



SHARPE
PATELCPA

HEALTHY START EDUCATION, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION

As of and for the Year Ended June 30, 2021

HEALTHY START EDUCATION, INC.

Table of Contents

June 30, 2021

<u>Exhibit</u>		<u>Page</u>
	Financial Section	
	Independent Auditors' Report.....	1
	Management's Discussion and Analysis.....	4
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position.....	14
2	Statement of Activities.....	15
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds.....	16
3	Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position.....	16
4	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	17
5	Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities.....	18
6	Statement of Net Position – Proprietary Funds.....	19
7	Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds.....	20
8	Statement of Cash Flows – Proprietary Funds.....	21
	Notes to the Financial Statements.....	22
	Schedule	
	Supplementary Information:	
1	Schedule of the School's Proportionate Share of the Net Pension Liability.....	50
2	Schedule of School Contributions.....	51
3	Schedule of the School's Proportionate Share of the Net OPEB Liability - RHBP	52
4	Schedule of School Contributions	53
5	Schedule of the School's Proportionate Share of the Net OPEB Liability - DIPNC.....	54
6	Schedule of School Contributions	55
7	Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Government Fund Types.....	56
8	Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Proprietary Fund Types.....	57
	Compliance Section:	
	Independent Auditors' Report On Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	58
	Independent Auditors' Report On Compliance For Each Major State Program and on Internal Control Over Compliance Required by the Uniform Guidance and the State Single Audit Implementation Act.....	60
	Independent Auditors' Report On Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by the OMB Uniform Guidance and the State Single Audit Implementation Act.....	62

HEALTHY START EDUCATION, INC.

Table of Contents

June 30, 2021

Schedule of Findings and Questioned Costs	64
Summary Schedule of Prior Year Audit Findings	66
Schedule of Expenditures of Federal and State Awards	67

FINANCIAL SECTION



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, 2021, 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 an opinion 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Healthy Start Education, Inc. as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 and the schedule of proportionate share of the net pension and OPEB liabilities and the schedule of school contributions on pages 51 through 56, 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 an opinion 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 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 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2021, 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 the 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.

Sharpe Patel PLLC

Raleigh, North Carolina
October 7, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Healthy Start Education, Inc.
Management's Discussion and Analysis
For the Year Ended June 30, 2021

As management of Healthy Start Education, Inc. (the "School"), we provide these financial statements and this narrative overview and analysis of the School's financial position at June 30, 2021, 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

- During the fiscal year, Healthy Start Education, Inc. was allotted \$108,420 in state funds and \$188,127 in federal funds to assist the School with ongoing expenses due to the COVID-19 pandemic. The School expended \$287,204 of those funds in the current fiscal year and will carry-over \$9,343 for fiscal year 2022 expenses.
- The liabilities and deferred inflows of Healthy Start Education, Inc. exceeded its assets and deferred outflows at the close of the fiscal year by \$2,216,615 (*net position*).
- The School's total net position increased by \$518,055, 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 \$1,881,433, an increase of \$603,639 in comparison with the prior year.
- Enrollment at the School continues to increase, rising by 31 students this year to 498, a 6.6% increase. The State funded Average Daily Membership (ADM) totals were 467 in 2019-20, 405 in 2018-19, 369 in 2017-18, 383 in 2016-17, and 367 in 2015-16.
- During the current fiscal year, Healthy Start Education, Inc.'s total long-term debt increased by \$700,656, with the key factors being the increases in the School's net pension liability and net OPEB liability. The School's long-term obligations total \$5,910,590 as of June 30, 2021.

Overview of the Financial Statements

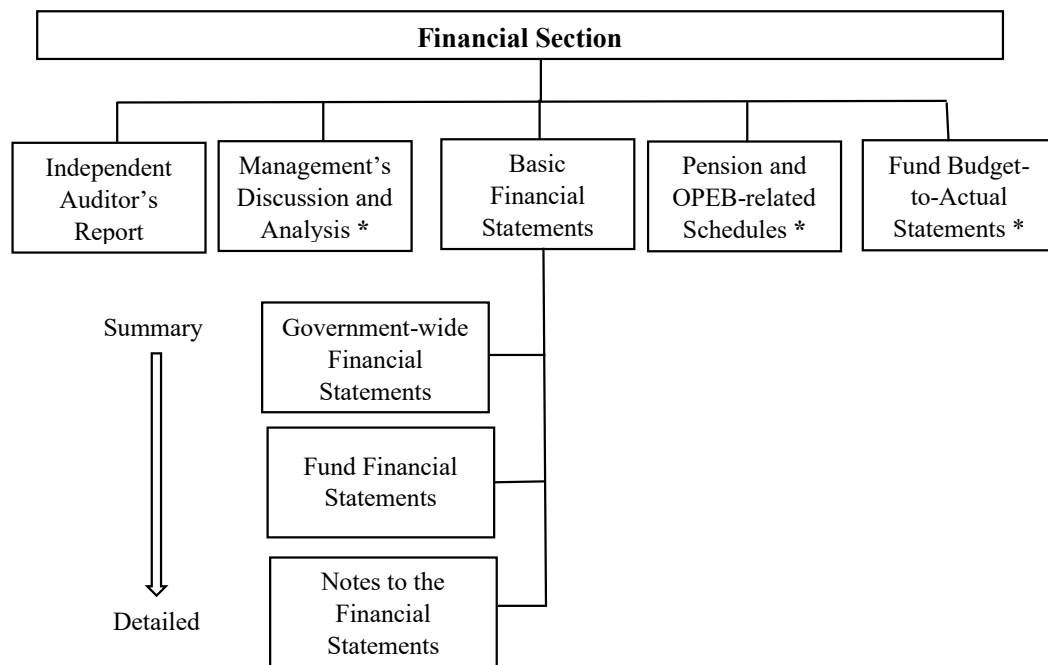
This discussion and analysis is intended to serve as an introduction to Healthy Start Education, Inc.'s basic financial statements. The School's basic financial statements consist of three components: the government-wide financial statements, the fund financial statements, and the notes to the financial 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



* Required Supplementary Information

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 plus deferred outflows of resources 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 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 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 22 of this report.

