



**MOUNTAIN EDUCATION
CENTER, INC.
CLEVELAND, GEORGIA**

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2014

(Including Independent Auditor's Reports)



MOUNTAIN EDUCATION CENTER, INC.

- TABLE OF CONTENTS -

	<u>Page</u>
SECTION I	
FINANCIAL	
INDEPENDENT AUDITOR'S REPORT	
EXHIBITS	
BASIC FINANCIAL STATEMENTS	
DISTRICT-WIDE FINANCIAL STATEMENTS	
A	1
STATEMENT OF NET POSITION	
B	2
STATEMENT OF ACTIVITIES	
FUND FINANCIAL STATEMENTS	
C	3
BALANCE SHEET	
GOVERNMENTAL FUND	
D	4
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET	
TO THE STATEMENT OF NET POSITION	
E	5
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES	
IN FUND BALANCES	
GOVERNMENTAL FUND	
F	7
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT	
OF REVENUES, EXPENDITURES AND CHANGES IN FUND	
BALANCES TO THE STATEMENT OF ACTIVITIES	
G	8
NOTES TO THE BASIC FINANCIAL STATEMENTS	
SCHEDULES	
REQUIRED SUPPLEMENTARY INFORMATION	
1	19
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES	
IN FUND BALANCES - BUDGET AND ACTUAL	
GENERAL FUND	
SUPPLEMENTARY INFORMATION	
2	20
SCHEDULE OF FEDERAL REVENUE	
3	21
SCHEDULE OF STATE REVENUE	
4	23
ALLOTMENTS AND EXPENDITURES	
GENERAL FUND - QUALITY BASIC EDUCATION PROGRAMS (QBE)	
BY PROGRAM	

MOUNTAIN EDUCATION CENTER, INC.

- TABLE OF CONTENTS -

SECTION II

COMPLIANCE AND INTERNAL CONTROL REPORTS

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*

SECTION I
FINANCIAL



DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

September 15, 2014

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Director and Members of the
Mountain Education Center, Inc. Governing Board

INDEPENDENT AUDITOR'S REPORT

Ladies and Gentlemen:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and general fund (Exhibits A through G) of the Mountain Education Center, Inc. (Charter School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Charter School'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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express

no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Mountain Education Center, Inc., as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, in 2014 the Mountain Education Center, Inc. Board of Education adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, as presented on page 19, 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 regarding 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mountain Education Center, Inc.'s basic financial statements. The accompanying supplementary information consists of Schedules 2 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2014, on our consideration of the Mountain Education Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mountain Education Center, Inc.'s internal control over financial reporting and compliance.

A copy of this report has been filed as a permanent record in the office of the State Auditor and made available to the press of the State, as provided for by Official Code of Georgia Annotated section 50-6-24.

Respectfully submitted,



Greg S. Griffin
State Auditor

GSG:as
2014ARL-11

MOUNTAIN EDUCATION CENTER, INC.

MOUNTAIN EDUCATION CENTER, INC.
STATEMENT OF NET POSITION
JUNE 30, 2014

EXHIBIT "A"

		GOVERNMENTAL ACTIVITIES
<u>ASSETS</u>		
Cash and Cash Equivalents	\$	4,269,156.16
Accounts Receivable, Net		
State Government		607,918.15
Federal Government		105,943.87
Capital Assets, Depreciable (Net of Accumulated Depreciation)		316,956.50
Total Assets	\$	5,299,974.68
<u>LIABILITIES</u>		
Accounts Payable	\$	129,155.65
Salaries and Benefits Payable		497,493.88
Total Liabilities	\$	626,649.53
<u>NET POSITION</u>		
Investment in Capital Assets	\$	316,956.50
Unrestricted		4,356,368.65
Total Net Position	\$	4,673,325.15

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

MOUNTAIN EDUCATION CENTER, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

EXHIBIT "B"

	EXPENSES	PROGRAM REVENUES		NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction	\$ 6,042,529.56	\$ 28,810.75	\$ 8,794,629.61	\$ 2,780,910.80
Support Services				
Pupil Services	1,032,193.84			-1,032,193.84
Improvement of Instructional Services	520,666.28		62,417.45	-458,248.83
School Administration	1,908,341.93		694,851.85	-1,213,490.08
Business Administration	483,263.31		88,715.50	-394,547.81
Maintenance and Operation of Plant	396,797.92		334,951.00	-61,846.92
Student Transportation Services	25,000.00			-25,000.00
Other Support Services	180,156.05		1,723.09	-178,432.96
Food Services	159,837.20	4,360.11	54,220.52	-101,256.57
Total Governmental Activities	\$ <u>10,748,786.09</u>	\$ <u>33,170.86</u>	\$ <u>10,031,509.02</u>	\$ <u>-684,106.21</u>
General Revenues				
Investment Earnings				\$ 9,219.75
Miscellaneous				<u>62,053.46</u>
Total General Revenues				\$ <u>71,273.21</u>
Change in Net Position				\$ -612,833.00
Net Position - Beginning of Year				<u>5,286,158.15</u>
Net Position - End of Year				\$ <u><u>4,673,325.15</u></u>

