

**HEALTHY START EDUCATION, INC.
DURHAM, NORTH CAROLINA**

Financial Statements and
Supplementary Information

Year Ended June 30, 2019



Rives & Associates, LLP
Certified Public Accountants and Consultants

HEALTHY START EDUCATION, INC.

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June 30, 2019

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FINANCIAL SECTION



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Independent Auditors' Report

To the Board of Directors
Healthy Start Education, Inc.
Durham, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Healthy Start Education, Inc., as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Healthy Start Education, Inc.'s basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Healthy Start Education, Inc. as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 and the schedule of proportionate share of the net pension and OPEB liabilities and the schedule of school contributions on pages 49 through 54, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 18, 2019 on our consideration of Healthy Start Education, 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 these reports 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 internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Healthy Start Education, Inc.'s internal control over financial reporting and compliance.

Rives & Associates LLP

Raleigh, North Carolina
October 18, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Healthy Start Education, Inc.
Management's Discussion and Analysis
For the Year Ended June 30, 2019

As management of Healthy Start Education, Inc., we provide these financial statements and this narrative overview and analysis of the School's financial position at June 30, 2019, and its operations for the year then ended. We encourage readers to review the discussion presented herein in conjunction with additional information included in the financial statements and notes, which follow this section.

Financial Highlights

- The liabilities of Healthy Start Education, Inc. exceeded its assets and deferred outflows at the close of the fiscal year by \$3,121,221 (*net position*), primarily due to the previous year's restatement to record net OPEB liability.
- The School's total net position increased by \$36,598, primarily due to an increase in the governmental activities' net position.
- As of the close of the current fiscal year, Healthy Start Education, Inc.'s governmental funds reported combined ending fund balances of \$934,008, a decrease of \$103,327 in comparison with the prior year.
- The State funded Average Daily Membership (ADM) increased to 405 in 2018-19. Prior ADM totals were 369 in 2017-18, 383 in 2016-17, 367 in 2015-16, 378 in 2014-15, and 351 in 2013-14.
- As of the close of the current fiscal year, Healthy Start Education, Inc.'s long-term obligations total \$4,616,934, a decrease of \$644,510 compared to the previous year. Long-term debt includes a note payable, net pension liability, net OPEB liability, and compensated absences.

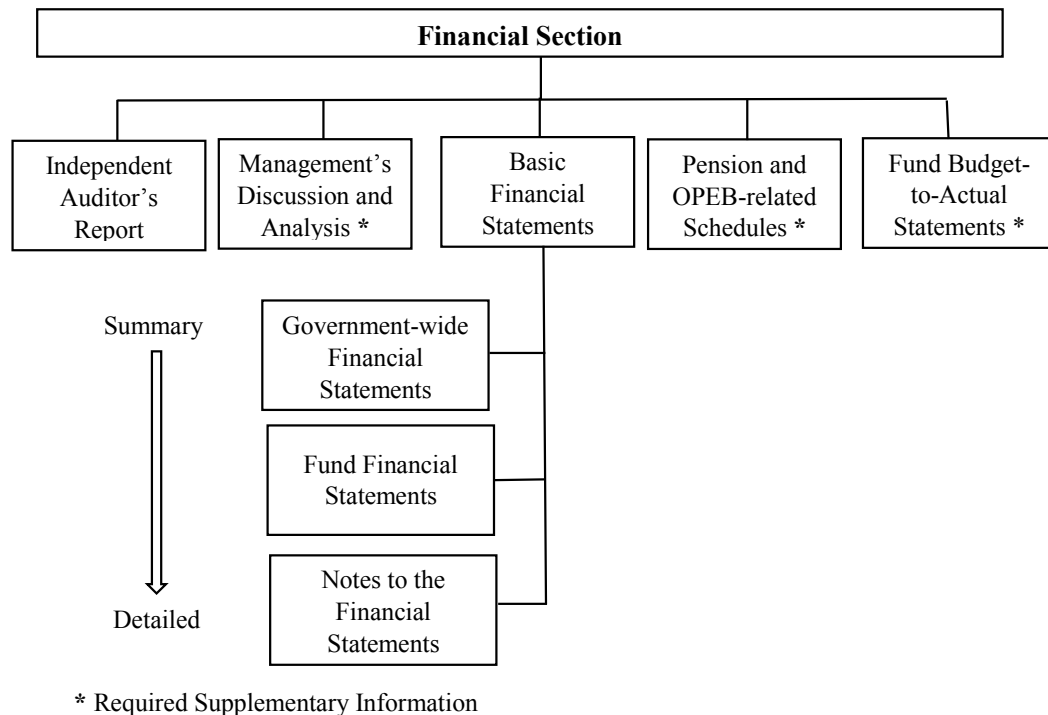
Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Healthy Start Education, Inc.'s basic financial statements. The School's basic financial statements consist of three components: the government-wide financial statements, the fund financial statements, and the notes to the financial statements. The basic financial statements present two different views of the School through the use of the government-wide statements and the fund financial statements. In addition to the basic financial statements, the annual financial report contains the independent auditor's report, certain required supplementary information and other required schedules that provide additional information to enhance the reader's understanding of the financial position and activities of the School.

The chart in Figure 1 outlines the relationships of the components of the annual financial report.

Components of Annual Financial Report

Figure 1



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. These statements provide more detail 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.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some 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 minus the total of liabilities plus deferred inflows of resources. 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 activities are those services for which the School charges its students and other customers to provide. These include the School Food Service and Before/After School Care functions carried out by the School.

The condensed government-wide financial statements are provided in Figures 2 and 3 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. Healthy Start Education, 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 North Carolina General Statutes or the School's budget ordinance. All of the funds of Healthy Start Education, 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 what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *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 governmental 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.

The School 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 the School has succeeded in providing the services as planned when the budget was adopted.

Proprietary Funds – Healthy Start Education, Inc. has two proprietary funds, which are enterprise funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The School uses enterprise funds to account for its School Food Service and Before/After School Care functions.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 20 of this report.

Government-Wide Financial Analysis

As previously noted, net position may, over time, serve as one useful indicator of a school's financial condition. The liabilities of Healthy Start Education, Inc. exceeded assets and deferred outflows of resources by \$3,121,221 as of June 30, 2019. At June 30, 2018, the net position of the School stood at (\$3,157,819). The School's net position increased by \$36,598 for the fiscal year ended June 30, 2019, compared to a decrease of \$130,477 in 2018. The amount of \$1,449,517 represents the School's investment in capital assets (e.g. building equipment, building improvements, furniture and office equipment, computer equipment, and vehicles) less outstanding debt issued to acquire those items. The School uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the School's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The remaining net asset amount, (\$4,570,738), is unrestricted. In 2018, the amount of net investment in capital assets was \$1,406,081, with unrestricted net position standing at (\$4,563,900).

