund</u>
	<u>Major Fund</u>
	<u>Preschool</u>
<b>OPERATING REVENUES</b>	
Tuition and other charges	<u>\$ 534,322</u>
Total operating revenues	<u>534,322</u>
<b>OPERATING EXPENSES</b>	
Salaries and benefits	<u>105,426</u>
Total operating expenses	<u>105,426</u>
Operating income	<u>428,896</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Transfers to other funds	<u>(539,904)</u>
Total nonoperating revenues	<u>(539,904)</u>
Change in net position	<u>(111,008)</u>
Total net position - beginning	<u>1,162,077</u>
Total net position - ending	<u><u>\$ 1,051,069</u></u>

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, 2023**

**Exhibit 8**

	<u>Enterprise Fund</u>
	<u>Major Fund</u>
	<u>Preschool</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 532,696
Cash paid to employees for services	<u>(105,426)</u>
Net cash provided by operating activities	<u>427,270</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	<u>(539,904)</u>
Net cash provided by noncapital financing activities	<u>(539,904)</u>
Net decrease in cash and cash equivalents	(112,634)
Balance - beginning	<u>1,163,703</u>
Balance - ending	<u><u>\$ 1,051,069</u></u>
Reconciliation of operating income to net cash used by operating activities	
Operating income	\$ 428,896
Changes in assets, deferred outflows and inflows of resources, and liabilities:	
Increase (decrease) in deferred revenues	<u>(1,626)</u>
Net cash provided by operating activities	<u><u>\$ 427,270</u></u>

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, 2023

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 596 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, 2023

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, 2023

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

*Capital Projects Fund.* The Capital Projects Fund is used to account for the activity of the School's capital projects and related debt issued.

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, 2023

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, 2023. 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 cash equivalents of \$3,710,953 at June 30, 2023.

3. Restricted Cash and Cash Equivalents

The unexpended loan proceeds of the School's bond agreement and amounts restricted for repairs and replacements and other amounts are classified as restricted cash and cash equivalents within the School's capital projects fund because its use is completely restricted to the purpose for which the bonds were originally issued.

4. 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.

5. Prepaid Items

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

6. 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, 2023

1. Summary of Significant Accounting Policies (Continued)

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

7. Right to use leased assets

The School has recorded right to use lease assets as a result of implementing GASB 87. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.

8. 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
Building	39

9. 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 no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The School has no items that meet the criterion.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2023

1. Summary of Significant Accounting Policies (Continued)

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

10. 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.

11. Compensated Absences

The liability for compensated absences which had previously been reported in the government-wide statements consist of unpaid, accumulated personal time-off balances. Employees accumulated up to seventy two (72) days earned vacation leave with such leave being fully vested when earned. The School had accounted for its leave on a first-in, first-out basis, such that the oldest available leave is used first. During the year ended June 30, 2023, the School changed its policy whereby unused personal time is not rolled forward.

12. 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.

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.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2023

1. Summary of Significant Accounting Policies (Continued)

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

12. Net Position and Fund Balances (Continued)

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.

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

Restricted for Bonds – portion of fund balance that can is restricted by the requirements of the School's bond agreement.

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.

13. Reconciliation Between Government-Wide and Fund Statements

The governmental fund balance sheet includes a reconciliation between governmental funds' total fund balance and governmental activities' net position as reported in the government-wide statement of net position. The net adjustment of \$(7,540,695) 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).

\$14,719,607

Less accumulated depreciation

(708,303)

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2023

1. Summary of Significant Accounting Policies (Continued)

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

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

Right to use leased assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,274,178
Less accumulated amortization	(894,758)
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 fund statements:	
Bonds payable	(21,365,000)
Lease liability	(1,476,562)
Accrued interest	<u>(89,857)</u>
Total adjustment	<u>\$ (7,540,695)</u>

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.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2023

1. Summary of Significant Accounting Policies (Continued)

F. Revenues, Expenditures, and Expenses (Continued)

1. Funding (Continued)

For the fiscal year ended June 30, 2023, the School received funding from the Boards of Education for Wake County (\$1,837,709), Durham County (\$98,398), Johnston County (\$15,231), Franklin County (\$55,458), Granville County (\$8,999), Wilson County (\$10,036), and Vance County (\$142).

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.

The net difference of \$(5,659,419) 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.	\$ 5,628,840
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(211,039)
Amortization expense for right to use leased asset	(447,379)
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. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
Principal payments on long-term debt	654,933
Decrease in accrued interest payable	2,615

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2023

1. Summary of Significant Accounting Policies (Continued)

F. Revenues, Expenditures, and Expenses (Continued)

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

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.