Government-Wide Financial Analysis

The financial analysis reveals that at June 30, 2021, cash and cash equivalents, and other current assets, primarily prepaid items, accounted for 53.8% and 2.6% of total government-wide assets, respectively. These relationships were little changed from the prior year. During the 2021 fiscal year, the School purchased building equipment totaling \$49,535, which accounted for 100% of the increase in capital assets. Capital assets, net of accumulated depreciation, accounted for 43.6% of total assets. Long-term liabilities represent 99.4% of total liabilities.

As previously noted, net position may, over time, serve as one useful indicator of a school's financial condition. The liabilities and deferred inflows of resources of Healthy Start Education, Inc. exceeded assets and deferred outflows of resources by \$2,216,615 as of June 30, 2021. At June 30, 2020, the net position of the School stood at (\$2,734,670). The School's net position increased by \$518,055 for the fiscal year ended June 30, 2021,

Management's Discussion and Analysis
Healthy Start Education, Inc.
June 30, 2021

compared to an increase of \$386,551 in 2020. The amount of \$1,492,454 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, (\$3,709,069), is unrestricted. In 2020, the amount of net investment in capital assets was \$1,566,633, with unrestricted net position standing at (\$4,301,303).

A condensed statement of net position which summarizes the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2021 and 2020 is as follows:

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Cash and cash equivalents	\$ 1,839,988	\$ 1,233,185	\$ 97,228	\$ 64,815	\$ 1,937,216	\$ 1,298,000
Other current assets	87,047	101,661	35,430	33,464	122,477	135,125
Capital assets, net of depreciation	1,491,531	1,565,474	923	1,159	1,492,454	1,566,633
Total assets	<u>3,418,566</u>	<u>2,900,320</u>	<u>133,581</u>	<u>99,438</u>	<u>3,552,147</u>	<u>2,999,758</u>
Deferred outflows of resources	<u>2,143,243</u>	<u>1,139,694</u>	<u>-</u>	<u>-</u>	<u>2,143,243</u>	<u>1,139,694</u>
Current and other liabilities	38,002	51,037	5,707	7,700	43,709	58,737
Long-term liabilities	5,910,590	5,209,934	-	-	5,910,590	5,209,934
Total liabilities	<u>5,948,592</u>	<u>5,260,971</u>	<u>5,707</u>	<u>7,700</u>	<u>5,954,299</u>	<u>5,268,671</u>
Deferred inflows of resources	<u>1,957,706</u>	<u>1,605,451</u>	<u>-</u>	<u>-</u>	<u>1,957,706</u>	<u>1,605,451</u>
Net position:						
Net investment in capital assets	1,491,531	1,565,474	923	1,159	1,492,454	1,566,633
Unrestricted	<u>(3,836,020)</u>	<u>(4,391,882)</u>	<u>126,951</u>	<u>90,579</u>	<u>(3,709,069)</u>	<u>(4,301,303)</u>
Total net position	<u>\$ (2,344,489)</u>	<u>\$ (2,826,408)</u>	<u>\$ 127,874</u>	<u>\$ 91,738</u>	<u>\$(2,216,615)</u>	<u>\$ (2,734,670)</u>

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.

Management's Discussion and Analysis
Healthy Start Education, Inc.
June 30, 2021

- 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, 2021 and 2020:

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Operating grants and contributions	\$ 568,681	\$ 346,428	\$ 435,595	\$ 307,160	\$ 1,004,276	\$ 653,588
Charges for services	-	4,000	224	4,372	224	8,372
County, State, and Federal funds	5,343,212	4,793,593	-	-	5,343,212	4,793,593
Donations	500	10,003	-	-	500	10,003
Investment earnings	955	1,630	-	-	955	1,630
Insurance proceeds	14,018	81,000	-	-	14,018	81,000
Unrestricted grants and contributions	50,530	45,494	-	-	50,530	45,494
Total revenues	5,977,896	5,282,148	435,819	311,532	6,413,715	5,593,680
Expenses:						
Instructional services	4,546,389	3,835,649	-	-	4,546,389	3,835,649
Support services	943,312	1,037,787	-	-	943,312	1,037,787
Community services	5,316	9,613	-	-	5,316	9,613
Interest on long-term debt	-	87	-	-	-	87
School food service	-	-	399,459	308,471	399,459	308,471
After school care fund	-	-	1,184	15,522	1,184	15,522
Total expenses	5,495,017	4,883,136	400,643	323,993	5,895,660	5,207,129
Increase (decrease) in net position before transfers	482,879	399,012	35,176	(12,461)	518,055	386,551
Transfers	(960)	(12,225)	960	12,225	-	-
Change in net position	481,919	386,787	36,136	(236)	518,055	386,551
Net position, July 1	(2,826,408)	(3,213,195)	91,738	91,974	(2,734,670)	(3,121,221)
Net position, June 30	\$ (2,344,489)	\$ (2,826,408)	\$ 127,874	\$ 91,738	\$ (2,216,615)	\$ (2,734,670)

Governmental activities: Governmental activities increased the School's net position by \$482,879, before transfers to support business-type activities. County, State and federal funds of \$5,343,212 increased by 11.5%, and make up 89.4% of total revenues. Instructional services and related expenses of \$4,546,389 account for 82.7% of total expenses, and increased by 18.5%. This reflects the increased program and general revenues offset against increased costs of providing instructional services. Net position before transfers to support business-type activities increased 21%.

Business-type activities: Business-type activities consist of the School Food Service and the After School Care programs. These activities increased Healthy Start Education, Inc.'s net position by \$35,176.

Key elements of the business-type activities are as follows:

- By adopting a budget for each of the enterprise funds that comprise the business-type activities, the Board can monitor the School's revenues and expenditures and adjust their estimates as needed during the year.
- The School received \$435,595 of federal reimbursement funds in the School Food Service Fund this past year, a 41.8% increase over the prior 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.