Management's Discussion and Analysis
Healthy Start Education, Inc.
June 30, 2019

A condensed statement of net position which summarizes the assets, liabilities, deferred inflows of resources and net position at June 30, 2019 and 2018 is as follows:

Healthy Start Education, Inc.'s
Condensed Statement of Net Position
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Cash and cash equivalents	\$ 906,611	\$ 970,513	\$ 89,057	\$ 85,857	\$ 995,668	\$ 1,056,370
Other current assets	54,830	92,150	1,522	4,732	56,352	96,882
Capital assets, net of depreciation	1,465,376	1,541,701	1,395	1,630	1,466,771	1,543,331
Total assets	2,426,817	2,604,364	91,974	92,219	2,518,791	2,696,583
 Deferred outflows of resources	 1,063,327	 900,899	 -	 -	 1,063,327	 900,899
 Current and other liabilities	 23,703	 25,328	 -	 10	 23,703	 25,338
Long-term liabilities	4,616,934	5,261,444	-	-	4,616,934	5,261,444
Total liabilities	4,640,637	5,286,772	-	10	4,640,637	5,286,782
 Deferred inflows of resources	 2,062,702	 1,468,519	 -	 -	 2,062,702	 1,468,519
 Net position:						
Net investment in capital assets	1,448,122	1,404,451	1,395	1,630	1,449,517	1,406,081
Unrestricted	(4,661,317)	(4,654,479)	90,579	90,579	(4,570,738)	(4,563,900)
Total net position	\$ (3,213,195)	\$ (3,250,028)	\$ 91,974	\$ 92,209	\$ (3,121,221)	\$ (3,157,819)

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

- The School adopted an annual budget. The School's performance was measured using this budget on a monthly basis, allowing changes to be made in spending as needed to remain within the confines of the budget.
- The School applied for and was awarded federal grants to assist with meeting the educational needs of the student population.
- Generally speaking, funding changes proportionately with any changes in student enrollment.

Revenues, expenses, transfers and the change in net position is summarized in the following condensed statement of activities for the years ended June 30, 2019 and 2018:

**Healthy Start Education, Inc.'s
Condensed Statement of Activities
Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Charges for services	\$ -	\$ -	\$ 2,904	\$ 1,611	\$ 2,904	\$ 1,611
Operating grants and contributions	302,718	434,174	252,705	212,621	555,423	646,795
County, State, and Federal funds	4,034,988	3,520,624	-	-	4,034,988	3,520,624
Unrestricted grants and contributions	73,790	56,504	-	-	73,790	56,504
Investment earnings	4,307	524	-	-	4,307	524
Donations and other revenue	3,600	262	-	-	3,600	262
Total revenues	4,419,403	4,012,088	255,609	214,232	4,675,012	4,226,320
Expenses:						
Instructional services	3,347,392	3,261,377	-	-	3,347,392	3,261,377
Support services	964,640	836,644	-	-	964,640	836,644
Community services	5,069	1,673	-	-	5,069	1,673
Interest on long-term debt	3,125	7,391	-	-	3,125	7,391
School food service	-	-	295,802	235,460	295,802	235,460
Before and after school fund	-	-	22,386	14,252	22,386	14,252
Total expenses	4,320,226	4,107,085	318,188	249,712	4,638,414	4,356,797
Increase (decrease) in net position before transfers	99,177	(94,997)	(62,579)	(35,480)	36,598	(130,477)
Transfers	(62,344)	(37,109)	62,344	37,109	-	-
Change in net position	36,833	(132,106)	(235)	1,629	36,598	(130,477)
Net position, July 1	(3,250,028)	1,767,381	92,209	91,672	(3,157,819)	1,859,053
Net position, July 1, Restatement	-	(4,885,303)	-	(1,092)	-	(4,886,395)
Net position, June 30	\$ (3,213,195)	\$ (3,250,028)	\$ 91,974	\$ 92,209	\$ (3,121,221)	\$ (3,157,819)

Governmental activities. Governmental activities increased the School's net position by \$99,177, before a transfer of \$62,344 to business-type activities was made.

Business-type activities. Business-type activities decreased the School's net position by \$62,579, before a transfer of \$62,344 was received from the governmental fund. The School elects to continue to operate the School Food Service fund to meet the daily dietary demands of the student population. The school considers a nutritional program an essential part of a healthy learning environment even though the program generates a decrease in net position. The School received \$252,705 of federal reimbursement funds in the School Food Service fund this past year.

Financial Analysis of the School's Funds

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

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

Management's Discussion and Analysis
Healthy Start Education, Inc.
June 30, 2019

The general fund is the chief operating fund of the School. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$896,893, while total fund balance reached \$934,008.

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 School Food Service fund at the end of the fiscal year amounted to \$87,105, while unrestricted net position of the Before/After School Care fund was \$4,869. The total decrease in net position for the School Food Service fund was \$235, after a transfer was received from the governmental funds, while total change in net position for the Before/After School Care fund was \$0. Other factors concerning the finances of this fund have already been addressed in the discussion of the School's business-type activities.

Capital Asset and Debt Administration

Capital assets. Healthy Start Education, Inc.'s investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$1,465,376 (net of accumulated depreciation). Capital assets include buildings, building equipment, building improvements, furniture and office equipment, computer equipment, and vehicles.

The following schedule summarizes the School's capital assets as June 30, 2019 and 2018:

Healthy Start Education, Inc.'s Capital Assets
(net of depreciation)
Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Buildings	\$ 1,262,815	\$ 1,335,153	\$ -	\$ -	\$ 1,262,815	\$ 1,335,153
Building equipment	43,411	53,537	-	-	43,411	53,537
Building improvements	97,793	88,766	-	-	97,793	88,766
Furniture and office equipment	10,332	13,011	1,395	1,630	11,727	14,641
Motor vehicles	31,184	18,317	-	-	31,184	18,317
Instructional equipment	-	-	-	-	-	-
Computer equipment	19,841	32,917	-	-	19,841	32,917
Capital assets, net	<u>\$ 1,465,376</u>	<u>\$ 1,541,701</u>	<u>\$ 1,395</u>	<u>\$ 1,630</u>	<u>\$ 1,466,771</u>	<u>\$ 1,543,331</u>

During the current fiscal year, the School expended \$17,175 on building improvements, and \$17,000 on vehicles.

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

Long-term Debt. As of June 30, 2019, the School had total outstanding long-term obligations of \$4,616,934. The long-term obligations include a note payable, net pension liability, net OPEB liability, and compensated absences.

The School's outstanding debt at June 30, 2019 and 2018 is summarized in the following schedule:

Healthy Start Education, Inc.'s
Long-term Obligations
Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Note payable direct borrowing	\$ 17,254	\$ 117,211	\$ -	\$ -	\$ 17,254	\$ 117,211
Net pension liability	1,346,063	1,125,104	-	-	1,346,063	1,125,104
Net OPEB liability	3,228,376	3,999,090	-	-	3,228,376	3,999,090
Compensated absences	25,241	20,039	-	-	25,241	20,039
Total long-term obligations	\$ 4,616,934	\$ 5,261,444	\$ -	\$ -	\$ 4,616,934	\$ 5,261,444

Healthy Start Education, Inc.'s total long-term obligations decreased by \$644,510 during the fiscal year ended June 30, 2019, primarily due to decreases in the School's direct note payable and net OPEB liability amounts.