Decrease in accrued compensated absences	31,449
Total	<u>\$ 5,659,419</u>

G. Use of Estimates and Assumptions

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

2. Detail Notes on All Funds

A. Assets

1. Deposits

At June 30, 2023, the School had deposits with banks and savings and loans with a carrying amount of \$6,121,384. The bank balance with the financial institutions was \$6,231,719 of which \$2,270,765 was uninsured. The School does not have a deposit policy for custodial credit risk.

2. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of unexpended bond proceeds and are held in money market funds. The amounts are classified as restricted cash and cash equivalents because its use is completely restricted to the purpose for the specific purposes as outlined in the bond agreement.



**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2023

2. Detail Notes on All Funds (Continued)

A. Assets (Continued)

3. Right to Use Leased Asset

The School has recorded one right to use leased asset. The asset is a right to use asset for a leased facility. The related lease liability is discussed in the Leases subsection of the Liabilities section of the notes to the financial statements. The right to use asset is amortized on a straight-line basis over the term of the related lease.

Right to use asset activity for the School for the year ended June 30, 2023 is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Right to use asset:				
Leased facility	\$ 2,274,178	\$ -	\$ -	\$ 2,274,178
Less accumulated amortization:				
Leased facility	<u>447,379</u>	<u>447,379</u>	<u>-</u>	<u>894,758</u>
Right to use asset, net	<u>\$ 1,826,799</u>	<u>\$ 447,379</u>	<u>\$ -</u>	<u>\$ 1,379,420</u>

4. Capital Assets

Capital asset activity related to governmental activities for the year ended June 30, 2023 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	\$ 1,517,998	\$ -	\$ -	\$ 1,517,998
Construction in Progress	<u>6,912,919</u>	<u>5,584,397</u>	<u>(12,497,316)</u>	<u>-</u>
Total capital assets not being depreciated	<u>8,430,917</u>	<u>5,584,397</u>	<u>(12,497,316)</u>	<u>1,517,998</u>
Capital assets being depreciated:				
Building	-	12,497,316	-	12,497,316
Instructional equipment	216,128	44,443	-	260,571
Leasehold improvements	<u>443,722</u>	<u>-</u>	<u>-</u>	<u>443,722</u>
Total capital assets being depreciated	<u>659,850</u>	<u>12,541,759</u>	<u>-</u>	<u>13,201,609</u>

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2023

2. Detail Notes on All Funds (Continued)

A. Assets (Continued)

4. Capital Assets (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Less accumulated depreciation:				
Building	-	160,222	-	160,222
Instructional equipment	107,814	39,478	-	147,292
Leasehold improvements	389,449	11,339	-	400,788
Total accumulated depreciation	497,263	\$ 211,039	\$ -	708,302
Total capital assets being depreciated, net	162,587			12,493,307
Total governmental activities capital assets, net	\$ 8,593,504			\$ 14,011,304

Depreciation expense charged to governmental functions for the year ended June 30, 2023 is summarized as follows:

Instructional programs	\$ 158,279
Supporting services	52,760
	\$ 211,039

B. Liabilities

1. Retirement Plan

The School does not participate in the North Carolina Teachers' and State Employees' Retirement System.

The School offers a 457(b) retirement plan to its employees. Under the plan, the School contributes an amount equal to the employees' contributions up to a limit of 3% of the employees' compensation for the calendar year. The employee may make voluntary contributions, pursuant to a salary reduction agreement of a percentage of annual compensation not to exceed the limits set by the Internal Revenue Code.

During the fiscal years ended June 30, 2023 and 2022, the School contributed a total of \$181,295 and \$135,334, respectively, under the 457(b) retirement plan.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2023

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. 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.

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.

3. Long-Term Obligations

a. Leases

The School entered into an agreement to lease a facility. The lease agreement qualifies as other than short-term leases under GASB 87 and, therefore, has been recorded at the present value of the future minimum lease payments as of July 1, 2021.