The General Fund is the chief operating fund of the School. At the end of the current fiscal year, the assets in the General Fund consisted primarily of cash and cash equivalents which equaled 95.9% of total fund assets. Accounts payable accounted for 100% of General Fund liabilities. The unassigned fund balance of the General Fund was \$1,840,347, while total fund balance reached \$1,881,433, an increase of \$603,639. The unassigned fund balance of the General Fund was 97.8% of total fund balance. The primary source, 96.7%, of General Fund revenue was \$1,917,964 in reimbursements by various counties for their students attending the School. An additional \$3,993,929 of General Fund revenue, was provided by the State of North Carolina and the federal government which equated to 66.8% of total Governmental Fund revenue. Expenditures for capital outlays for the building equipment purchases totaled \$31,595, or 2.3% of General Fund expenditures. Additional instructions-related expenditures of \$1,188,579, system-wide support services of \$157,756, and community services of \$1,438 accounted for 86.2%, 11.4%, and 0.1%, respectively, of General Fund expenditures.

At June 30, 2021, the governmental funds of Healthy Start Education, Inc. reported a combined fund balance of \$1,881,433, a 47.2% increase over last year.

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 \$123,006, while unrestricted net position of the After School Care fund was \$4,868. The total increase in net position for the School Food Service fund was \$36,136, while total change in net position for the After School Care fund was \$0. Other factors concerning

Management's Discussion and Analysis
Healthy Start Education, Inc.
June 30, 2021

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, 2021, totals \$1,492,454 (net of accumulated depreciation). Capital assets include buildings, building equipment, building improvements, furniture and office equipment, computer equipment, and vehicles.

The major capital asset transactions during the year includes the following:

- The purchase of building equipment totaling \$49,535.

The following schedule summarizes the School's capital assets as June 30, 2021 and 2020:

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Buildings	\$ 1,123,084	\$ 1,192,358	\$ -	\$ -	\$ 1,123,084	\$ 1,192,358
Building equipment	72,696	33,286	-	-	72,696	33,286
Building improvements	224,370	246,360	-	-	224,370	246,360
Furniture and office equipment	5,764	7,766	923	1,159	6,687	8,925
Motor vehicles	61,799	75,063	-	-	61,799	75,063
Computer equipment	3,818	10,641	-	-	3,818	10,641
Capital assets, net	<u>\$ 1,491,531</u>	<u>\$ 1,565,474</u>	<u>\$ 923</u>	<u>\$ 1,159</u>	<u>\$ 1,492,454</u>	<u>\$ 1,566,633</u>

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, 2021, the School had total outstanding long-term obligations of \$5,910,590. The long-term obligations include the School's net pension liability, net OPEB liability, and compensated absences.

The School's outstanding debt at June 30, 2021 and 2020 is summarized in the following schedule:

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

	Governmental Activities	
	2021	2020
Net pension liability	\$ 2,020,110	\$ 1,557,117
Net OPEB liability	3,877,082	3,628,609
Compensated absences	13,398	24,208
Total long-term obligations	\$ 5,910,590	\$ 5,209,934

Healthy Start Education, Inc.'s total long-term obligations increased by \$700,656, primarily due to increases in the School's net pension liability and net OPEB liability. The School's compensated absences decreased by \$10,810 during the fiscal year.

Economic Factors

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

- Healthy Start Education, Inc.'s increased enrollment demonstrates the School's stability and desirability in the community. The School continues to attract families from Durham and surrounding communities due its commitment to academic growth and improvement.
- The State of North Carolina increased its per pupil funding by \$115.32 per ADM compared to the previous year. This equated to an increase of 2.03%.
- The School received supplementary Federal funds to support educating its special needs students.

Impact of Coronavirus on the School. During the fiscal year, the state and the nation continued to be affected by the spread of a coronavirus (COVID-19). Healthy Start Education, Inc. expended \$108,420 in Coronavirus Relief Funds (CRF), \$12,023 in the Governors Emergency Education Relief Funds (GEER), and \$166,761 in Elementary and Secondary School Emergency Relief Funds (ESSER), which were used primarily for purchasing technology equipment and instructional supplies for its students, and custodial supplies and equipment to sanitize the facilities. The School continues to monitor its expenses related to the coronavirus to ensure that state and federal funds are being allocated in the manner that best meets the needs of its students and staff. The School has \$9,343 in federal funds remaining from its fiscal year 2021 allotment to be used for fiscal year 2022 expenses.

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.

BASIC FINANCIAL STATEMENTS

HEALTHY START EDUCATION, INC.

Exhibit 1

Statement of Net Position

June 30, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,839,988	\$ 97,228	\$ 1,937,216
Due from other governments	25,188	34,966	60,154
Receivables (net)	13,173	-	13,173
Net OPEB asset	7,600	-	7,600
Prepaid items	41,086	464	41,550
	<u>1,927,035</u>	<u>132,658</u>	<u>2,059,693</u>
Capital assets (Note II.A) 2):			
Other capital assets, net of depreciation	<u>1,491,531</u>	<u>923</u>	<u>1,492,454</u>
Total capital assets	<u>1,491,531</u>	<u>923</u>	<u>1,492,454</u>
Total assets	<u>3,418,566</u>	<u>133,581</u>	<u>3,552,147</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	824,740	-	824,740
OPEB deferrals	<u>1,318,503</u>	<u>-</u>	<u>1,318,503</u>
Total deferred outflows of resources	<u>2,143,243</u>	<u>-</u>	<u>2,143,243</u>
LIABILITIES			
Accounts payable and accrued expenses	38,002	5,707	43,709
Long-term liabilities:			
Net pension liability	2,020,110	-	2,020,110
Net OPEB liability	3,877,082	-	3,877,082
Due in more than one year	<u>13,398</u>	<u>-</u>	<u>13,398</u>
Total liabilities	<u>5,948,592</u>	<u>5,707</u>	<u>5,954,299</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	20,564	-	20,564
OPEB deferrals	<u>1,937,142</u>	<u>-</u>	<u>1,937,142</u>
Total deferred inflows of resources	<u>1,957,706</u>	<u>-</u>	<u>1,957,706</u>
NET POSITION			
Net investment in capital assets	1,491,531	923	1,492,454
Unrestricted	<u>(3,836,020)</u>	<u>126,951</u>	<u>(3,709,069)</u>
Total net position	<u>\$ (2,344,489)</u>	<u>\$ 127,874</u>	<u>\$ (2,216,615)</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, 2021