Economic Factors

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

- The State of North Carolina increased its per pupil funding by \$252.39 per ADM compared to the previous year. This equated to an increase of 4.80%.
- The School strives daily to continue to improve its relationships with all members of the community thereby enhancing its long-term presence as a solid member of the community.
- The School continues to maintain a waiting list of students, which demonstrates the School's stability and desirability in the community.

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, Healthy Start Academy, 807 West Chapel Hill Street, Durham, North Carolina 27701, telephone (919) 956-5599. Additional information is available at the School's website, www.healthystartacademy.org.

HEALTHY START EDUCATION, INC.

Exhibit 1

Statement of Net Position

June 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 906,611	\$ 89,057	\$ 995,668
Due from other governments	13,759	-	13,759
Receivables (net)	226	1,216	1,442
Net OPEB asset	3,730	-	3,730
Prepaid items	37,115	306	37,421
	<u>961,441</u>	<u>90,579</u>	<u>1,052,020</u>
Capital assets (Note II.A) 2):			
Capital assets, net of depreciation	<u>1,465,376</u>	<u>1,395</u>	<u>1,466,771</u>
Total capital assets	<u>1,465,376</u>	<u>1,395</u>	<u>1,466,771</u>
Total assets	<u>2,426,817</u>	<u>91,974</u>	<u>2,518,791</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	733,492	-	733,492
OPEB deferrals	329,835	-	329,835
Total deferred outflows of resources	<u>1,063,327</u>	<u>-</u>	<u>1,063,327</u>
LIABILITIES			
Accounts payable and accrued expenses	23,703	-	23,703
Long-term liabilities:			
Net pension liability	1,346,063	-	1,346,063
Net OPEB liability	3,228,376	-	3,228,376
Due within one year	17,254	-	17,254
Due in more than one year	25,241	-	25,241
Total liabilities	<u>4,640,637</u>	<u>-</u>	<u>4,640,637</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	98,565	-	98,565
OPEB deferrals	1,964,137	-	1,964,137
Total deferred inflows of resources	<u>2,062,702</u>	<u>-</u>	<u>2,062,702</u>
NET POSITION			
Net investment in capital assets	1,448,122	1,395	1,449,517
Unrestricted	<u>(4,661,317)</u>	<u>90,579</u>	<u>(4,570,738)</u>
Total net position	<u>\$ (3,213,195)</u>	<u>\$ 91,974</u>	<u>\$ (3,121,221)</u>

The accompanying notes to the financial statements are an integral part of these statements.

HEALTHY START EDUCATION, INC.
Statement of Activities
For the Year Ended June 30, 2019

Exhibit 2

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
Primary government:						
Governmental activities:						
Instructional services	\$ 3,347,392	\$ -	\$ 302,718	\$ (3,044,674)	\$ -	\$ (3,044,674)
System-wide support services	964,640	-	-	(964,640)	-	(964,640)
Community services	5,069	-	-	(5,069)	-	(5,069)
Interest on long-term debt	3,125	-	-	(3,125)	-	(3,125)
Total governmental activities	<u>4,320,226</u>	<u>-</u>	<u>302,718</u>	<u>(4,017,508)</u>	<u>-</u>	<u>(4,017,508)</u>
Business-type activities:						
School food service	295,802	-	252,705	-	(43,097)	(43,097)
Before/after school care	22,386	2,904	-	-	(19,482)	(19,482)
Total business-type activities	<u>318,188</u>	<u>2,904</u>	<u>252,705</u>	<u>-</u>	<u>(62,579)</u>	<u>(62,579)</u>
Total primary government	<u>\$ 4,638,414</u>	<u>\$ 2,904</u>	<u>\$ 555,423</u>	<u>(4,017,508)</u>	<u>(62,579)</u>	<u>(4,080,087)</u>
General revenues:						
Unrestricted county appropriations				1,426,832	-	1,426,832
Unrestricted State appropriations				2,608,156	-	2,608,156
Donations- general				3,600	-	3,600
Investment earnings, unrestricted				4,307	-	4,307
Miscellaneous, unrestricted				73,790	-	73,790
Transfers				(62,344)	62,344	-
Total general revenues				<u>4,054,341</u>	<u>62,344</u>	<u>4,116,685</u>
Change in net position				<u>36,833</u>	<u>(235)</u>	<u>36,598</u>
Beginning net position				<u>(3,250,028)</u>	<u>92,209</u>	<u>(3,157,819)</u>
Ending net position				<u>\$ (3,213,195)</u>	<u>\$ 91,974</u>	<u>\$ (3,121,221)</u>

The accompanying notes to the financial statements are an integral part of these statements.

HEALTHY START EDUCATION, INC.

Exhibit 3

Balance Sheet
Governmental Funds
June 30, 2019

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	
ASSETS				
Cash and cash equivalents	\$ 906,611	\$ -	\$ -	\$ 906,611
Due from other governments	13,759	-	-	13,759
Receivables (net)	226	-	-	226
Prepaid items	37,115	-	-	37,115
Total assets	<u>\$ 957,711</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 957,711</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 23,703	\$ -	\$ -	\$ 23,703
Total liabilities	<u>23,703</u>	<u>-</u>	<u>-</u>	<u>23,703</u>
Fund balances:				
Nonspendable:				
Prepaid items	37,115	-	-	37,115
Unassigned	896,893	-	-	896,893
Total fund balances	<u>934,008</u>	<u>-</u>	<u>-</u>	<u>934,008</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 957,711</u>	<u>\$ -</u>	<u>\$ -</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	1,465,376
Net OPEB asset	3,730
Deferred outflows of resources related to pensions	733,492
Deferred outflows of resources related to OPEB	329,835
Net pension liability	(1,346,063)
Net OPEB liability	(3,228,376)
Deferred inflows of resources related to pensions	(98,565)
Deferred inflows of resources related to OPEB	(1,964,137)
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds	(42,495)
Net position of governmental activities	<u>\$ (3,213,195)</u>

The accompanying notes to the financial statements are an integral part of these statements.