The School entered into a lease agreement for a building in August 2006. In April 2014, the School amended its lease agreement to extend the maturity date. Monthly lease payments range from \$16,358 to \$44,088 through maturity in July 2026.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2023

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Long-Term Obligations (Continued)

a. Leases (Continued)

The net present value of the future minimum lease obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30, 2024	\$ 442,474	\$ 57,417	\$ 499,891
Year Ending June 30, 2025	476,892	36,802	513,694
Year Ending June 30, 2026	513,272	14,598	527,870
Year Ending June 30, 2027	<u>43,924</u>	<u>165</u>	<u>44,089</u>
	<u>\$ 1,476,562</u>	<u>\$ 108,982</u>	<u>\$1,585,544</u>

b. Bonds Payable

In December 2021, the School entered into a loan agreement associated with the issuance of revenue bonds in the aggregate of \$21,610,000. Proceeds of the bonds were used to fund the School's withdrawal from its employee benefit plans, fund working capital for the School's existing lease, repay the bridge loan used to originally finance the purchase of real estate, and to fund the construction of a new building to be used as the main operating facility of the School. Additional proceeds were used to fund reserve funds as required by the agreement. Interest during the term ranges from 4.375% - 5.625%. An interest only payment was required in June 2022. Principal payments begin in June 2023 and continue through maturity in June 2056. The real estate has been pledged as collateral for the debt. In the event of a default as defined in the loan agreement, the lender may declare any remaining principal and interest payments due to be immediately payable by the School. The balance outstanding totaled \$21,365,000.

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2023

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Long-Term Obligations (Continued)

b. Bonds Payable (Continued)

Future minimum payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30, 2024	\$ 260,000	\$ 1,014,937	\$ 1,274,937
Year Ending June 30, 2025	275,000	1,000,312	1,275,312
Year Ending June 30, 2026	290,000	984,843	1,274,843
Year Ending June 30, 2027	305,000	968,531	1,273,531
Year Ending June 30, 2028	320,000	951,375	1,271,375
Years Ending June 30, 2029-2033	1,905,000	4,464,375	6,369,375
Years Ending June 30, 2034-2038	2,495,000	3,865,873	6,360,873
Years Ending June 30, 2039-2043	3,180,000	3,189,998	6,369,998
Years Ending June 30, 2044-2048	3,935,000	2,430,568	6,365,568
Years Ending June 30, 2049-2053	4,900,000	1,468,575	6,368,575
Years Ending June 30, 2044-2056	<u>3,500,000</u>	<u>319,725</u>	<u>3,819,725</u>
	<u>\$ 21,365,000</u>	<u>\$ 20,659,112</u>	<u>\$42,024,112</u>

Under the terms of the bond agreement, the School is obligated under certain debt covenants to maintain debt service coverage ratio at or above 1.10 for the year ended June 30, 2022 and for each subsequent year. The calculation of this covenant for the year ended June 30, 2023 is as follows:

Change in net position for the year ended June 30, 2023	\$ (105,881)
Add: interest expense	1,102,633
Add: depreciation expense	211,039
Add: lease asset amortization	<u>447,379</u>
Net income available for debt service	<u>1,655,170</u>
Actual annual debt service:	
Bonds payable	1,273,719
Lease liability	486,462
Less: lease liability payments funded by bond proceeds	<u>(486,462)</u>
Total actual annual debt service	<u>1,273,719</u>
Debt service coverage ratio	<u>1.30</u>

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2023

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Long-Term Obligations (Continued)

b. Bonds Payable (Continued)

Under the terms of the bond agreement, the School is also obligated to maintain days cash on hand calculation of at least 45 days as of June 30, 2022 and for each subsequent year. The calculation of this covenant for the year ended June 30, 2023 is as follows:

Unrestricted cash and cash equivalents	\$ 2,410,431
Total operating expenses	7,605,344
Less: depreciation expense	(211,039)
Less: amortization expense	<u>(447,379)</u>
Total operating expenses	6,946,926
Divided by	<u>365</u>
Daily Expenses	<u>19,033</u>
Days Cash on Hand	<u><u>127</u></u>

c. 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, 2023:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Current Portion</u>
Governmental Activities:					
Bonds payable	\$ 21,610,000	\$ -	\$ 245,000	\$ 21,365,000	\$ 260,000
Lease liability	1,886,495	-	409,933	1,476,562	442,474
Compensated absences	<u>31,450</u>	-	<u>31,450</u>	<u>-</u>	<u>-</u>
	<u>\$ 23,527,945</u>	<u>\$ -</u>	<u>\$ 686,383</u>	<u>\$ 22,841,562</u>	<u>\$ 702,474</u>

**CASA ESPERANZA MONTESSORI, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2023

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Long-Term Obligations (Continued)

d. 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% (10.25% at June 30, 2023). No amounts are outstanding under this agreement at June 30, 2023, and no amounts were drawn on the line during the year ended June 30, 2023.