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	\$ 4,546,389	\$ -	\$ 549,806	\$ (3,996,583)	\$ -	\$ (3,996,583)
System-wide support services	943,312	-	18,875	(924,437)	-	(924,437)
Community services	5,316	-	-	(5,316)	-	(5,316)
Interest and other charges related to long-term debt	-	-	-	-	-	-
Total governmental activities	<u>5,495,017</u>	<u>-</u>	<u>568,681</u>	<u>(4,926,336)</u>	<u>-</u>	<u>(4,926,336)</u>
Business-type activities:						
School food service	399,459	-	435,595	-	36,136	36,136
After school care	1,184	224	-	-	(960)	(960)
Total business-type activities	<u>400,643</u>	<u>224</u>	<u>435,595</u>	<u>-</u>	<u>35,176</u>	<u>35,176</u>
Total primary government	<u>\$ 5,895,660</u>	<u>\$ 224</u>	<u>\$ 1,004,276</u>	<u>(4,926,336)</u>	<u>35,176</u>	<u>(4,891,160)</u>
General revenues:						
Unrestricted county appropriations				1,917,964	-	1,917,964
Unrestricted State appropriations				3,425,248	-	3,425,248
Donations- general				500	-	500
Investment earnings, unrestricted				955	-	955
Insurance proceeds				14,018	-	14,018
Miscellaneous, unrestricted				50,530	-	50,530
Transfers				(960)	960	-
Total general revenues				<u>5,408,255</u>	<u>960</u>	<u>5,409,215</u>
Change in net position				481,919	36,136	518,055
Beginning net position				<u>(2,826,408)</u>	<u>91,738</u>	<u>(2,734,670)</u>
Ending net position				<u>\$ (2,344,489)</u>	<u>\$ 127,874</u>	<u>\$ (2,216,615)</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, 2021

	Major Funds			Total Governmental Funds
	General	State Public School	Federal Grants Fund	
ASSETS				
Cash and cash equivalents	\$ 1,839,988	\$ -	\$ -	\$ 1,839,988
Due from other governments	25,188	-	-	25,188
Receivables (net)	13,173	-	-	13,173
Prepaid items	41,086	-	-	41,086
Total assets	<u>1,919,435</u>	<u>-</u>	<u>-</u>	<u>1,919,435</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	38,002	-	-	38,002
Total liabilities	<u>38,002</u>	<u>-</u>	<u>-</u>	<u>38,002</u>
Fund balances:				
Nonspendable:				
Prepaid items	41,086	-	-	41,086
Unassigned	1,840,347	-	-	1,840,347
Total fund balances	<u>1,881,433</u>	<u>-</u>	<u>-</u>	<u>1,881,433</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,919,435</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:	1,491,531
Net OPEB asset	7,600
Deferred outflows of resources related to pensions	824,740
Deferred outflows of resources related to OPEB	1,318,503
Net pension liability	(2,020,110)
Net OPEB liability	(3,877,082)
Deferred inflows of resources related to pensions	(20,564)
Deferred inflows of resources related to OPEB	(1,937,142)
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	(13,398)
Net position of governmental activities	<u>\$ (2,344,489)</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, 2021

Exhibit 4

	Major Funds			Total
	General	State Public School	Federal Grants Fund	Governmental Funds
REVENUES				
State of North Carolina	\$ -	\$ 3,425,248	\$ -	\$ 3,425,248
Boards of Education	1,917,964	-	-	1,917,964
U.S. Government	-	-	568,681	568,681
Contributions and donations	500	-	-	500
Student activities and fees	9,406	-	-	9,406
Interest income	955	-	-	955
Insurance proceeds	14,018	-	-	14,018
Other	41,124	-	-	41,124
Total revenues	<u>1,983,967</u>	<u>3,425,248</u>	<u>568,681</u>	<u>5,977,896</u>
EXPENDITURES				
Current:				
Instructional services	1,188,579	2,698,487	549,806	4,436,872
System-wide support services	157,756	704,942	18,875	881,573
Community services	1,438	3,879	-	5,317
Capital outlay	<u>31,595</u>	<u>17,940</u>	<u>-</u>	<u>49,535</u>
Total expenditures	<u>1,379,368</u>	<u>3,425,248</u>	<u>568,681</u>	<u>5,373,297</u>
Excess (deficiency) of revenues over expenditures	<u>604,599</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Transfers from (to) other funds	<u>(960)</u>	<u>-</u>	<u>-</u>	<u>(960)</u>
Total other financing sources (uses)	<u>(960)</u>	<u>-</u>	<u>-</u>	<u>(960)</u>
Net change in fund balance	603,639	-	-	603,639
Beginning fund balance	<u>1,277,794</u>	<u>-</u>	<u>-</u>	<u>1,277,794</u>
Ending fund balance	<u>\$ 1,881,433</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,881,433</u>

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

HEATHY 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, 2021

Exhibit 5

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

Net changes in fund balances- total governmental funds	\$ 603,639
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.	(73,943)
Contributions to the pension plan in the current fiscal year are not included on the statement of activities	349,488
Contributions to the OPEB plan in the current fiscal year are not included on the statement of activities	160,083
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	(582,213)
OPEB expense (net of noncapital contributions)	14,055
Compensated absences	10,810
	<hr/>
Total changes in net position of governmental activities	<u><u>\$ 481,919</u></u>

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 Fund
June 30, 2021

	Enterprise Fund		
	Major Fund	Non-Major Fund	
	School Food	After School	
	Service	Care	Total
ASSETS			
Current assets:			
Cash	\$ 92,360	\$ 4,868	\$ 97,228
Due from other governments	34,966	-	34,966
Prepaid expenses	464	-	464
Total current assets	<u>127,790</u>	<u>4,868</u>	<u>132,658</u>
Capital assets, net of depreciation	923	-	923
Total assets	<u>\$ 128,713</u>	<u>\$ 4,868</u>	<u>\$ 133,581</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 5,707	\$ -	\$ 5,707
Total current liabilities	<u>5,707</u>	<u>-</u>	<u>5,707</u>
NET POSITION			
Unrestricted	123,006	4,868	127,874
Total net position	<u>\$ 123,006</u>	<u>\$ 4,868</u>	<u>\$ 127,874</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 Fund
For the Year Ended June 30, 2021

