

CASA ESPERANZA MONTESSORI, INC.

Financial Statements
Year Ended June 30, 2022

CASA ESPERANZA MONTESSORI, INC.
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As of June 30, 2022

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Certified Public Accountants

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, 2022 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, 2022, 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 responsive 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 25, 2022 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 25, 2022

Management's Discussion and Analysis
Casa Esperanza Montessori, Inc
June 30, 2022

As management of Casa Esperanza Montessori, Inc, we offer readers of Casa Esperanza Montessori, Inc's financial statements this narrative overview and analysis of the financial activities of Casa Esperanza Montessori, Inc (School) for the fiscal year ended June 30, 2022. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the School's financial statements, which follow this narrative.

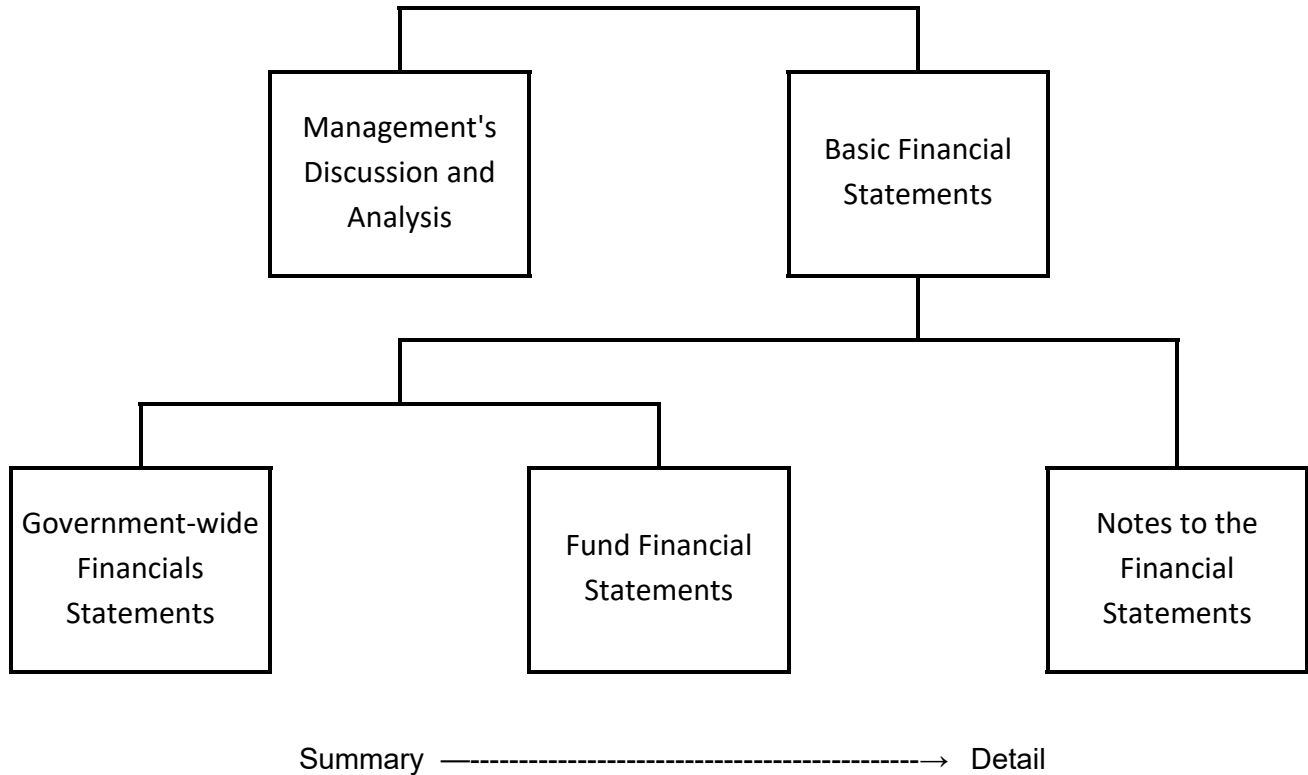
Financial Highlights

- The School's net position increased by \$4,686,121 in fiscal year 2022. This increase was achieved primarily by withdrawing from the NC Teachers' and State Employees' Retirement System defined benefit pension plan. This transaction resulted in a gain on withdrawal of \$5,612,009 and mitigated future potential risks associated with the plan.
- As of the close of the current fiscal year, Casa Esperanza Montessori, Inc's governmental funds reported combined ending fund balances of \$10,978,190, an increase of \$9,597,443 in comparison with the prior year.
- Enrollment at the School is strong, with 553 charter and 12 private preschool students for the 2021 – 2022 year, compared to 561 charter and 12 private preschool students for the 2020-2021 school year, compared to 559 charter and 12 private preschool students for the 2019-2020 school year.
- In December 2021, the School issued \$21,610,000 of bonds to finance the acquisition of land and construction of a new school building. Construction is not yet completed. Principal and interest payments on the bonds begin in June 2023.
- The School implemented Governmental Accounting Standards Board ("GASB") Statement 87, *Leases*, during the year ended June 30, 2022 and recorded a right to use asset and related lease liability for the School's facility lease. The right to use lease asset, net of accumulated amortization, totaled \$1,826,799 as of June 30, 2022. The lease liability, net of principal payments, totaled \$1,886,495 as of June 30, 2022.