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

MOUNTAIN EDUCATION CENTER, INC.
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2014

EXHIBIT "C"

		GENERAL FUND
<u>ASSETS</u>		
Cash and Cash Equivalents	\$	4,269,156.16
Accounts Receivable, Net		
State Government		607,918.15
Federal Government		105,943.87
Total Assets	\$	4,983,018.18
<u>LIABILITIES</u>		
Accounts Payable	\$	129,155.65
Salaries and Benefits Payable		497,493.88
Total Liabilities	\$	626,649.53
<u>FUND BALANCES</u>		
Assigned	\$	122,700.77
Unassigned		4,233,667.88
Total Fund Balances	\$	4,356,368.65
Total Liabilities and Fund Balances	\$	4,983,018.18

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

MOUNTAIN EDUCATION CENTER, INC.
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

EXHIBIT "D"

Total Fund Balances - Governmental Funds (Exhibit "C") \$ 4,356,368.65

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital Assets used in Governmental Activities are not financial resources and therefore are not reported as assets in governmental funds. These assets consist of:

Buildings	\$ 309,160.50	
Equipment	97,284.00	
Accumulated Depreciation	<u>-89,488.00</u>	
Total Capital Assets		<u>316,956.50</u>

Net Position of Governmental Activities (Exhibit "A") \$ 4,673,325.15

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

MOUNTAIN EDUCATION CENTER, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2014

EXHIBIT "E"

		GENERAL FUND
<u>REVENUES</u>		
State Funds	\$	9,578,517.09
Federal Funds		452,991.93
Charges for Services		33,170.86
Investment Earnings		9,219.75
Miscellaneous		62,053.46
Total Revenues	\$	10,135,953.09
<u>EXPENDITURES</u>		
Current		
Instruction	\$	6,036,826.02
Support Services		
Pupil Services		1,032,193.84
Improvement of Instructional Services		520,666.28
School Administration		1,904,263.47
Business Administration		483,263.31
Maintenance and Operation of Plant		396,797.92
Student Transportation Services		25,000.00
Other Support Services		180,156.05
Food Services Operation		159,837.20
Capital Outlay		185,697.50
Total Expenditures	\$	10,924,701.59
Net Change in Fund Balances	\$	-788,748.50
Fund Balances - Beginning		5,145,117.15
Fund Balances - Ending	\$	4,356,368.65

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

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MOUNTAIN EDUCATION CENTER, INC.
 RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
 REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2014

EXHIBIT "F"

Total Net Change in Fund Balances - Governmental Funds (Exhibit "E") \$ -788,748.50

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital Outlays are reported as expenditures in Governmental Funds. However, in the Statement of Activities, the cost of Capital Assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	\$	194,372.50	
Depreciation Expense		-18,457.00	
Excess of Capital Outlay over Depreciation Expense		175,915.50	175,915.50

Change in Net Position of Governmental Activities (Exhibit "B") \$ -612,833.00

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

Note 1: DESCRIPTION OF SCHOOL DISTRICT AND REPORTING ENTITY

REPORTING ENTITY

The Mountain Education Center, Inc. (Charter School) is incorporated as a non-profit corporation pursuant to Georgia law and operates under the guidance of a governing board. The Charter School operates Mountain Education Charter High School according to an agreement between Mountain Education Center, Inc. and the State Charter Schools Commission in accordance with the Official Code of Georgia Annotated (O.C.G.A.) §20-2-2060 et seq.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Charter School's basic financial statements are collectively comprised of the District-wide financial statements, fund financial statements and notes to the basic financial statements of the Mountain Education Center, Inc.

District-wide Statements:

The Statement of Net Position and the Statement of Activities display information about the financial activities of the overall Charter School. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through intergovernmental revenues and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Charter 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 expenses (expenses of the Charter School related to the administration and support of the Charter School's programs, such as office and maintenance personnel and accounting) are not allocated to programs.
- Program revenues include (a) 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 Charter School's funds. Eliminations have been made to minimize the double counting of internal activities. The emphasis of fund financial statements is on major governmental funds.

The Charter School reports the following major governmental fund:

- General Fund is the Charter School's primary operating fund. It accounts for and reports all financial resources of the Charter School.

BASIS OF ACCOUNTING

The basis of accounting determines when transactions are reported on the financial statements. The District-wide governmental financial statements are reported using the economic resources measurement focus and 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. Nonexchange transactions, in which the Charter School gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Charter School uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

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 Charter School considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Interest is considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred. Capital asset acquisitions are reported as expenditures in governmental funds.