HEALTHY START EDUCATION, INC.
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

Exhibit 4

	Major Funds		Total Non-Major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	
REVENUES				
State of North Carolina	\$ -	\$ 2,608,156	\$ -	\$ 2,608,156
Boards of Education	1,426,832	-	-	1,426,832
U.S. Government	-	-	302,718	302,718
Contributions and donations	3,600	-	-	3,600
Interest income	4,307	-	-	4,307
Other	73,790	-	-	73,790
Total revenues	<u>1,508,529</u>	<u>2,608,156</u>	<u>302,718</u>	<u>4,419,403</u>
EXPENDITURES				
Current:				
Instructional services	1,208,512	1,897,441	302,718	3,408,671
System-wide support services	301,576	607,814	-	909,390
Community services	5,069	-	-	5,069
Capital outlay	17,175	17,000	-	34,175
Debt service:				
Principal	16,958	82,998	-	99,956
Interest and other charges	222	2,903	-	3,125
Total expenditures	<u>1,549,512</u>	<u>2,608,156</u>	<u>302,718</u>	<u>4,460,386</u>
Excess (deficiency) of revenues over expenditures	<u>(40,983)</u>	<u>-</u>	<u>-</u>	<u>(40,983)</u>
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	(62,344)	-	-	(62,344)
Total other financing sources (uses)	<u>(62,344)</u>	<u>-</u>	<u>-</u>	<u>(62,344)</u>
Net change in fund balance	(103,327)	-	-	(103,327)
Beginning fund balance	<u>1,037,335</u>	<u>-</u>	<u>-</u>	<u>1,037,335</u>
Ending fund balance	<u>\$ 934,008</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 934,008</u>

The accompanying notes to the financial statements are an integral part of these statements.

HEALTHY START EDUCATION, INC.
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019

Exhibit 5

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

Net changes in fund balances- total governmental funds	\$ (103,327)
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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.	(76,325)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items	99,957
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Contributions to the pension plan in the current fiscal year are not included on the statement of activities	228,381
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Contributions to the OPEB plan in the current fiscal year are not included on the statement of activities	119,119
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Pension expense	(288,402)
OPEB expense	62,632
Compensated absences	(5,202)
	(331,970)

Total changes in net position of governmental activities	\$ 36,833
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The accompanying notes to the financial statements are an integral part of these statements.

HEALTHY START EDUCATION, INC.

Exhibit 6

Statement of Net Position
Proprietary Funds
June 30, 2019

	Enterprise Funds		
	Major Fund	Non-Major Fund	
	School Food	Before/After	
	Service	School Care	Total
ASSETS			
Current assets:			
Cash	\$ 84,188	\$ 4,869	\$ 89,057
Receivables (net)	1,216	-	1,216
Prepaid expenses	306	-	306
Total current assets	85,710	4,869	90,579
Capital assets, net of depreciation	1,395	-	
Total assets	<u>\$ 87,105</u>	<u>\$ 4,869</u>	<u>\$ 91,974</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Total current liabilities	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Unrestricted	87,105	4,869	91,974
Total net position	<u>\$ 87,105</u>	<u>\$ 4,869</u>	<u>\$ 91,974</u>

The accompanying notes to the financial statements are an integral part of these statements.

HEALTHY START EDUCATION, INC.
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2019

Exhibit 7

	Enterprise Funds	
	Major Fund	Non-Major Fund
	School Food	Before/After
	Service	School Care
		Total
OPERATING REVENUES		
Child care fees	\$ -	\$ 2,904
Total operating revenues	-	2,904
OPERATING EXPENSES		
Purchase of food	25	-
Salaries and benefits	-	15,171
Materials and supplies	2,870	1,497
Contracted services	292,416	-
Depreciation expense	235	-
Other	256	5,718
Total operating expenses	295,802	22,386
Operating loss	(295,802)	(19,482)
NONOPERATING REVENUES		
Federal reimbursements	252,705	-
Transfers to/from other funds	42,862	19,482
Total nonoperating revenues	295,567	19,482
Change in net position	(235)	-
Total net position - beginning	87,340	4,869
Total net position - ending	\$ 87,105	\$ 4,869

The accompanying notes to the financial statements are an integral part of these statements.

HEALTHY START EDUCATION, INC.
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2019

Exhibit 8

	Enterprise Funds		
	Major Fund	Non-Major Fund	
	School Food Service	Before/After School Care	Total
CASH FLOWS FROM OPERATING ACTIVITES			
Cash received from customers	\$ -	\$ 2,904	\$ 2,904
Cash paid to employees for services	-	(15,171)	(15,171)
Cash paid for goods and services	(292,367)	(7,215)	(299,582)
Net cash used by operating activities	(292,367)	(19,482)	(311,849)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITES			
Federal reimbursements	252,705	-	252,705
Transfers to/from other funds	42,862	19,482	62,344
Net cash provided by noncapital financing activities	295,567	19,482	315,049
Net increase (decrease) in cash and cash equivalents	3,200	-	3,200
Balances - beginning of year	80,988	4,869	85,857
Balances - end of year	\$ 84,188	\$ 4,869	\$ 89,057
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	\$ (295,802)	\$ (19,482)	\$ (315,284)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Decrease in accounts receivable	3,487	-	3,487
Depreciation	235		235
Increase in prepaid expenses	(277)	-	(277)
Decrease in payables	(10)	-	(10)
Net cash used by operating activities	\$ (292,367)	\$ (19,482)	\$ (311,849)

The accompanying notes to financial statements are an integral part of these statements.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Healthy Start Education, Inc. (or the “School”) conform to generally accepted accounting principles (“GAAP”) as applicable to governments. Charter schools are established by non-profit entities, such as Healthy Start Education, Inc.. 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.

A) Reporting Entity

Healthy Start Education, Inc. is a North Carolina non-profit corporation incorporated in October 1996. Pursuant to the provisions of the Charter School Act of 1996 as amended (the “Act”), Healthy Start Education, Inc. has been approved to operate the Healthy Start Academy, a public school serving approximately 405 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) states that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act (SBFCA), and requires the financial statements to be prepared in accordance with GAAP. The current charter is effective until June 30, 2021 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.

Healthy Start Education, Inc. 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).

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”), Healthy Start Education, Inc. 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 government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the School. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) Basis of Presentation (Continued)

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 funds are reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principle activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating 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 current operating needs of the School and is reported as a special revenue fund.

The School reports the following major enterprise fund:

School Food Service Fund: The School Food Service Fund is used to account for the food service program within the School.

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)

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) Measurement Focus and Basis of Accounting (Continued)

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 is both restricted and unrestricted net position available to finance the program. It is the School's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

D) Budgetary Data

Annual budgets are adopted for all funds, on a School wide basis. All budgets are prepared using the modified accrual basis of accounting.

The governing board has voluntarily established the policy, as a sound business practice, that expenditures may not exceed appropriations, for all of the School's funds, based on the adopted budget and subsequent amendments. During the year, several amendments to the original budget were necessary. The budget presented in the supplementary information represents the budget of the School at June 30, 2019. 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 a 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 and investments with original maturities of three months or less are considered cash and cash equivalents.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. Prepaid Items

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

4. Capital Assets

The School's donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other capital assets are recorded at original cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

It is the policy of the School to capitalize all capital assets costing more than \$1,000 with an estimated useful life of two or more years. All depreciable assets are depreciated using the straight-line method of depreciation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated over the following estimated useful lives:

	Years
Buildings	5 – 40
Building equipment	5 – 15
Building improvements	15
Furniture and office equipment	5 – 7
Motor vehicles	7
Instructional equipment	5 - 7
Computer equipment	5

5. 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 several items that meet this criterion for this category – a pension and OPEB related deferral and contributions made to the pension and OPEB plans in the current fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The School has two items that meets this criterion – pension and OPEB related deferrals.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

6. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

7. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated vacation leave balances. Employees may accumulate up to thirty (30) 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.