Overview of the Financial Statements

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

Figure 1
Required Components of Annual Financial Report



Basic Financial Statements

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

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

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

well the School has complied with the budget ordinance and whether or not the School has succeeded in providing the services essentially as planned when the budget was adopted.

Proprietary Funds – Casa Esperanza Montessori, Inc has one proprietary fund which is an enterprise fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Casa Esperanza Montessori, Inc uses its enterprise fund to account for its 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 are included in this report started from page 19.

Government-Wide Financial Analysis

- As noted earlier, net position may serve over time as one useful indicator of a school's financial condition. The liabilities of Casa Esperanza Montessori, Inc. exceeded assets by \$1,059,847 as of June 30, 2022. As of June 30, 2021, the net position of Casa Esperanza Montessori, Inc. stood at (\$5,745,968). The School's net position increased by \$4,686,121 for the fiscal year ended June 30, 2022, compared to an increase of \$954,108 in 2021. The School has invested \$162,587 (net of depreciation) in capital assets mainly in leasehold improvements for the facilities that house the School and also invested \$1,517,996 in land for the year ended June 30, 2022. The School also has Construction in Progress in the amount of \$6,912,921 as of June 30, 2022. Casa Esperanza Montessori, Inc uses these capital assets to provide services to its students; consequently, these assets are not available for future spending.
- Casa Esperanza Montessori, Inc's investment in its capital assets is reported net of the outstanding related debt, and the School received long-term debt proceeds in the amount of \$21,610,000 during the year for the purchase of land and construction of a new school building. The remaining unrestricted net position is a deficit of \$(647,440). In 2022, the security deposit was \$90,000.
- Casa Esperanza Montessori withdrew from the NC Teachers' and State Employees' Retirement System during the year ended June 30, 2022 replacing it with the NC Supplemental Retirement Plan which is a 457b contributory plan.

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

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$14,717,044	\$1,532,195	\$1,163,703	\$904,874	\$15,880,747	\$ 2,437,069
Capital assets	8,593,504	1,984,140	-	-	8,593,504	1,984,140
Total Assets	23,310,548	3,516,335	1,163,703	904,874	24,474,251	4,421,209
Deferred outflows of resources	-	1,227,292	-	34,462	-	1,261,754
Current liabilities	2,004,527	1,674,010	1,626	6,630	2,006,153	1,680,640
Long-term liabilities	23,527,945	6,413,706	-	272,579	23,527,945	6,686,285
Total liabilities	25,532,472	8,087,716	1,626	279,209	25,534,098	8,366,925
Deferred inflows of resources	-	2,948,798	-	113,208	-	3,062,006
Net Position:						
Net Investment in capital assets	(1,707,287)	454,140	-	-	(1,707,287)	454,140
Restricted	-	7,438	-	384	-	7,822
Unrestricted	(514,637)	(6,754,465)	1,162,077	546,535	647,440	(6,207,930)
Total Net Position	\$(2,221,924)	\$(6,292,887)	\$1,162,077	\$546,919	\$(1,059,847)	\$(5,745,968)

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

- The School adopted a combined annual budget for all funds. The School's performance was measured using these budgets on a monthly basis, allowing changes in spending as needed to stay within the budget.
- The School received \$27,562 in donations and fundraising during the fiscal year.

Management Discussion and Analysis
 Casa Esperanza Montessori, Inc.
 June 30, 2022

- The School commenced construction during the year ended June 30, 2022 on a building that the School will eventually own to economically leverage the benefits of ownership in its own facilities.
- The School withdrew from the NC Teachers' and State Employees' Retirement System during the year ended June 30, 2022 and replaced it with the NC Supplemental Retirement Plan which is a 457b contributory plan. This will have a positive impact on net position since the related proportionate share of the benefit plan liabilities will no longer be an obligation of the School.

Casa Esperanza Montessori, Inc
Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program Revenues:						
Charges for services	\$	\$	\$259,885	\$35,246	\$259,885	\$35,246
Operating grants & contributions	306,203	174,857			306,203	174,857
General Revenues:						
County and State funds	5,540,595	5,195,483			5,540,595	5,195,483
Donations & other revenues	57,434	36,875			57,434	36,875
Total Revenues	5,904,232	5,407,215	259,885	35,246	6,164,117	5,442,461
Expenses:						
Instructional Programs	4,800,944	3,391,231			4,800,944	3,391,231
Support Services	651,630	980,190			651,630	980,190
Bond & loan issuance costs	734,805	55,000			734,805	55,000
Interest on long-term debt	761,918				761,918	
Preschool			138,952	61,932	138,952	61,932
Total Expenses	6,949,297	4,426,421	138,952	61,932	7,088,249	4,488,353
Increase (decrease) in net position before other items	(1,045,065)	980,794	120,933	(26,686)	(924,132)	954,108
Transfers	(143,284)	(100,601)	143,284	100,601		
Gain on withdrawal from benefit plans	5,261,068		350,941		5,612,009	
Loss on disposal of capital assets	(1,756)				(1,756)	
Change in net position	4,070,963	880,193	615,158	73,915	4,686,121	954,108
Net Position - beginning	(6,292,887)	(7,173,080)	546,919	473,004	(5,745,968)	(6,700,076)
Net Position - ending	\$(2,221,924)	\$(6,292,887)	\$1,162,077	\$546,919	\$(1,059,847)	\$(5,745,968)

Governmental activities: Governmental activities increased the School's net position by \$4,070,963, compared with \$880,193 increase from prior year.