Exhibit 7

	Enterprise Fund		
	Major Fund	Non-Major Fund	
	School Food	After School	
	Service	Care	Total
OPERATING REVENUES			
Child care fees	\$ -	\$ 224	\$ 224
Total operating revenues	-	224	224
OPERATING EXPENSES			
Salaries and benefits	-	1,184	1,184
Materials and supplies	1,941	-	1,941
Contracted services	387,793	-	387,793
Depreciation	236	-	236
Other	9,489	-	9,489
Total operating expenses	399,459	1,184	400,643
Operating income (loss)	(399,459)	(960)	(400,419)
NONOPERATING REVENUES			
Federal reimbursements	435,595	-	435,595
Transfers from other funds	-	960	960
Total nonoperating revenues	435,595	960	436,555
Change in net position	36,136	-	36,136
Net position, beginning	86,870	4,868	91,738
Net position, ending	\$ 123,006	\$ 4,868	\$ 127,874

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, 2021

Exhibit 8

	Enterprise Fund		
	Major Fund	Non-Major Fund	
	School Food	After School	
	Service	Care	Total
CASH FLOWS FROM OPERATING ACTIVITES			
Cash received from customers	\$ -	\$ 224	\$ 224
Cash paid to employees for services	-	(1,184)	(1,184)
Cash paid for goods and services	(403,182)	-	(403,182)
Net cash used by operating activities	(403,182)	(960)	(404,142)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITES			
Federal reimbursements	435,595	-	435,595
Transfers to/from other funds	-	960	960
Net cash provided by noncapital financing activities	435,595	960	436,555
Net increase in cash and cash equivalents	32,413	-	32,413
Balances - beginning of year	59,947	4,868	64,815
Balances - end of year	\$ 92,360	\$ 4,868	\$ 97,228
Reconciliation of operating loss to net cash used by operating activities:			
Operating income (loss)	\$ (399,459)	\$ (960)	\$ (400,419)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Increase in due from other governments	(1,971)	-	(1,971)
Decrease in prepaid expenses	5	-	5
Depreciation	236	-	236
Decrease in payables	(1,993)	-	(1,993)
Net cash used by operating activities	\$ (403,182)	\$ (960)	\$ (404,142)

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

NOTES TO THE FINANCIAL STATEMENTS

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

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 467 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, 2021

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.

Federal Grants Fund: The Federal Grants Fund includes appropriations from various Federal agencies that are pass thru 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.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) Measurement Focus and Basis of Accounting

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the School gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the School funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there 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, 2021. All appropriations lapse at year end.

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

1. Deposits and Investments

All deposits of the School are made in local banks, whose accounts are FDIC insured. Also, the School may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

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

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.

Prepaid Items – Portion of fund balance that is not an available resource because it represents the year-end balance of prepaid operational expenses on goods and services 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 (\$4,225,922) consists of several elements as follows:

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

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).	\$ 3,856,175
Less accumulated depreciation	(2,364,644)
Net capital assets	1,491,531
Pension related deferred outflows of resources:	
Changes of assumptions	111,319
Net difference between projected and actual earnings on pension plan investments	68,456
Contributions made to the pension plan in current fiscal year	349,488
Differences between contributions and proportional share of contributions and changes in proportion	223,403
Changes in proportion and differences between School contributions and proportionate share of contributions	72,074
OPEB related deferred outflows of resources	1,318,503
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	(2,020,110)
Deferred inflows of resources related to pensions:	
Differences between expected and actual experience	(20,564)
Net OPEB asset	7,600
Net OPEB liability	(3,877,082)
Deferred inflows of resources related to OPEB	(1,937,142)
Bonds, notes, leases, and installment financing	-
Compensated absences	(13,398)
Total adjustment	<u>\$ (4,225,922)</u>

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

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, 2021, Healthy Start Education, Inc. received funding from the Board of Education for Durham (\$1,898,770), Alamance (\$5,432), and Wake (\$13,762) School Systems.

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, 2021

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 \$(121,720) 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.	49,535
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(123,478)
Contributions to the pension plan in the current fiscal year are not included on the statement of activities.	349,488
Contributions to the OPEB plan in the current fiscal year are not included on the statement of activities.	160,083
Expenses reported on the statement of activities that do not require the use of current resources to pay are not recorded as expenditures in the fund statements:	
Compensated absences are accrued in the government-wide statements but not in the fund statements, as they do not use current resources.	10,810
Interest expense for amortization of bond discount	
Pension expense	(582,213)
OPEB expense	14,055
Total	<u>\$ (121,720)</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, 2021

II. DETAIL NOTES ON ALL FUNDS

A) Assets

1. Deposits

At June 30, 2021, the School had deposits with banks and savings and loans with a carrying amount of \$1,937,216. The bank balance with the financial institution was \$2,044,568, of which \$1,249,959 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 annually since the original maturity date and matures in December 2021. At June 30, 2021, the certificate of deposit has a carrying value of \$212,448 and bears interest at a rate of 0.20% per annum.

In January 2019, the School obtained a certificate of deposit from a local bank that matures in August 2021. At June 30, 2021, 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, 2021, 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	49,535	-	226,461
Building improvements	295,042	-	-	295,042
Furniture and office equipment	89,392	-	-	89,392
Motor vehicles	92,850	-	-	92,850
Instructional equipment	186,454	-	-	186,454
Computer equipment	364,392	-	-	364,392
Total assets being depreciated	<u>3,806,640</u>	<u>49,535</u>	<u>-</u>	<u>3,856,175</u>
Less accumulated depreciation for:				
Buildings	1,409,226	69,274	-	1,478,500
Building equipment	143,640	10,125	-	153,765
Building improvements	48,682	21,990	-	70,672
Furniture and office equipment	81,626	2,002	-	83,628
Motor vehicles	17,787	13,264	-	31,051
Instructional equipment	186,454	-	-	186,454
Computer equipment	353,751	6,823	-	360,574
Total accumulated depreciation	<u>2,241,166</u>	<u>123,478</u>	<u>-</u>	<u>2,364,644</u>
Governmental activity capital assets, net	<u>\$ 1,565,474</u>			<u>\$ 1,491,531</u>

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

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	\$ 61,739
System-wide support services	<u>61,739</u>
	<u>\$ 123,478</u>

Business-type activities:

Food service fund:

Capital assets being depreciated:

Furniture and office equipment	\$ 1,650	\$ -	\$ -	\$ 1,650
Total assets being depreciated	<u>1,650</u>	<u>-</u>	<u>-</u>	<u>1,650</u>

Less accumulated depreciation for:

Furniture and office equipment	491	236	-	727
Total accumulated depreciation	<u>491</u>	<u>236</u>	<u>-</u>	<u>727</u>

Governmental activity capital assets, net	<u>\$ 1,159</u>			<u>\$ 923</u>
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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, 2021

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, 2021, was 14.78% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the School were \$349,488 for the year ended June 30, 2021.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

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, 2021, the School reported a liability of \$2,020,110 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions. The School's proportion of the net pension liability was based on a projection of the School's long-term share of future payroll covered by the pension plan, relative to the future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2020 and at June 30, 2019, the School's proportion was .0167% and .0150%, respectively.