	Balance July 1, 2022	Draws	Repayments	Balance June 30, 2023
Line of Credit	\$ -	\$ -	\$ -	\$ -

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2023, consist of the following:

From the Enterprise Fund to the General	
Fund to fund operating expenses of the fund	\$ <u>539,904</u>
From the General Fund to the Capital Projects	
Fund to fund operating expenses of the fund	\$ <u>864,009</u>

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, 2023

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, 2023:

Total fund balance	\$ 5,323,898
Less:	
Bonds	(3,710,953)
Prepaid items	(136,717)
Security deposit	<u>(90,000)</u>
Remaining fund balance	<u>\$ 1,386,228</u>

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. Significant Effects of Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through October 26, 2023, which is the date the financial statements were available to be issued.

The School signed a sublease agreement to rent a portion of its leased facility. The lease commencement date is July 1, 2023 with a maturity date of December 31, 2024. Monthly rental payments range from \$40,629 to \$42,904 throughout the term.



**CASA ESPERANZA MONTESSORI, INC.**  
**General, State Public School, and Federal Grants Governmental Funds**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2023**

	2023		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Revenues:			
State of North Carolina	\$ 4,270,578	\$ 4,296,963	\$ 26,385
Board(s) of Education			
Wake County	1,881,043	1,837,709	(43,334)
Durham County	100,718	98,398	(2,320)
Johnston County	15,590	15,231	(359)
Franklin County	56,766	55,458	(1,308)
Granville County	9,212	8,999	(213)
Wilson County	10,273	10,036	(237)
Vance County	144	142	(2)
U.S. Government	389,151	416,472	27,321
Contributions and donations	61,852	1,209	(60,643)
Fundraising	-	7,590	7,590
Field trip and student fees	35,000	4,182	(30,818)
Miscellaneous	-	19,486	19,486
Total revenues	6,830,327	6,771,875	(58,452)
Expenditures:			
Current:			
Instructional services:			
Regular services	4,493,970	3,715,055	778,915
Special services	128,800	416,198	(287,398)
Alternative programs	-	88,138	(88,138)
School leadership services	207,220	301,277	(94,057)
Co-curricular programs	-	-	-
School based support services	170,841	211,219	(40,378)
Total instructional services	5,000,831	4,731,887	268,944
Support services:			
Operational support	210,000	372,264	(162,264)
Technology support	40,000	83,874	(43,874)
Financial and human resources support	259,624	385,235	(125,611)
Policy, leadership and public relations support	1,401,295	197,056	1,204,239
Total support services	1,910,919	1,038,429	872,490
Capital outlay	261,137	44,443	216,694
Debt service:			
Principal	-	409,933	(409,933)
Interest	-	76,529	(76,529)
Total Debt Service	-	486,462	(486,462)
Total expenditures	7,172,887	6,301,221	871,666

**CASA ESPERANZA MONTESSORI, INC.**  
**General, State Public School, and Federal Grants Governmental Funds**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2023**  
**(Continued)**

	2023		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Other financing sources (uses):			
Transfer to capital projects fund	-	(864,009)	(864,009)
Transfer from other funds	-	539,904	539,904
Appropriated fund balance	342,560	-	(342,560)
	<u>342,560</u>	<u>(324,105)</u>	<u>(666,665)</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ 146,549</u>	<u>\$ 146,549</u>

**CASA ESPERANZA MONTESSORI, INC.**  
**Proprietary Fund Types**  
**Statement of Revenues and Expenses**  
**Budget and Actual (Non - GAAP)**  
**For the Year Ended June 30, 2023**

	2023		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Revenues:			
Tuition and other charges	\$ 227,500	\$ 534,322	\$ 306,822
Total revenues	227,500	534,322	306,822
Expenditures:			
Salaries and benefits	105,000	105,426	(426)
Total expenditures	105,000	105,426	(426)
Revenues over (under) expenditures	122,500	428,896	306,396
Other financing sources (uses):			
Transfers to other funds	-	(539,904)	539,904
Net position appropriated	(122,500)	-	(122,500)
Total other financing sources (uses)	(122,500)	(539,904)	417,404
Revenues and other sources over (under) expenditures	\$ -	(111,008)	\$ (111,008)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Change in net position		\$ (111,008)	



**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, 2023, 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 26, 2023.

***Report on 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 to be material weaknesses. However, material weaknesses may exist that may have not been identified.

### ***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Casa Esperanza Montessori, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2023-1.

### ***Casa Esperanza Montessori's Response to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on the School's responses to the findings identified in our audit and which are described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

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

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

Raleigh, North Carolina  
October 26, 2023



**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**

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

We have audited Casa Esperanza Montessori, Inc.'s (the "School") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and 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, 2023. 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.