Business-type activities: Business-type activities increased Casa Esperanza Montessori, Inc's net position by \$615,158, compared with \$73,915 increase from prior year.

Financial Analysis of the School's Funds

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

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

The general fund is the chief operating fund of Casa Esperanza Montessori, Inc. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,302,858, an increase of \$59,963 over prior year.

At June 30, 2022, the governmental funds of Casa Esperanza Montessori, Inc reported a combined fund balance of \$10,978,190.

Proprietary Funds. The School's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Pre-school Fund at the end of the fiscal year amounted to \$1,162,077.

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 during the year ended June 30, 2022. The right to use leased asset totaled \$2,274,178 and accumulated amortization totaled \$447,379 as of June 30, 2022. The School's lease liability totaled \$1,886,495 as of June 30, 2022.

Capital Asset and Debt Administration

Capital assets. Casa Esperanza Montessori, Inc's investment in capital assets for its governmental and business-type activities as of June 30, 2022, totals \$8,593,504 (net of accumulated depreciation). These assets include land, construction in progress, leasehold improvements and instructional equipment.

Management Discussion and Analysis
 Casa Esperanza Montessori, Inc.
 June 30, 2022

	Governmental Activities		Business Type Activities		Total Activities	
	2022	2021	2022	2021	2022	2021
Land	\$1,517,998	\$1,500,000	-	-	\$1,517,998	\$1,500,000
Construction in progress	6,912,919	278,652	-	-	6,912,919	278,652
Instructional equipment	108,314	136,430	-	-	108,314	136,430
Leasehold improvements	54,273	69,058	-	-	54,273	69,058
Total	\$8,593,504	\$1,984,140	\$ -	\$ -	\$8,593,504	\$1,984,140

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

Long-term Debt. Casa Esperanza Montessori, Inc issued long-term debt in the form of two Series 2021 bonds, Series A in the amount of \$15,955,000 and Series B in the amount of \$5,655,000 effective December 17, 2021, for the purchase of land, construction costs for a new school facility, and withdrawal from the pension plan.

Economic Factors

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

- COVID-19 has impacted school operations significantly. Funding has been more than sufficient to prevent negative financial impacts.
- While there is growing interest in charter schools across the Triangle area, there is also growing competition from new or expanding charter schools.
- Unemployment rate in the Triangle is lower than both the State and National averages.

Requests for Information

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

CASA ESPERANZA MONTESSORI, INC.
Statement of Net Position
June 30, 2022

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,319,640	\$ 1,163,703	\$ 2,483,343
Restricted cash and cash equivalents	11,309,209	-	11,309,209
Accounts receivable	12,248	-	12,248
Prepaid expenses	159,148	-	159,148
Security deposit	90,000	-	90,000
Right to use leased assets, net of amortization	1,826,799	-	1,826,799
Capital assets (Note 1):			
Land	1,517,996	-	1,517,996
Construction in progress	6,912,921	-	6,912,921
Other capital assets, net of depreciation	162,587	-	162,587
	8,593,504	-	8,593,504
Total capital assets			
	23,310,548	1,163,703	24,474,251
Total assets			
LIABILITIES			
Accounts payable	1,912,055	-	1,912,055
Accrued interest	92,472	-	92,472
Deferred revenues	-	1,626	1,626
Long-term liabilities:			
Due within one year	686,383	-	686,383
Due in more than one year	22,841,562	-	22,841,562
	25,532,472	1,626	25,534,098
Total liabilities			
NET POSITION			
Net investment in capital assets	(1,707,287)	-	(1,707,287)
Unrestricted	(514,637)	1,162,077	647,440
	\$ (2,221,924)	\$ 1,162,077	\$ (1,059,847)
Total net position			

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, 2022

Exhibit 2

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:						
Governmental activities:						
Instructional services	\$ 4,800,944	\$ -	\$ 295,222	\$ (4,505,722)	\$ -	\$ (4,505,722)
Support services	651,630	-	10,981	(640,649)	-	(640,649)
Bond issuance costs	734,805	-	-	(734,805)	-	(734,805)
Interest on long-term debt	761,918	-	-	(761,918)	-	(761,918)
Total governmental activities	6,949,297	-	306,203	(6,643,094)	-	(6,643,094)
Business-type activities:						
Preschool	138,952	259,885	-	-	120,933	120,933
Total business-type activities	138,952	259,885	-	-	120,933	120,933
Total primary government	\$ 7,088,249	\$ 259,885	\$ 306,203	(6,643,094)	120,933	(6,522,161)
General revenues:						
Unrestricted county appropriations				1,722,137	-	1,722,137
Unrestricted State appropriations				3,818,458	-	3,818,458
Contributions and donations				26,887	-	26,887
Fundraising				675	-	675
Interest earnings				12,315	-	12,315
Field trip and student fees				17,557	-	17,557
Loss on disposal of capital assets				(1,756)	-	(1,756)
Gain on withdrawal from benefit plans				5,261,068	350,941	5,612,009
Transfers				(143,284)	143,284	-
Total general revenues and transfers				10,714,057	494,225	11,208,282
Change in net position				4,070,963	615,158	4,686,121
Net position - beginning				(6,292,887)	546,919	(5,745,968)
Net position - ending				\$ (2,221,924)	\$ 1,162,077	\$ (1,059,847)