For the year ended June 30, 2021, the School recognized pension expense of \$582,214. At June 30, 2021, 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	\$ 111,319	\$ -
Changes of assumptions	68,456	-
Net difference between projected and actual earnings on pension plan investments	223,403	-
Changes in proportion and differences between School contributions and proportionate share of contributions	72,074	20,564
School contributions subsequent to the measurement date	349,488	-
	<u>\$ 824,740</u>	<u>\$ 20,564</u>

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

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)

\$349,488 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, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2022	\$	145,955
2023		135,812
2024		106,367
2025		66,554
2026		-
Thereafter		-
	<u>\$</u>	<u>454,688</u>

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

Inflation		3.0 percent
Salary increases		3.5 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 assumptions used for the December 31, 2019 actuarial valuation are based on the experience study prepared as of December 31, 2014 and adopted by the Board of Trustees on January 21, 2016.

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

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

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, 2020 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, 2021

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 (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
School's proportionate share of the net pension	\$ 3,635,723	\$ 2,020,110	\$ 664,945

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, 2021

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, 2021

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 6.68% of covered payroll which amounted to \$157,955.

At June 30, 2021, the School reported a liability of \$3,877,082 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019. The total OPEB liability was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions. The School's proportion of the net OPEB liability was based on a projection of the School's present value of future salary, actuarially determined. At June 30, 2020, the School's proportion was 0.0140%.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

1. Pension Plan and Other Postemployment Obligations (Continued)

b. Healthcare Benefits

\$157,955 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, 2022. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:		
2022	\$	392,221
2023		391,795
2024		124,185
2025		(88,856)
2026		(40,460)
Thereafter		-
	<u>\$</u>	<u>778,885</u>

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

Inflation	3.00 percent
Salary increases	3.5 to 8.10 percent, including 3.5 percent inflation and productivity factor
Investment rate of return	7.00 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rate - medical	5.00-6.50 percent
Healthcare cost trend rate - prescription drug	5.00-9.50 percent
Healthcare cost trend rate - Medicare advantage	5.00-6.50 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 3.50%. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 2.21% was used as the discount rate used to measure the total OPEB liability. The 2.21% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2020.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

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 (1.21 percent) or 1-percentage point higher (3.21 percent) than the current discount rate:

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
Net OPEB liability	\$ 4,597,974	\$ 3,877,082	\$ 3,296,283

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 (2.50 percent) or 1-percentage point higher (4.50 percent) than the current discount rate:

	1% decrease (Medical: 5.50%, Pharmacy: 6.25%, Administrative: 2.00%)	Healthcare Trend Rates (Medical: 6.50%, Pharmacy: 7.25%, Administrative: 3.00%)	1% increase (Medical: 7.50%, Pharmacy: 8.25%, Administrative: 4.00%)
Net OPEB liability	\$ 3,125,629	\$ 3,877,082	\$ 4,881,500

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, 2021

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, 2021, employers made a statutory contribution of 0.09% of covered payroll which was equal to the actuarially required contribution. School contributions to the plan were \$2,128 for the year ended June 30, 2021.

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

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, 2021, the School reported an asset of \$7,600 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019. The total OPEB liability was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions. The School's proportion of the net OPEB liability was based on a projection of the School's present value of future salary, actuarially determined. At June 30, 2020, the School's proportion was 0.01545%.

\$2,128 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, 2022. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2022	\$	988
2023		471
2024		(55)
2025		282
2026		(459)
Thereafter		(1,062)
	\$	<u>165</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, 2021

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 asset	\$ 6,564	\$ 7,600	\$ 8,606

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

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

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

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, 2021

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, 2021

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	\$ 47,624	\$ 4,668	\$ 52,292
OPEB Liability (Asset)	3,877,082	(7,600)	3,869,482
Proportionate share of the net OPEB liability (asset)	0.0140%	0.0155%	0.0294%
Deferred of Outflows of Resources			-
Differences between expected and actual experience	3,512	5,506	9,018
Changes of assumptions	170,032	591	170,623
Net difference between projected and actual earnings on plan investments	8,167	-	8,167
Changes in proportion and differences between School contributions and proportionate share of contributions	970,612	-	970,612
School contributions subsequent to the measurement date	157,955	2,128	160,083
Deferred of Inflows of Resources			-
Differences between expected and actual experience	151,676	-	151,676
Changes of assumptions	1,573,381	599	1,573,980
Net difference between projected and actual earnings on plan investments	-	1,288	1,288
Changes in proportion and differences between School contributions and proportionate share of contributions	206,151	4,047	210,198
School contributions subsequent to the measurement date	-	-	-

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change in proportion and difference between employer contributions and proportionate share of contributions	\$ 1,042,686	\$ 230,762
Difference between projected and actual earnings on plan investments	231,570	1,288
Difference between expected and actual experience	120,337	151,676
Employer contributions subsequent to measurement date	509,571	-
Changes in assumptions	<u>239,079</u>	<u>1,573,980</u>
Total	<u>\$ 2,143,243</u>	<u>\$ 1,957,706</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, 2021

II. DETAIL NOTES ON ALL FUNDS (Continued)

B) Liabilities (Continued)

4. Long-Term Obligations

a) 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, 2021:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Net pension liability	\$ 1,557,117	\$ 462,993	\$ -	\$ 2,020,110	\$ -
Net OPEB liability	3,628,609	248,473	-	3,877,082	-
Compensated absences	24,208	-	10,810	13,398	-
	<u>\$ 5,209,934</u>	<u>\$ 711,466</u>	<u>\$ 10,810</u>	<u>\$ 5,910,590</u>	<u>\$ -</u>

b) 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, 2021 was \$56,185.