The sick leave policy of the School provides for an accumulation of earned sick leave of ten (10) days per year for all full-time employees. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the School has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

8. Net Position/Fund Balances

Net Position

Net position in the government-wide and proprietary fund financial statements are classified as net investment in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

Fund Balance

In the governmental fund financial statements, fund balance is composed of two classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balance as follows:

Nonspendable Fund Balance – 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.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

8. Net Position/Fund Balances (Continued)

Prepaid Items – Portion of fund balance that is not an available resource because it represents the year-end balance of prepaid operational expenses on the school facility which is not a spendable resource.

Unassigned Fund Balance – 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 School will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-board of education funds, 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 Board of Directors has the authority to deviate from this policy if it is in the best interest of the School.

9. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between governmental funds' total fund balance and governmental activities' net position as reported in the government-wide statement of net position. The net adjustment of (\$4,147,203) consists of several elements as follows:

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

9. Reconciliation of Government-wide and Fund Financial Statements (continued)

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital assets used in governmental activities are not financial resources are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column).	\$ 3,587,886
Less accumulated depreciation	<u>(2,122,765)</u>
Net capital assets	1,465,376
Net OPEB asset	3,730
Pension related deferred outflows of resources:	
Changes of assumptions	270,120
Net difference between projected and actual earnings on pension plan investments	128,280
Contributions made to the pension plan in current fiscal year	228,381
OPEB related deferred outflows of resources	329,834
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Net pension liability	(1,346,063)
Deferred inflows of resources related to pensions:	
Differences between expected and actual experience	84,728
Differences between contributions and proportional share of contributions and changes in proportion	(76,583)
Net OPEB liability	(3,228,376)
Deferred inflows of resources related to OPEB	(1,964,137)
Bonds, leases, and installment financing	(17,254)
Compensated absences	<u>(25,241)</u>
Total adjustment	<u>\$ (4,147,203)</u>

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

10. Defined Benefit Pension Plans

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

F) Revenues, Expenditures, and Expenses

1. Funding

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

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 appropriate local school administrative unit(s) transfers to the School, for each student who resides in the local administrative unit and attends the charter school, an amount equal to the per pupil local current expense appropriation to the respective local school administrative unit for the fiscal year. [G.S. 115C-238.29H(b)]. For the fiscal year ended June 30, 2019, Healthy Start Education, Inc. received funding from the Board of Education for Durham (\$1,415,400), Alamance (\$1,762), Wake (\$5,503), and Chapel-Hill / Carrboro School Systems (\$4,167).

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

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) Revenues, Expenditures, and Expenses (Continued)

2. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund statement of revenues, expenditures, and changes in fund balance is followed by reconciliation between the change in governmental funds' fund balance and the change in governmental activities' net position as reported on the government-wide statement of activities. The net difference of \$140,160 between the two amounts consists of the following elements:

<u>DESCRIPTION</u>	<u>AMOUNT</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets on the statement of activities.	\$ 34,175
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(110,500)
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net position in the government-wide statements.	99,957
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	228,381
Contributions to the OPEB plans in the current fiscal year are not included on Statement of Activities	119,119
Expenses reported in the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
Pension expense	(288,402)
OPEB expense	62,632
Compensated absences are accrued in the government-wide statements but not in the fund statements, as they do not use current resources.	<u>(5,202)</u>
Total	<u>\$ 140,160</u>

G) Use of Estimates and Assumption

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.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS

A) Assets

1. Deposits

At June 30, 2019, the School had deposits with banks and savings and loans with a carrying amount of \$995,668. The bank balance with the financial institution was \$1,165,468, of which \$551,779 was not covered by federal depository insurance. The School does not have a deposit policy for custodial credit risk.

In February 2010, the School obtained a certificate of deposit from a local bank that matured in August 2012. It has been renewed five times since the original maturity date and matures in August 2018. At June 30, 2019, the certificate of deposit has a carrying value of \$210,066 and bears interest at a rate of 0.4% per annum.

In January 2019, the School obtained a certificate of deposit from a local bank that matures in August 2020. At June 30, 2019, the certificate of deposit has a carrying value of \$78,878 and bears interest at a rate of 2.6% per annum.

2. Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 2,601,584	\$ -	\$ -	\$ 2,601,584
Building equipment	176,926	-	-	176,926
Building improvements	113,113	17,175	-	130,288
Furniture and office equipment	89,392	-	-	89,392
Motor vehicles	21,850	17,000	-	38,850
Instructional equipment	186,454	-	-	186,454
Computer equipment	364,392	-	-	364,392
Total assets	<u>3,553,711</u>	<u>34,175</u>	<u>-</u>	<u>3,587,886</u>
Less accumulated depreciation for:				
Buildings	1,266,431	72,338	-	1,338,769
Building equipment	123,389	10,126	-	133,515
Building improvements	24,347	8,148	-	32,495
Furniture and office equipment	76,381	2,679	-	79,060
Motor vehicles	3,533	4,133	-	7,666
Instructional equipment	186,454	-	-	186,454
Computer equipment	331,475	13,076	-	344,551
Total accumulated depreciation	<u>2,012,010</u>	<u>110,500</u>	<u>-</u>	<u>2,122,510</u>
Governmental activity capital assets, net	<u>\$ 1,541,701</u>			<u>\$ 1,465,376</u>

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

A) Assets (Continued)

2. Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Instructional programs	\$ 55,250
System-wide support services	<u>55,250</u>
	<u>\$ 110,500</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
<u>Food service fund:</u>				
Capital assets being depreciated:				
Furniture and office equipment	\$ 1,650	\$ -	\$ -	\$ 1,650
Total capital assets being depreciated	<u>1,650</u>	<u>-</u>	<u>-</u>	<u>1,650</u>
Less accumulated depreciation				
Furniture and office equipment	\$ 20	\$ 235	\$ -	\$ 255
Total accumulated depreciation	<u>20</u>	<u>235</u>	<u>-</u>	<u>255</u>
Food service fund capital assets, net	<u>\$ 1,630</u>			<u>\$ 1,395</u>

B) Liabilities

1. Pension Plan and Other Postemployment Obligations

a. Teachers' and State Employees' Retirement System

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

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

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

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

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

Contributions. Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. School employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The School's contractually required contribution rate for the year ended June 30, 2019, was 12.29% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the School were \$228,381 for the year ended June 30, 2019.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

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

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

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

At June 30, 2019, the School reported a liability of \$1,346,063 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The School's proportion of the net pension liability was based on a projection of the School's long-term share of future payroll covered by the pension plan, relative to the future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2018 and at June 30, 2017, the School's proportion was .0135% and .0142%, respectively.