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

CASA ESPERANZA MONTESSORI, INC.
Balance Sheet
Governmental Funds
June 30, 2022

Exhibit 3

	Major Funds			Non-Major Fund	Total Governmental Funds
	General	State Public School	Capital Projects	Federal Grants	
ASSETS					
Cash and cash equivalents	\$ 1,319,640	\$ -	\$ -	\$ -	\$ 1,319,640
Restricted cash and cash equivalents	-	-	11,309,209	-	\$ 11,309,209
Accounts receivable	12,248	-	-	-	12,248
Prepaid expenses	159,148	-	-	-	159,148
Security deposit	90,000	-	-	-	90,000
Total assets	<u>\$ 1,581,036</u>	<u>\$ -</u>	<u>\$ 11,309,209</u>	<u>\$ -</u>	<u>\$ 12,890,245</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 29,030	\$ -	\$ 1,883,025	\$ -	\$ 1,912,055
Total liabilities	<u>29,030</u>	<u>-</u>	<u>1,883,025</u>	<u>-</u>	<u>1,912,055</u>
Fund balances:					
Nonspendable:					
Prepaid expenses	159,148	-	-	-	159,148
Security deposit	90,000	-	-	-	90,000
Restricted:					
Capital projects	-	-	9,426,184	-	9,426,184
Unassigned	1,302,858	-	-	-	1,302,858
Total fund balances	<u>1,552,006</u>	<u>-</u>	<u>9,426,184</u>	<u>-</u>	10,978,190
Total liabilities and fund balances	<u>\$ 1,581,036</u>	<u>\$ -</u>	<u>\$ 11,309,209</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.	8,593,504
Right to use leased assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,826,799
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accrued interest	(92,472)
Long-term debt	<u>(23,527,945)</u>
Net position of governmental activities	<u>\$ (2,221,924)</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, 2022

Exhibit 4

	Major Funds			Non-Major Fund	Total Governmental Funds
	General	State Public School	Capital Projects	Federal Grants	
REVENUES					
State of North Carolina	\$ -	\$ 3,818,458	\$ -	\$ -	\$ 3,818,458
Boards of Education	1,722,137	-	-	-	1,722,137
U.S. Government	-	-	-	306,203	306,203
Contributions and donations	26,887	-	-	-	26,887
Fundraising	675	-	-	-	675
Field trip and student fees	17,557	-	-	-	17,557
Net interest income	-	-	12,315	-	12,315
	<u>1,767,256</u>	<u>3,818,458</u>	<u>12,315</u>	<u>306,203</u>	<u>5,904,232</u>
Total revenues					
EXPENDITURES					
Current:					
Instructional services	595,470	3,427,761	-	295,222	4,318,453
Support services	246,620	381,425	-	10,981	639,026
Capital outlay:	2,274,178	9,272	6,652,264	-	8,935,714
Debt service:					
Principal	387,683	-	1,530,000	-	1,917,683
Interest	157,825	-	511,621	-	669,446
Bond issuance costs	-	-	734,805	-	734,805
	<u>3,661,776</u>	<u>3,818,458</u>	<u>9,428,690</u>	<u>306,203</u>	<u>17,215,127</u>
Total expenditures					
Deficiency of revenues over expenditures	(1,894,520)	-	(9,416,375)	-	(11,310,895)
OTHER FINANCING SOURCES (USES)					
Benefit plan withdrawal expense	(2,832,556)	-	-	-	(2,832,556)
Proceeds from bonds payable	-	-	21,610,000	-	21,610,000
Lease liability issued	2,274,178	-	-	-	2,274,178
Transfer from Capital Projects Fund	2,767,441	-	(2,767,441)	-	-
Transfers to other funds	(143,284)	-	-	-	(143,284)
	<u>2,065,779</u>	<u>-</u>	<u>18,842,559</u>	<u>-</u>	<u>20,908,338</u>
Total other financing sources (uses)					
Net change in fund balance	171,259	-	9,426,184	-	9,597,443
Fund balance - beginning	1,380,747	-	-	-	1,380,747
Fund balance - ending	<u>\$ 1,552,006</u>	<u>\$ -</u>	<u>\$ 9,426,184</u>	<u>\$ -</u>	<u>\$ 10,978,190</u>

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

CASA ESPERANZA MONTESSORI, INC.
Reconciliation of the Statement of
Revenues, Expenditures, and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2022

Exhibit 5

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

Net change in fund balance - total governmental funds	\$ 9,597,443
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.	6,611,120
Right to use leased asset capital outlay expenditures which were capitalized, net of amortization	1,826,799
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.	(22,058,967)
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.	
Gain on benefit plan withdrawal	8,093,624
Loss on disposal of capital assets	(1,756)
Accrued compensated absences	2,700
	8,091,868
Total changes in net position of governmental activities	\$ 4,070,963