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, 2023.

***Basis for Opinion on Each Major State Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Casa Esperanza Montessori, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion on compliance for each major State program. Our audit does not provide a legal determination of Casa Esperanza Montessori, Inc.'s compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Casa Esperanza Montessori, Inc.'s programs.

## **Auditors' Responsibility for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Casa Esperanza Montessori, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Casa Esperanza Montessori, Inc.'s compliance with the requirements of each major State program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Casa Esperanza Montessori, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Casa Esperanza Montessori, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Casa Esperanza Montessori, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2023-1. Our opinion on each major State program is not modified with respect to this matter.

*Government Auditing Standards* require the auditor to perform limited procedures on Casa Esperanza Montessori, Inc.'s response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Casa Esperanza Montessori, Inc.'s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 26, 2023



**CASA ESPERANZA MONTESSORI, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended June 30, 2023

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

**CASA ESPERANZA MONTESSORI, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
For the Year Ended June 30, 2023

SECTION II – FINANCIAL STATEMENT FINDINGS

No findings.

SECTION III – STATE AWARD FINDINGS AND QUESTIONED COSTS

**Finding 2023 – 1**

Exceptional Child Teacher License

Criteria: The Charter School should be in compliance with all aspects of the State Board of Education Policy LICN-002, which requires the designation of appropriate licensure prior to employment for positions requiring licensure.

Effect: Exceptional children are not taught by teachers who are licensed to teach exceptional children.

Cause: One teacher did not have a license to teach exceptional children during the 2022-2023 school year.

Questioned Costs: None.

Recommendation: We recommend that all teachers of exceptional children have an appropriate license effective for the current school year.



### SECTION III – STATE AWARD FINDINGS AND QUESTIONED COSTS

Finding: 2023 – 1

Name of Contact Persons: Shaneki Cauble, Director of Finance and Operations

Corrective Action: Casa Esperanza Montessori will monitor and verify licensure for any future applicant prior to offering employment to a teacher in the Exceptional Children Department. If an application is in process Casa Esperanza Montessori will contact the Department of Instruction directly and ask to expedite the application or for clarity on the applicant's application.

If necessary, Casa Esperanza Montessori will ask an employee to enroll in an Educator Preparation Program to continue progress towards licensure.

Proposed Completion Date: This process will begin immediately.

Casa Esperanza Montessori Charter School

10510 Star Road Wake Forest, NC 27587

P. 919.855.9811 F. 919.855.9813

[www.cemcs.org](http://www.cemcs.org)

**CASA ESPERANZA MONTESSORI, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
For the Year Ended June 30, 2023

No prior year findings.

**CASA ESPERANZA MONTESSORI, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
For the Year Ended June 30, 2023

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Expendi- tures
<b>Federal Grants:</b>			
<b>Cash Assistance:</b>			
<u>U.S. Department of Education</u>			
Passed-through the N.C. Department of Public Instruction:			
COVID-19 - Education Stabilization Fund:			
CRRSA:			
CRRSA: K-12 Emergency Relief Fund - ESSER II	84.425D	PRC 171	\$ 70
CRRSA: Public School Unit Supplemental Funding - ESSER II	84.425D	PRC 172	8,328
ARP:			
ARP: K-12 Emergency Relief Fund - ESSER III	84.425D	PRC 181	86,458
ARP: Public School Unit Supplemental Funding - ESSER III	84.425U	PRC 182	95,400
Total COVID-19 - Education Stabilization Fund	84.425		190,256
Special Education Cluster:			
Title VI-B Handicapped	84.027	PRC 060	75,275
ESEA Title VI-B Special Needs	84.027A	PRC 118	712
ARP: IDEA 611 Grants to States	84.027A	PRC 185	21,568
Total Special Education Cluster			97,555
Title I - Basic Education	84.010	PRC 050	10,598
Title III - Language Acquisition - Significant Increase	84.365A	PRC 111	1,610
Improving Teacher Quality	84.367A	PRC 103	1,792
ESEA Title IV - Student Support	84.424A	PRC 108	25,893
Total U.S. Department of Education			327,704
Total Federal Assistance			327,704
<b>State Grants:</b>			
<b>Cash Assistance:</b>			
N.C. Department of Public Instruction:			
State Public School Fund - Charter Schools	xxxx	PRC 036	4,296,963
Total State Assistance			4,296,963
Total Federal and State Assistance			\$ 4,624,667

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, 2023. 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.