For the year ended June 30, 2019, the School recognized pension expense of \$288,401. At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 98,237	\$ 13,509
Changes of assumptions	270,120	-
Net difference between projected and actual earnings on pension plan investments	128,280	-
Changes in proportion and differences between School contributions and proportionate share of contributions	8,473	85,056
School contributions subsequent to the measurement date	228,381	-
Total	<u>\$ 733,491</u>	<u>\$ 98,565</u>

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

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

\$228,381 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	\$ 257,815
2021	149,175
2022	1,911
2023	(2,356)
2024	-
Thereafter	-
Total	<u>\$ 406,545</u>

Actuarial Assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.5 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

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

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	6.0%	4.0%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 asset liability and investment policy study for the North Carolina Retirement Systems, including TSERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. All rates of return and inflation are annualized.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

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

Discount rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School's proportionate share of the net pension asset to changes in the discount rate. The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.00 percent, as well as what the School's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

	1% Decrease (2.75%)	Discount Rate (7.00%)	1 % Increase (8.00%)
School's proportionate share of the net pension liability (asset)	\$ 2,567,171	\$ 1,346,063	\$ 321,433

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

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Healthcare Benefits

Plan description. The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. It is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments also participate.

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

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

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

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the TSERS, the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Healthcare Benefits

that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's noncontributory premium.

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

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

Contributions. By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to RHBF are irrevocable. Also by law, fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer the RHBF, including costs to conduct required actuarial valuations of state—supported retired employees' health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis are determined by the General Assembly in the Appropriations Bill. For the current fiscal year, the Board contributed 6.27% of covered payroll which amounted to \$116,517.

At June 30, 2019, the School reported a liability of \$3,228,376 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017. The total OPEB liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The School's proportion of the net OPEB liability was based on a projection of the School's present value of future salary, actuarially determined. At June 30, 2018, the School's proportion was 0.01133%.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Healthcare Benefits

\$116,517 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2020	(394,114)
2021	(394,114)
2022	(394,114)
2023	(393,769)
2024	(186,251)
Thereafter	-

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

Inflation	3.00 percent
Salary increase	3.50 to 8.10 percent, include 3.50 percent inflation and productivity factor
Investment rate of return	7.0 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rate - medical	5.00 to 6.50 percent
Healthcare cost trend rate - prescription drug	5.00 to 7.25 percent
Healthcare cost trend rate - Medicare advantage	5.00 percent
Healthcare cost trend rate - administrative	3.00 percent

Discount rate. The discount rate used to measure the total OPEB liability for the RHBF was 3.87%. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.87% was used as the discount rate used to measure the total OPEB liability. The 3.87% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2018.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Healthcare Benefits

Sensitivity of the School's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the School's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87 percent) or 1-percentage point higher (4.87 percent) than the current discount rate:

	1% Decrease (2.87%)	Discount Rate (3.87%)	1 % Increase (4.87%)
Net OPEB Liability	\$ 3,814,358	\$ 3,228,376	\$ 2,758,648

Sensitivity of the School's proportionate share of the net OPEB liability to changes in the healthcare trend rates. The following presents the School's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87 percent) or 1-percentage point higher (4.87 percent) than the current discount rate:

	Healthcare Trend Rates		
	1% Decrease (Medical - 4.00-5.50%, Pharmacy - 4.00-6.25%, Medicare Advantage - 3.00-4.00%, Administrative - 2.00%)	(Medical -5.00-6.50%, Pharmacy - 5.00-7.25%, Medicare Advantage - 4.00-5.00%, Administrative - 3.00%)	1% increase (Medical - 6.00-7.50%, Pharmacy - 6.00-8.25%, Medicare Advantage - 5.00-6.00%, Administrative - 4.00%)
Net OPEB liability	\$ 2,663,326	\$ 3,228,376	\$ 3,970,175

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

c. Disability Benefits

Plan description. Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain Local Education Agencies, and ORP.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

c. Disability Benefits

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

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

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

Contributions. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases. Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State fiscal year. For the fiscal year ended June 30, 2019, employers made a statutory contribution of 0.14% of covered payroll which was equal to the actuarially required contribution. School contributions to the plan were \$2,602 for the year ended June 30, 2019.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

c. Disability Benefits

The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as another postemployment benefit.

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

At June 30, 2019, the School reported an asset of \$3,730 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017. The total OPEB liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The School's proportion of the net OPEB liability was based on a projection of the School's present value of future salary, actuarially determined. At June 30, 2018, the School's proportion was 0.01228%.

\$2,602 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a decrease of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30	
2020	\$ 1,943
2021	1,943
2022	1,780
2023	1,369
2024	951
Thereafter	951
	<u>\$ 8,937</u>

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

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

c. Disability Benefits

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

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

	1% Decrease (2.75%)	Discount Rate (3.75%)	1 % Increase (4.75%)
Net OPEB Liability	\$ 2,858	\$ 3,730	\$ 4,567

Common actuarial assumptions for both OPEB plans. The total OPEB liability was determined by an actuarial valuation performed as of December 31, 2017 using the following actuarial assumptions, applied to all periods in the measurement, unless otherwise specified. The total OPEB liability was calculated through the use of update procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2018. The update procedures incorporated the actuarial assumptions used in the valuation. The entry age normal cost method was utilized.

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

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation and by adding expected inflation. The target allocation and best estimates of

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

c. Disability Benefits

arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29%	1.4%
Global Equity	42%	5.3%
Real Estate	8%	4.3%
Alternatives	8%	8.9%
Opportunistic Fixed Income	7%	6.0%
Inflation Sensitive	6%	4.0%
Total	100%	

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

c. Disability Benefits

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

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

	RHBF	DIPNC	Total
OPEB Expense	\$ 62,320	\$ 312	\$ 62,632
OPEB Liability (Asset)	3,228,376	(3,730)	3,224,646
Proportionate share of the net OPEB liability (asset)	0.01133%	0.01228%	

Deferred of Outflows of Resources

Differences between expected and actual experience	-	6,507	6,507
Changes of assumptions	-	705	705
Net difference between projected and actual earnings on plan investments	347	2,905	3,252
Changes in proportion and differences between School contributions and proportionate share of contributions	200,252	-	200,252
School contributions subsequent to the measurement date	116,517	2,602	119,119

Deferred of Inflows of Resources

Differences between expected and actual experience	220,771	-	220,771
Changes of assumptions	1,398,607	-	1,398,607
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between School contributions and proportionate share of contributions	343,585	1,175	344,760

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

2. Deferred Outflows and Inflows of Resources

The balance in deferred outflows and inflows of resources at year-end is composed of the following elements:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in proportion and difference between employer contributions and proportionate share of contributions	\$ 208,725	\$ 429,816
Difference between projected and actual earnings on plan investments	131,532	-
Difference between expected and actual experience	104,744	234,280
Employer contributions subsequent to measurement date	347,500	-
Changes in assumptions	270,825	1,398,606
Totals	<u>\$ 1,063,326</u>	<u>\$2,062,702</u>

3. Risk Management

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

The School has obtained a major medical insurance policy for its personnel through a commercial insurer. Through the plan, permanent, full-time employees of the School are eligible to receive health care benefits.