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, 2022

Exhibit 6

	Enterprise Fund
	Major Fund
	Preschool
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,163,703
Total assets	1,163,703
 LIABILITIES	
Deferred revenues	1,626
Total liabilities	1,626
 NET POSITION	
Unrestricted	1,162,077
Total net position	\$ 1,162,077

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, 2022

Exhibit 7

	Enterprise Fund
	Major Fund
	Preschool
OPERATING REVENUES	
Tuition and other charges	\$ 259,885
Total operating revenues	259,885
OPERATING EXPENSES	
Salaries and benefits	137,947
Pre-School expenses	1,005
Total operating expenses	138,952
Operating income	120,933
NONOPERATING REVENUES (EXPENSES)	
Gain on withdrawal of benefit plans	350,941
Transfers from other funds	143,284
Total nonoperating revenues	494,225
Change in net position	615,158
Total net position - beginning	546,919
Total net position - ending	\$ 1,162,077

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, 2022

Exhibit 8

	Enterprise Fund
	Major Fund
	Preschool
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 254,881
Cash paid for goods and services	(1,005)
Cash paid to employees for services	(137,947)
Net cash provided by operating activities	115,929
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	143,284
Net cash provided by noncapital financing activities	143,284
Net increase in cash and cash equivalents	259,213
Balance - beginning	904,490
Balance - ending	\$ 1,163,703
Reconciliation of operating income to net cash used by operating activities	
Operating income	\$ 120,933
Gain on withdrawal of benefit plans	350,941
Changes in assets, deferred outflows and inflows of resources, and liabilities:	
Decrease (increase) in net OPEB asset	384
Decrease (increase) in pension deferred outflows of resources	10,050
Decrease (increase) in deferred outflows	24,412
Increase (decrease) in deferred revenues	(5,004)
Increase (decrease) in net pension liability	(27,767)
Increase (decrease) in net OPEB liability	(244,812)
Increase (decrease) in pension deferred inflows of resources	(3,244)
Increase (decrease) in deferred inflows	(109,964)
Net cash provided by operating activities	\$ 115,929

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, 2022

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 553 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, 2022

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, 2022

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, 2022

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, 2022. 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 \$11,309,209 at June 30, 2022.

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, 2022

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

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, 2022

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 reported in the government-wide statements consist of unpaid, accumulated personal time-off balances. Employees may accumulate up to seventy two (72) days earned vacation leave with such leave being fully vested when earned. The School accounts for its leave on a first-in, first-out basis, such that the oldest available leave is used first. The current portion of the liability is recorded as such in the government-wide financial statements.

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.

CASA ESPERANZA MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

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)

Fund Balance (Continued)

The governmental fund types classify fund balances as follows:

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

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

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

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

Restricted for Capital Projects – portion of capital projects fund balance that can only be used for capital expenditures.

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.

CASA ESPERANZA MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

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)

The net adjustment of \$(13,200,114) 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).	\$ 9,090,767
Less accumulated depreciation	(497,263)
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	(447,379)
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	(21,610,000)
Lease liability	(1,886,495)
Accrued interest	(92,472)
Accrued compensated absences	<u>(31,450)</u>
Total adjustment	<u>\$ (13,200,114)</u>

CASA ESPERANZA MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

1. Summary of Significant Accounting Policies (Continued)

F. Revenues, Expenditures, and Expenses

1. Funding

The School is funded by the SBE receiving (i) an amount equal to the average per pupil allocation for the average daily membership (ADM) from the local school administrative unit allotments in which the School is located (i.e. Wake County Board of Education) for each child attending the School except for the allocation for children with special needs and (ii) an additional amount for each child attending the School who is a child with special needs (G.S. 115C-218.105(a)).

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

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

For the fiscal year ended June 30, 2022, the School received funding from the Boards of Education for Wake County (\$1,580,191), Durham County (\$78,291), Johnston County (\$18,856), Franklin County (\$28,224), Granville County (\$5,539), Nash County (\$1,495) and Wilson County (\$9,541).

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 \$(5,526,480) 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.

\$ 6,661,536

CASA ESPERANZA MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

1. Summary of Significant Accounting Policies (Continued)

F. Revenues, Expenditures, and Expenses (Continued)

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

Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(50,416)
--	----------

Right to use leased asset capital outlay expenditures that were capitalized	2,274,178
---	-----------

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.

Proceeds from bonds payable	(21,610,000)
Proceeds from lease liability	(2,274,178)
Principal payments on long-term debt	1,917,683
Increase in accrued interest payable	(92,472)

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.

Benefit plan exit expense	2,832,556
Gain on benefit plan withdrawal	5,261,068
Loss on disposal of capital assets	(1,756)
Decrease in accrued compensated absences	2,700
	2,700

Total	<u><u>\$ (5,526,480)</u></u>
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CASA ESPERANZA MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

1. Summary of Significant Accounting Policies (Continued)

F. Revenues, Expenditures, and Expenses (Continued)

3. Withdrawal from Defined Benefit Pension Plan and OPEB Plans

Effective October 1, 2021, the School withdrew from the Teachers' and State Employees' Retirement System (TSERS), the Retiree Health Benefit Fund (RHBF), and the Disability Income Plan of NC (DIPNC). The School's employer contributions from July 1, 2021 through the withdrawal date of October 1, 2021 totaled \$124,835 and was recognized when due as the School had a legal requirement to provide the contributions. The School paid \$2,832,556 to exit the plan during the year ended June 30, 2022. The collective pension and OPEB net liability that was settled as a result of the exit payment totaled \$8,444,565 which resulted in a gain on withdrawal of the benefit plans of \$5,612,009. The gain is reported as gain on withdrawal of benefit plans in the accompanying statement of activities for the year ended June 30, 2022.