Future lease payments are as follows:

Year Ending:	
June 30, 2022	\$ 4,682
	<u>\$ 4,682</u>

C) Interfund Balances and Activity

The composition of interfund balances as of June 30, 2021 are as follows:

Transfers from General Fund to the Before/After School Care Fund to supplement operations \$ 960

HEALTHY START EDUCATION, INC.
Notes to the Financial Statements
For the Year Ended June 30, 2021

II. DETAIL NOTES ON ALL FUNDS (Continued)

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	\$ 1,881,433
Less:	
Prepaid items	41,086
Remaining fund balance	\$ 1,881,433

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 7, 2021, which is the date the financial statements were available to be issued.

As of the date of issuance of the School's audit, there is a pandemic situation regarding the COVID-19 virus. The School is monitoring the effect of this pandemic on its financial operations. At this time, management has evaluated the situation and has concluded no additional disclosures are warranted.

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 Eight Fiscal Years

Schedule 1

	2021	2020	2019	2018	2017	2016	2015	2014
School's proportion of the net pension liability	0.0167%	0.0150%	0.0135%	0.0142%	0.0135%	0.0140%	0.0120%	0.1170%
School's proportionate share of the net pension liability	\$ 2,020,110	\$ 1,557,117	\$ 1,346,063	\$ 1,125,104	\$ 1,244,466	\$ 504,503	\$ 141,042	\$ 710,309
School's covered-employee payroll	\$ 2,090,363	\$ 1,860,536	\$ 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	96.64%	83.69%	84.97%	71.06%	87.92%	31.34%	9.63%	54.15%
Plan fiduciary net position as a percentage of the total pension liability	85.98%	87.56%	87.61%	89.51%	87.32%	94.64%	98.24%	90.60%

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

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

Schedule 2

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 349,488	\$ 271,120	\$ 228,381	\$ 170,773	\$ 158,018	\$ 129,513	\$ 147,284	\$ 127,295
Contributions in relation to the contractually required contribution	349,488	271,120	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>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,364,599	\$ 2,090,363	\$ 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	14.78%	12.97%	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 Five Fiscal Years

Schedule 3

	2021	2020	2019	2018	2017
School's proportion of the net OPEB liability (asset)	0.0140%	0.0115%	0.0113%	0.0122%	0.0115%
School's proportionate share of the net OPEB liability (asset)	\$ 3,877,082	\$ 3,628,609	\$ 3,228,376	\$ 4,006,932	\$ 4,992,073
School's covered-employee payroll	\$ 2,090,363	\$ 1,860,536	\$ 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	185.47%	195.03%	203.79%	253.07%	352.69%
Plan fiduciary net position as a percentage of the total OPEB liability	6.92%	4.40%	4.40%	3.52%	2.41%

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

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

Schedule 4

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 157,955	\$ 135,247	\$ 116,517	\$ 95,842	\$ 91,992	\$ 79,265	\$ 88,370	\$ 81,445
Contributions in relation to the contractually required contribution	157,955	135,247	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>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,364,599	\$ 2,090,363	\$ 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	6.68%	6.47%	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 Five Fiscal Years

Schedule 5

	2021	2020	2019	2018	2017
School's proportion of the net OPEB liability (asset)	0.0155%	0.0139%	0.0123%	0.0128%	0.0125%
School's proportionate share of the net OPEB liability (asset)	\$ (7,600)	\$ (6,015)	\$ (3,370)	\$ (7,769)	\$ (7,842)
School's covered-employee payroll	\$ 2,090,363	\$ 1,860,536	\$ 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	0.36%	0.32%	0.21%	0.49%	0.55%
Plan fiduciary net position as a percentage of the total OPEB liability	115.57%	113.00%	108.47%	116.23%	116.06%

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

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

Schedule 6

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 2,128	\$ 2,090	\$ 2,602	\$ 2,218	\$ 6,017	\$ 5,803	\$ 6,600	\$ 6,445
Contributions in relation to the contractually required contribution	2,128	2,090	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>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,364,599	\$ 2,090,363	\$ 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	0.09%	0.10%	0.14%	0.14%	0.38%	0.41%	0.41%	0.44%

HEALTHY START EDUCATION, INC.
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Government Fund Types
For the Year Ended June 30, 2021

Schedule 7

	Final Budget	Actual	Variance Positive (Negative)
REVENUES			
State of North Carolina	\$ 3,444,308	\$ 3,425,248	\$ (19,060)
Boards of Education:			
Alamance County	5,432	5,432	-
Durham County	1,898,770	1,898,770	-
Wake County	13,762	13,762	-
U.S. Government	593,815	568,681	(25,134)
Contributions and donations	14,000	500	(13,500)
Student activities and fees	29,000	9,406	(19,594)
Interest income	1,096	955	(141)
Insurance Proceeds	14,018	14,018	-
Others	51,990	41,124	(10,866)
Total revenues	<u>6,066,191</u>	<u>5,977,896</u>	<u>(88,295)</u>
EXPENDITURES			
Salaries and bonuses	2,208,685	2,183,967	24,718
Employee benefits	960,697	915,091	45,606
Books and supplies	251,185	206,044	45,141
Technology	273,925	255,851	18,074
Non-capitalized equipment and leases	102,629	67,114	35,515
Contracted student services	232,579	83,592	148,987
Staff development	85,000	82,942	2,058
Food purchases	17,750	7,504	10,246
Administrative services	268,075	236,131	31,944
Insurance	94,191	57,018	37,173
Rent	22,000	12,204	9,796
Facilities	311,043	271,121	39,922
Utilities	135,100	91,378	43,722
Transportation and travel	384,936	285,124	99,812
Federal programs	427,054	401,920	25,134
COVID-19	166,761	166,761	-
Total	<u>5,941,610</u>	<u>5,323,762</u>	<u>617,848</u>
Capital outlay	<u>44,000</u>	<u>49,535</u>	<u>(5,535)</u>
Total expenditures	<u>5,985,610</u>	<u>5,373,297</u>	<u>612,313</u>
Other financing sources (uses):			
Fund balance appropriated	-	-	-
Transfers	<u>-</u>	<u>(960)</u>	<u>(960)</u>
Total other financing sources (uses)	<u>-</u>	<u>(960)</u>	<u>(960)</u>
Excess of revenue over expenditures	<u>\$ 80,581</u>	<u>\$ 603,639</u>	<u>\$ 523,058</u>
Fund balance - beginning		<u>1,277,794</u>	
Fund balance - ending		<u>\$ 1,881,433</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, 2021

	Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Before/after school care	\$ 250	\$ 224	\$ (26)
Total revenues	<u>250</u>	<u>224</u>	<u>(26)</u>
EXPENDITURES			
Salaries and benefits	1,210	1,184	26
Materials and supplies	2,700	1,941	759
Contracted services	420,000	387,793	32,207
Depreciation	-	236	(236)
Other	<u>9,800</u>	<u>9,489</u>	<u>311</u>
Total expenditures	<u>433,710</u>	<u>400,643</u>	<u>33,067</u>
Revenues over (under) expenditures	<u>(433,460)</u>	<u>(400,419)</u>	<u>33,041</u>
Other financing sources (uses):			
Federal reimbursements	435,000	435,595	595
Transfers	<u>-</u>	<u>960</u>	<u>960</u>
Total other financing sources	<u>435,000</u>	<u>436,555</u>	<u>1,555</u>
Revenues and other sources over (under) expenditures	<u><u>\$ 1,540</u></u>	<u><u>\$ 36,136</u></u>	<u><u>\$ 34,596</u></u>

COMPLIANCE SECTION

SHARPE
PATEL CPA

**INDEPENDENT AUDITOR'S 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 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, 2021, 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 7, 2021.

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 opinion 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 charged with governance.

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

Compliance and Other Matters

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

A handwritten signature in black ink that reads "Sharpe Patel PLLC". The script is cursive and fluid.

Raleigh, North Carolina
October 7, 2021



SHARPE
PATEL CPA

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE OMB UNIFORM GUIDANCE AND 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.'s compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of Healthy Start Education, Inc.'s major State programs for the year ended June 30, 2021. Healthy Start Education, Inc.'s major State program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with State statutes, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for 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 standards, the Uniform Guidance, and the State Single Audit Implementation Act, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about 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, Healthy Start Education, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of 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 of compliance, we considered Healthy Start Education, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or 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 material weaknesses or significant deficiencies. 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 and State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.



Raleigh, North Carolina
October 7, 2021



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL 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 Federal Program

We have audited Healthy Start Education, Inc.'s compliance with the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of Healthy Start Education, Inc.'s major Federal programs for the year ended June 30, 2021. Healthy Start Education, Inc.'s major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with Federal and State statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Healthy Start Education, Inc.'s major Federal 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 standards, the Uniform Guidance, and the State Single Audit Implementation Act, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about 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 Federal program. However, our audit does not provide a legal determination of Healthy Start Education, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Healthy Start Education, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2021.

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 of compliance, we considered Healthy Start Education, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal 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 Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal 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 Federal 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 material weaknesses or significant deficiencies. 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.

Sharpe Patel PLLC

Raleigh, North Carolina
October 7, 2021

HEALTHY START EDUCATION, INC.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

Material weaknesses identified? _____ yes X no

Significant deficiency(s) identified that are
not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to the financial statements noted _____ yes X no

State Awards

Internal control over major State programs:

Material weaknesses identified? _____ yes X no

Significant deficiency(s) identified that are
not considered to be material weaknesses? _____ yes X none reported

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

Any audit findings disclosed that are required to be reported
in accordance with the State Single Audit
Implementation Act _____ yes X no

Identification of major State programs:

<u>Program Name</u>
State Public School Fund - Charter Schools

SECTION I - SUMMARY OF AUDITOR'S RESULTS

HEALTHY START EDUCATION, INC.
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2021

No findings disclosed in the prior year.

HEALTHY START EDUCATION, INC.
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2021

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			
COVID- 19 Education Stabilization Fund			
CARES Act K12 Emergency Relief Fund	84.425D	PRC 163	166,761
Specialized Instructional Support for COVID-19	84.425C	PRC 169	12,023
Total Coronavirus Relief Fund			\$ 178,784
IASA Title I - LEA Basic Education	84.010A	PRC 050	\$ 230,045
Title VI-B Handicapped	84.027A	PRC 060	104,138
Student Improvement	84.010A	PRC 108	15,000
English Language Acquisition	84.365	PRC 104	15,630
Improving Teacher Quality	84.367A	PRC 103	25,084
Total U.S. Department of Education			568,681
<u>U.S. Department of Agriculture</u>			
Passed-through the N.C. Department of Public Instruction			
Child Nutrition Program	10.553-CL	XXX XXX	435,595
Total Federal Assistance			1,004,276
STATE GRANTS			
Cash Assistance:			
<u>N.C. Department of Public Instruction:</u>			
State Public School Fund - Summer Reading Camps		PRC 016	43,744
State Public School Fund - Charter Schools		PRC 036	3,262,319
State Public School Fund - Test Results Bonus		PRC 048	10,765
Coronavirus Relief Fund:			
Summer Learning Program		PRC 121	59,273
Contracting Mental Health		PRC 122	546
Remote Instructional		PRC 123	6,106
Student Computers and Devices		PRC 124	23,076
School Nutrition		PRC 125	3,878
Personnel Computers and Devices		PRC 126	1,798
Community Student Mobile Internet Access		PRC 128	2,801
Personal Protective Equipment		PRC 137	10,942
Total Coronavirus Relief Fund			108,420

HEALTHY START EDUCATION, INC.
Schedule of Expenditures of Federal and State Awards (Continued)
For the Year Ended June 30, 2021

Total State assistance	<u>\$ 3,425,248</u>
Total Federal and State assistance	<u><u>\$ 4,429,524</u></u>

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

Note 1: Basis of Presentation

The accompanying schedule of expenditures of Federal and State awards (SEFSA) includes the Federal and State grant activity of Healthy Start Education, Inc. under the programs of the Federal government and the State of North Carolina for the year ended June 30, 2021. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and 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.