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

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

The School carries fidelity bond coverage of \$250,000 for all its employees. The company that performs all the School’s outsourced accounting carries fidelity bond coverage in the amount of \$500,000.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

4. Long-Term Obligations

a) Note Payable

On January 30, 2009 a direct note was obtained from a bank for \$998,000 and secured by the building. On September 28, 2016 the School refinanced the loan it obtained to finance the cost of the building. The new note was in the amount of \$289,617 and is payable in monthly installments of \$8,590 including interest at 4.3%. The note matures on August 28, 2019, when all unpaid principal and accrued interest is due.

The note was obtained to finance the cost of a school building. Future minimum payments are as follows:

<u>Year Ending:</u>	
June 30, 2020	\$ 17,254
	<u>\$ 17,254</u>

b) Changes in General Long-Term Obligation

The following is a summary of changes in the School's long-term obligations for the fiscal year ended June 30, 2019:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019	Current Portion
Direct note payable	\$ 117,211	\$ -	\$ 99,957	\$ 17,254	\$ 17,254
Net pension liability	1,125,104	220,959	-	1,346,063	-
Net OPEB liability	3,999,090	-	770,714	3,228,376	-
Compensated absences	20,039	5,202	-	25,241	-
	<u>\$ 5,261,444</u>	<u>\$ 226,161</u>	<u>\$ 870,671</u>	<u>\$4,616,934</u>	<u>\$ 17,254</u>

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

4. Long-Term Obligations

c) Operating Lease

The School entered into an operating lease for four buses in July 2016. The lease calls for 60 monthly payments of \$4,662. Lease expense for the year ended June 30, 2019 was \$56,185.

Future lease payments are as follows:

Year Ending:	
June 30, 2020	\$ 56,185
June 30, 2021	56,185
June 30, 2022	4,682
	\$ 117,052

C) Interfund Balances and Activity

The composition of interfund balances as of June 30, 2019 are as follows:

Transfers from General Fund to the Before/After School Care Fund to supplement operations \$ 19,482

Transfers from the General Fund to the School Food Service Fund to supplement operations \$ 42,862

D) Fund Balance

The School has a revenue spending policy that provides guidance for programs with multiple revenue sources. The School will use resources in the following hierarchy: bond proceeds, federal funds, State funds, and local 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 Board of Directors has the authority to deviate from this policy if it is in the best interest of the School.

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation.

Total fund balance	\$ 934,008
Less:	
Prepaid items	37,115
Remaining fund balance	<u>\$ 896,893</u>

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2019

III. 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.

IV. SUBSEQUENT EVENTS

Management has evaluated subsequent events 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 18, 2019, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

HEALTHY START EDUCATION, INC.
Schedule of the School's Proportionate Share of the Net Pension Liability
Teachers' and State Employees' Retirement System
For the Last Six Fiscal Years

Schedule 1

	2019	2018	2017	2016	2015	2014
School's proportion of the net pension liability	0.0135%	0.0142%	0.0135%	0.0140%	0.0120%	0.1170%
School's proportionate share of the net pension liability	\$ 1,346,063	\$ 1,125,104	\$ 1,244,466	\$ 504,503	\$ 141,042	\$ 710,309
School's covered-employee payroll	\$ 1,584,161	\$ 1,583,342	\$ 1,415,441	\$ 1,609,660	\$ 1,464,841	\$ 1,311,795
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	84.97%	71.06%	87.92%	31.34%	9.63%	54.15%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	89.51%	87.32%	94.64%	98.24%	90.60%

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

HEALTHY START EDUCATION, INC.
Schedule of School Contributions
Teachers' and State Employees' Retirement System
For the Last Six Fiscal Years

Schedule 2

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 228,381	\$ 170,773	\$ 158,018	\$ 129,513	\$ 147,284	\$ 127,295
Contributions in relation to the contractually required contribution	228,381	170,773	158,018	129,513	147,284	127,295
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 1,860,536	\$ 1,584,161	\$ 1,583,342	\$ 1,415,441	\$ 1,609,660	\$ 1,464,841
Contributions as a percentage of covered-employee payroll	12.28%	10.78%	9.98%	9.15%	9.15%	8.69%

HEALTHY START EDUCATION, INC.
Schedule of the School's Proportionate Share of the Net OPEB Liability
Teachers' and State Employees' Retirement System
For the Last Three Fiscal Years

Schedule 3

	<u>2019</u>	<u>2018</u>	<u>2017</u>
School's proportion of the net OPEB liability (asset)	0.0113%	0.0122%	0.0115%
School's proportionate share of the net OPEB liability (asset)	\$ 3,228,376	\$ 4,006,932	\$ 4,992,073
School's covered-employee payroll	\$ 1,584,161	\$ 1,583,342	\$ 1,415,441
School's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	203.79%	253.07%	352.69%
Plan fiduciary net position as a percentage of the total OPEB liability	4.40%	3.52%	2.41%

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

HEALTHY START EDUCATION, INC.
Schedule of School Contributions
Retiree Health Benefit Fund
For the Last Six Fiscal Years

Schedule 4

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 116,517	\$ 95,842	\$ 91,992	\$ 79,265	\$ 88,370	\$ 81,445
Contributions in relation to the contractually required contribution	116,517	95,842	91,992	79,265	88,370	81,445
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 1,860,536	\$ 1,584,161	\$ 1,583,342	\$ 1,415,441	\$ 1,609,660	\$ 1,464,841
Contributions as a percentage of covered-employee payroll	6.26%	6.05%	5.81%	5.60%	5.49%	5.56%

HEALTHY START EDUCATION, INC.
Schedule of the School's Proportionate Share of the Net OPEB Asset
Disability Income Plan of North Carolina
For the Last Three Fiscal Years

Schedule 5

	<u>2019</u>	<u>2018</u>	<u>2017</u>
School's proportion of the net OPEB liability (asset)	0.0123%	0.0128%	0.0125%
School's proportionate share of the net OPEB liability (asset)	\$ (3,730)	\$ (7,769)	\$ (7,842)
School's covered-employee payroll	\$ 1,584,161	\$ 1,583,342	\$ 1,415,441
School's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	0.24%	0.49%	0.55%
Plan fiduciary net position as a percentage of the total OPEB liability	108.47%	116.23%	116.06%

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

HEALTHY START EDUCATION, INC.
Schedule of School Contributions
Disability Income Plan of North Carolina
For the Last Six Fiscal Years