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, 2022, the School had deposits with banks and savings and loans with a carrying amount of \$13,792,552. The bank balance with the financial institutions was \$14,012,820 of which \$2,453,614 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, 2022

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, 2022 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	-	447,379	-	447,379
Right to use asset, net	<u>\$ -</u>	<u>\$ 1,826,799</u>	<u>\$ -</u>	<u>\$ 1,826,799</u>

4. Capital Assets

Capital asset activity related to governmental activities for the year ended June 30, 2022 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,500,000	\$ 17,998	\$ -	\$ 1,517,998
Construction in Progress	278,652	6,634,267	-	6,912,919
Total capital assets not being depreciated	<u>1,778,652</u>	<u>6,652,265</u>	<u>-</u>	<u>8,430,917</u>
Capital assets being depreciated:				
Instructional equipment	229,082	9,271	(22,225)	216,128
Leasehold improvements	444,370	-	(648)	443,722
Total capital assets being depreciated	<u>673,452</u>	<u>9,271</u>	<u>(22,873)</u>	<u>659,850</u>

CASA ESPERANZA MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

2. Detail Notes on All Funds (Continued)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Less accumulated depreciation:				
Instructional equipment	92,652	36,020	(20,858)	107,814
Leasehold improvements	375,312	14,396	(259)	389,449
Total accumulated depreciation	467,964	\$ 50,416	\$ (21,117)	497,263
Total capital assets being depreciated, net	205,488			162,587
Total governmental activities capital assets, net	\$ 1,984,140			\$ 8,593,504

Depreciation expense charged to governmental functions for the year ended June 30, 2022 is summarized as follows:

Instructional programs	\$ 37,812
Supporting services	12,604
	\$ 50,416

B. Liabilities

1. Retirement Plan

The School withdrew from the Teachers' and State Employees' Retirement System (TSERS), the Retiree Health Benefit Fund (RHBF), and the Disability Income Plan of NC (DIPNC) effective October 1, 2021 (see Note 1.F.3). Concurrent with this withdrawal, School employees joined the NC457 Supplemental Retirement Plan which is a defined contribution plan under Section 457(b) of the Internal Revenue Code. Initially, the School contributed 2% of each eligible employee's compensation to the plan and matched up to 4% of eligible employee contributions. The School's contribution was increased to 3% in February 2022. All contributions and matches are immediately vested. For the year ended June 30, 2022, the pension cost to the School totaled \$135,334.

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.

CASA ESPERANZA MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Risk Management (Continued)

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.

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, 2023	\$ 409,933	\$ 76,529	\$ 486,462
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>\$ 1,886,495</u>	<u>\$ 185,511</u>	<u>\$2,072,006</u>

CASA ESPERANZA MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Long-Term Obligations (Continued)

b. Note Payable

The School had a bridge loan with a real estate investment trust with an outstanding balance of \$1,530,000 as of June 30, 2021. Interest of 6.50% and principal were due upon maturity in October 2021. The note was paid in full from proceeds of the bond payable in December 2021.

c. 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 (see Note 1.F.3), fund working capital for the School's existing lease, repay the bridge loan used to originally finance the purchase of real estate (see Note 2.B.3.b), 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 \$21,610,000.

Future minimum payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30, 2023	\$ 245,000	\$ 1,028,719	\$ 1,273,719
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
Years Ending June 30, 2028-2032	1,800,000	4,565,625	6,365,625
Years Ending June 30, 2033-2037	2,365,000	3,998,905	6,363,905
Years Ending June 30, 2038-2042	3,045,000	3,324,654	6,369,654
Years Ending June 30, 2043-2047	3,770,000	2,596,530	6,366,530
Years Ending June 30, 2048-2052	4,685,000	1,679,400	6,364,400
Years Ending June 30, 2043-2056	<u>4,570,000</u>	<u>525,375</u>	<u>5,095,375</u>
	<u>\$ 21,610,000</u>	<u>\$ 21,687,831</u>	<u>\$43,297,831</u>

CASA ESPERANZA MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Long-Term Obligations (Continued)

c. Bonds Payable (Continued)

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, 2022 is as follows:

Change in net position for the year ended June 30, 2022	\$ 4,686,121
Add: interest expense	761,918
Add: depreciation expense	50,416
Add: lease asset amortization	447,379
Add: bond issuance costs	734,805
Add: loss on disposal of capital assets	1,756
Less: gain on withdrawal of benefit plans	<u>(5,261,068)</u>
Net income available for debt service	<u>1,421,327</u>
Actual annual debt service:	
Bonds payable	468,638
Lease liability	473,407
Less: lease liability payments funded by bond proceeds	<u>(473,407)</u>
Total actual annual debt service	<u>468,638</u>
Debt service coverage ratio	<u><u>3.03</u></u>

CASA ESPERANZA MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Long-Term Obligations (Continued)

c. 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, 2022 is as follows:

Unrestricted cash and cash equivalents	<u>\$ 2,483,343</u>
Total operating expenses	7,088,249
Less: depreciation expense	(50,416)
Less: amortization expense	(447,379)
Less: bond issuance costs	<u>(734,805)</u>
Total operating expenses	5,855,649
Divided by	<u>365</u>
Daily Expenses	<u>16,043</u>
Days Cash on Hand	<u><u>155</u></u>

d. 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, 2022:

	Beginning Balance	Increases	Decreases	Ending Balances	Current Portion
Governmental Activities:					
Net pension liability	\$ 2,108,328	\$ -	\$ 2,108,328	\$ -	\$ -
Net OPEB liability	4,271,228	-	4,271,228	-	-
Note payable	1,530,000	-	1,530,000	-	-
Bonds payable	-	21,610,000	-	21,610,000	245,000
Lease liability	-	2,274,178	387,683	1,886,495	409,933
Compensated absences	<u>34,150</u>	<u>-</u>	<u>2,700</u>	<u>31,450</u>	<u>31,450</u>
	<u>\$ 7,943,706</u>	<u>\$23,884,178</u>	<u>\$ 8,299,939</u>	<u>\$ 23,527,945</u>	<u>\$ 686,383</u>
Business-Type Activities:					
Net pension liability	\$ 27,767	\$ -	\$ 27,767	\$ -	\$ -
Net OPEB liability	<u>244,812</u>	<u>-</u>	<u>244,812</u>	<u>-</u>	<u>-</u>
	<u>\$ 272,579</u>	<u>\$ -</u>	<u>\$ 272,579</u>	<u>\$ -</u>	<u>\$ -</u>

CASA ESPERANZA MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

3. Long-Term Obligations (Continued)

e. 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% (6.75% at June 30, 2022). No amounts are outstanding under this agreement at June 30, 2022, and no amounts were drawn on the line during the year ended June 30, 2022.

	Balance July 1, 2021	Draws	Repayments	Balance June 30, 2022
Line of Credit	\$ -	\$ -	\$ -	\$ -

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2022, consist of the following:

From the General Fund to the Enterprise

Fund to fund operating expenses of the fund \$ 193,242

From the Capital Projects Fund to the General

Fund to fund operating expenses of the fund \$ 2,767,441

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, 2022

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, 2022:

Total fund balance	\$ 1,552,006
Less:	
Prepaid items	(159,148)
Security deposit	<u>(90,000)</u>
Remaining fund balance	<u>\$ 1,302,858</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. Uncertainties

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

5. Significant Effects of Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through October 25, 2022, which is the date the financial statements were available to be issued.

CASA ESPERANZA MONTESSORI, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2022

6. Recently Issued Accounting Pronouncement

The School implemented GASB Statement No. 87 effective July 1, 2021. GASB Statement No. 87 eliminates existing lease accounting and reporting guidance, including the “capital” versus “operating” lease criteria. Leases are now defined as a contract that conveys control of the right to use another entity’s nonfinancial asset for a period of time in an exchange or exchange-like transaction. Except for few exceptions that are noted within the standard, governmental leases will report a liability for the present value of lease payments due to the lessor over the lease term. The liability is offset with an intangible asset representing the “right to use” an underlying asset in their full accrual financial statements. Governments will amortize the intangible asset over the shorter of the asset’s useful life or the lease term and the liability will be reduced by lease payments offset by interest expense. In the governmental funds, lessees will report an expenditure and an offsetting other financing source in the period the lease is initially recognized at an amount equal to the present value of the lease liability. Subsequent lease payments will be accounted for as debt service principal and interest expenditures using the modified accrual basis of accounting.

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, 2022

	2022		
	Final Budget	Actual	Favorable (Unfavorable) Variance
Revenues:			
State of North Carolina Board(s) of Education	\$ 3,979,224	\$ 3,818,458	\$ (160,766)
Wake County	1,597,360	1,580,191	(17,169)
Durham County	78,291	78,291	-
Johnston County	18,856	18,856	-
Franklin County	28,224	28,224	-
Granville County	5,539	5,539	-
Nash County	1,495	1,495	-
Wilson County	9,541	9,541	-
U.S. Government	544,478	306,203	(238,275)
Contributions and donations	61,852	26,887	(34,965)
Fundraising	-	675	675
Field trip and student fees	61,830	17,557	(44,273)
Total revenues	6,386,690	5,891,917	(494,773)
Expenditures:			
Current:			
Instructional services:			
Regular services	3,562,067	3,324,655	237,412
Special services	130,800	271,643	(140,843)
Alternative programs	-	151,341	(151,341)
School leadership services	745,339	392,472	352,867
Co-curricular programs	-	9,197	(9,197)
School based support services	39,000	169,145	(130,145)
Total instructional services	4,477,206	4,318,453	158,753
Support services:			
Operational support	847,155	127,243	719,912
Technology support	45,000	39,998	5,002
Financial and human resources support	226,724	325,656	(98,932)
Policy, leadership and public relations support	883,540	146,129	737,411
Total support services	2,002,419	639,026	1,363,393
Capital outlay	-	2,283,450	(2,283,450)
Debt service:			
Principal	-	387,683	(387,683)
Interest	-	157,825	(157,825)
Total Debt Service	-	545,508	(545,508)
Total expenditures	6,479,625	7,786,437	(1,306,812)