Schedule 6

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 2,602	\$ 2,218	\$ 6,017	\$ 5,803	\$ 6,600	\$ 6,445
Contributions in relation to the contractually required contribution	2,602	2,218	6,017	5,803	6,600	6,445
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 1,860,536	\$ 1,584,161	\$ 1,583,342	\$ 1,415,441	\$ 1,609,660	\$ 1,464,841
Contributions as a percentage of covered-employee payroll	0.14%	0.14%	0.38%	0.41%	0.41%	0.44%

HEALTHY START EDUCATION, INC.**Schedule 7**
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Government Fund Types
For the Year Ended June 30, 2019

	Final Budget	Actual	Variance Positive (Negative)
REVENUES			
State of North Carolina	\$ 2,608,149	\$ 2,608,156	\$ 7
Boards of Education:			
Alamance County	1,762	1,762	-
Durham County	1,415,400	1,415,400	-
Chapel Hill-Carrboro Schools	4,167	4,167	-
Wake County	5,503	5,503	-
U.S. Government	315,208	302,718	(12,490)
Others	82,333	81,697	(636)
Total revenues	<u>4,432,522</u>	<u>4,419,403</u>	<u>(13,119)</u>
EXPENDITURES			
Salaries and bonuses	1,713,000	1,707,590	5,410
Employee benefits	668,898	656,640	12,258
Books and supplies	207,921	205,657	2,264
Technology	116,430	113,023	3,407
Non-capitalized equipment and leases	74,950	69,733	5,217
Contracted student services	228,565	226,944	1,621
Staff development	56,175	56,002	173
Administrative services	204,775	196,340	8,435
Insurance	43,204	42,566	638
Rent	16,875	17,294	(419)
Facilities	255,910	249,542	6,368
Utilities	81,000	78,545	2,455
Nutrition and food	19,500	19,940	(440)
Transportation and travel	355,800	354,968	832
Federal programs	307,508	295,018	12,490
Total	<u>4,350,511</u>	<u>4,289,802</u>	<u>60,709</u>
Capital outlay	<u>71,500</u>	<u>67,503</u>	<u>3,997</u>
Debt service:			
Principal	103,500	99,956	3,544
Interest and other charges	3,125	3,125	-
Total debt service	<u>106,625</u>	<u>103,081</u>	<u>3,544</u>
Total expenditures	<u>4,528,636</u>	<u>4,460,386</u>	<u>68,250</u>
Other financing sources (uses):			
Transfers	-	(62,344)	(62,344)
Fund balance appropriated	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>(62,344)</u>	<u>(62,344)</u>
Excess of revenue over expenditures	<u>\$ (96,114)</u>	<u>\$ (103,327)</u>	<u>\$ (7,213)</u>
Fund balance - beginning		<u>1,037,335</u>	
Fund balance - ending		<u>\$ 934,008</u>	

HEALTHY START EDUCATION, INC.

Schedule 8

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Proprietary Fund Types

For the Year Ended June 30, 2019

	Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Before/after school care	\$ 3,500	\$ 2,904	\$ (596)
Total revenues	<u>3,500</u>	<u>2,904</u>	<u>(596)</u>
EXPENDITURES			
Salaries and benefits	26,225	15,171	11,054
Materials and supplies	6,300	4,367	1,933
Contracted services	305,000	292,416	12,584
Other	<u>300</u>	<u>6,209</u>	<u>(5,909)</u>
Total expenditures	<u>337,825</u>	<u>318,188</u>	<u>19,637</u>
Revenues over (under) expenditures	<u>(334,325)</u>	<u>(315,284)</u>	<u>19,041</u>
Other financing sources (uses):			
Federal reimbursements	253,000	252,705	(295)
Transfers	<u>-</u>	<u>62,344</u>	<u>62,344</u>
Total other financing sources	<u>253,000</u>	<u>315,049</u>	<u>62,049</u>
Revenues and other sources over (under) expenditures	<u>\$ (81,325)</u>	<u>\$ (235)</u>	<u>\$ 81,090</u>

COMPLIANCE SECTION

**Independent Auditors' Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With *Government Auditing Standards***

To the Board of Directors
Healthy Start Education, Inc.
Durham, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Healthy Start Education, Inc., as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Healthy Start Education, Inc.'s basic financial statements, and have issued our report thereon dated October 18, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Healthy Start Education, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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.

Rives & Associates LLP

Raleigh, North Carolina
October 18, 2019

Independent Auditors' Report On Compliance For Each Major State Program and on Internal Control Over Compliance Required By the OMB Uniform Guidance and the State Single Audit Implementation Act

To the Board of Directors
Healthy Start Education, Inc.
Durham, North Carolina

Report on Compliance for Each Major State Program

We have audited Healthy Start Education, Inc., with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of Healthy Start Education, Inc.'s major State programs for the year ended June 30, 2019. The Healthy Start Education, Inc.'s major State program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major State program. However, our audit does not provide a legal determination of Healthy Start Education, Inc.'s compliance.

Opinion on Each Major State Program

In our opinion, the Healthy Start Education, Inc. complied, in all material respects, with the types of compliance requirements referred to that could have a direct and material effect on its major State program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Rivers & Associates LLP

Raleigh, North Carolina
October 18, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS

HEALTHY START EDUCATION, INC.
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2019

No findings disclosed in the prior year.

HEALTHY START EDUCATION, INC.
Schedule of Expenditures and State Awards
For the Year Ended June 30, 2019

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/Pass- Through Grantor's Number	Expenditures
FEDERAL GRANTS			
Cash Assistance			
<u>U.S. Department of Education</u>			
Passed-through the N.C. Department of Public Instruction			
Title 1 Cluster:			
IASA Title 1 - LEA Basic Education	84.010A	PRC 050	\$ 173,991
Total 1 Cluster			173,991
Title VI-B Cluster:			
Title VI-B Preschool Handicapped	84.027	PRC 049	758
Title VI-B Handicapped	84.027A	PRC 060	96,448
Title VI-B Targeted Assistance (Special Needs)	84.027	PRC 118	930
Total Title VI-B Cluster			98,136
Student Improvement	84.010A	PRC 108	13,043
Improving Teacher Quality	84.367A	PRC 103	17,548
Total U.S. Department of Education			302,718
<u>U.S. Department of Agriculture</u>			
Passed-through the N.C. Department of Public Instruction			
Child Nutrition Program	10.553-CL	XXX XXX	252,705
Total federal assistance			555,423
STATE GRANTS			
Cash Assistance:			
<u>N.C. Department of Public Instruction:</u>			
State Public School Fund - Charter Schools		PRC 036	2,560,185
State Public School Fund - Summer Reading Program		PRC 016	31,920
State Public School Fund - Reading Device Funds		PRC 085	980
State Public School Fund - Test Results Bonus		PRC 048	15,071
Total State assistance			2,608,156
Total federal and State assistance			\$ 3,163,579

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 Healthy Start Education, Inc. under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. 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 the 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 as to reimbursement.