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, 2022
(Continued)

	2022		Favorable (Unfavorable) Variance
	Final Budget	Actual	
Other financing sources (uses):			
Pension and OPEB withdrawal expense	\$ -	\$ (2,832,556)	\$ (2,832,556)
Lease liability issued	-	2,274,178	2,274,178
Transfer from capital projects fund	655,155	2,767,441	2,112,286
Transfer to other funds	-	(143,284)	(143,284)
Appropriated fund balance	(562,220)	-	562,220
	<u>92,935</u>	<u>2,065,779</u>	<u>1,972,844</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ 171,259</u>	<u>\$ 171,259</u>

CASA ESPERANZA MONTESSORI, INC.
Proprietary Fund Types
Statement of Revenues and Expenses
Budget and Actual (Non - GAAP)
For the Year Ended June 30, 2022

	2022		Favorable (Unfavorable) Variance
	Final Budget	Actual	
Revenues:			
Tuition and other charges	\$ 229,000	\$ 259,885	\$ 30,885
Total revenues	<u>229,000</u>	<u>259,885</u>	<u>30,885</u>
Expenditures:			
Salaries and benefits	103,216	137,947	(34,731)
Pre-School expenses	-	1,005	(1,005)
Total expenditures	<u>103,216</u>	<u>138,952</u>	<u>(35,736)</u>
Revenues over (under) expenditures	<u>125,784</u>	<u>120,933</u>	<u>(4,851)</u>
Other financing sources (uses):			
Gain on withdrawal of benefit plans	-	350,941	350,941
Net position appropriated	<u>(125,784)</u>	<u>143,284</u>	<u>269,068</u>
Total other financing sources (uses)	<u>(125,784)</u>	<u>494,225</u>	<u>620,009</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	615,158	<u>\$ 615,158</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Change in net position		<u>\$ 615,158</u>	



Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Casa Esperanza Montessori, Inc. (the "School"), as of and for the year ended June 30, 2022, 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 25, 2022.

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 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Thomas, Judy & Tucker, P.A.

Raleigh, North Carolina
October 25, 2022



Certified Public Accountants

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

To the Board of Directors
Casa Esperanza Montessori, Inc.
Asheville, 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, 2022. 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, 2022.

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.

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 or material weaknesses 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 25, 2022

CASA ESPERANZA MONTESSORI, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes No

State Awards

Internal control over major State programs:

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

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

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

Identification of major State programs:

Program Name
State Public School Fund

SECTION II – FINANCIAL STATEMENT FINDINGS

No findings.

CASA ESPERANZA MONTESSORI, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2022

SECTION III – STATE AWARD FINDINGS AND QUESTIONED COSTS

None.

CASA ESPERANZA MONTESSORI, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2022

No prior year findings.

CASA ESPERANZA MONTESSORI, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2022

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Expendi- tures</u>
Federal Grants:			
Cash Assistance:			
<u>U.S. Department of Education</u>			
Passed-through the N.C. Department of Public Instruction:			
COVID-19 - Education Stabilization Fund:			
CARES Act:			
Cares Act: Public School Unit Supplemental Funding - ESSER I	84.425D	PRC 164	\$ 10,981
Cares Act: Digital Curricula - ESSER I	84.425D	PRC 165	4,049
Cares Act: Specialized Instructional Support Personnel - GEER I	84.425C	PRC 169	14,623
Cares Act: Supplemental Instructional Services - GEER I	84.425C	PRC 170	7,317
CRRSA:			
CRRSA: K-12 Emergency Relief Fund - ESSER II	84.425D	PRC 171	49,094
CRRSA: Public School Unit Supplemental Funding - ESSER II	84.425D	PRC 172	41,935
ARP:			
ARP: K-12 Emergency Relief Fund - ESSER III	84.425D	PRC 181	10,949
ARP: Public School Unit Supplemental Funding - ESSER III	84.425U	PRC 182	11,420
ARP: Teacher Bonuses - ESSER III	84.425U	PRC 203	30,658
Total COVID-19 - Education Stabilization Fund	84.425		<u>181,026</u>
Special Education Cluster:			
Title VI-B Handicapped	84.027	PRC 060	87,472
ESEA Title VI-B Special Needs	84.027A	PRC 118	1,570
Total Special Education Cluster			<u>89,042</u>
Title I - Basic Education	84.010	PRC 050	12,541
Improving Teacher Quality	84.367A	PRC 103	14,304
ESEA Title IV - Student Support	84.424A	PRC 108	9,290
Total U.S. Department of Education			<u>306,203</u>
Total Federal Assistance			<u>306,203</u>
State Grants:			
Cash Assistance:			
<u>N.C. Department of Public Instruction:</u>			
State Public School Fund - Charter Schools	xxxx	PRC 036	3,714,202
Behavior Support Services	xxxx	PRC 029	2,270
Principal and Teacher Performance Bonuses	xxxx	PRC 048	1,938
State Fiscal Recovery Bonus - Premium Pay Bonus	xxxx	PRC 141	100,048
Total State Assistance			<u>3,818,458</u>
Total Federal and State Assistance			<u>\$ 4,124,661</u>

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

Note 1: Basis of Presentation

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

Note 2: Summary of Significant Accounting Policies

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

Note 3: Indirect Cost Rate

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