The Charter School funds certain programs by a combination of specific cost-reimbursement grants, categorical grants, and general revenues. Thus, when program costs are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Charter School's policy to first apply grant resources to such programs, followed by cost-reimbursement grants, then general revenues.

NEW ACCOUNTING PRONOUNCEMENTS

In fiscal year 2014, the Charter School adopted the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The provisions of this Statement establish accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities.

CASH AND CASH EQUIVALENTS

Composition of Deposits

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition in authorized financial institutions. Official Code of Georgia Annotated Section 45-8-14 authorizes the Charter School to deposit its funds in one or more solvent banks, insured Federal savings and loan associations or insured chartered building and loan associations.

RECEIVABLES

Receivables consist of amounts due from grant reimbursements due on Federal, State or other grants for expenditures made but not reimbursed and other receivables disclosed from information available. Receivables are recorded when either the asset or revenue recognition criteria has been met. Receivables recorded on the basic financial statements do not include any amounts which would necessitate the need for an allowance for uncollectible receivables.

MOUNTAIN EDUCATION CENTER, INC.
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

EXHIBIT "G"

CAPITAL ASSETS

Capital assets purchased, including capital outlay costs, are recorded as expenditures in the fund financial statements at the time of purchase (including ancillary charges). On the District-wide financial statements, all purchased capital assets are valued at cost where historical records are available and at estimated historical cost based on appraisals or deflated current replacement cost where no historical records exist. Donated capital assets are recorded at estimated fair market value on the date donated. Disposals are deleted at depreciated recorded cost. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized. Depreciation is computed using the straight-line method. The Charter School does not capitalize book collections or works of art. During the fiscal year under review, no events or changes in circumstances affecting a capital asset that may indicate impairment were known to the Charter School.

Capitalization thresholds and estimated useful lives of capital assets reported in the District-wide statements are as follows:

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	All	N/A
Land Improvements	\$ 5,000.00	10 to 60 years
Buildings and Improvements	\$ 5,000.00	10 to 60 years
Equipment	\$ 5,000.00	8 to 25 years
Intangible Assets	\$ 50,000.00	evaluated individually

Depreciation is used to allocate the actual or estimated historical cost of all capital assets over estimated useful lives, with the exception of intangible assets which are amortized.

Amortization of intangible assets such as water, timber, and mineral rights, easements, patents, trademarks, copyrights and internally generated software is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 20 years.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, represents a consumption of resources that applies to a future period and therefore will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of resources that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that time.

The Charter School did not have any items that qualified for reporting in these categories for the year ended June 30, 2014.

NET POSITION

The Charter School's net position in the District-wide Statements is classified as follows:

Investment in capital assets - This represents the Charter School's total investment in capital assets.

Unrestricted net position - Unrestricted net position represents resources derived from grants and contributions not restricted to specific programs, charges for services, and miscellaneous revenues. These resources are used for transactions relating to the educational and general operations of the Charter School, and may be used at the discretion of the Board to meet current expenses for those purposes.

FUND BALANCES

The Charter School's fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Constraints are placed on the use of resources are either (1) externally imposed conditions by creditors, grantors, contributors, or laws and regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. The Board is the Charter School's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts that are constrained by the Charter School's *intent* to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by (1) the Board or (2) the budget or finance committee, or the Director, or designee, to assign amounts to be used for specific purposes.

Unassigned – The residual classification for the General Fund. This classification represents fund balances that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

Fund Balances of the Governmental Funds at June 30, 2014, are as follows:

Assigned		
School Activity Accounts	\$	122,700.77
Unassigned		4,233,667.88
Fund Balance, June 30, 2014	\$	4,356,368.65

When multiple categories of fund balance are available for expenditure, the Charter School will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

USE OF ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3: BUDGETARY DATA

The budget is a complete financial plan for the Charter School's fiscal year, and is based upon careful estimates of expenditures together with probable funding sources. The budget is legally adopted each year for the general fund. There is no statutory prohibition regarding over expenditure of the budget at any level. The budget for all governmental funds, except the various school activity (principal) accounts, is prepared and adopted by fund, function and object. The legal level of budgetary control was established by the Board at the aggregate function level. The budget for the General Fund was prepared in accordance with accounting principles generally accepted in the United States of America

The budgetary process begins with the Charter School's administration presenting an initial budget for the Board's review. The administration makes revisions as necessary based on the Board's guidelines and a tentative budget is approved. After approval of this tentative budget by the Board, such budget is advertised at least once in a newspaper of general circulation in the locality. At the next regularly scheduled meeting of the Board after advertisement, the Board receives comments on the tentative budget, makes revisions as necessary and adopts a final budget. The approved budget is then submitted, in accordance with provisions of Official Code of Georgia Annotated section 20-2-167(c), to the Georgia Department of Education. The Board may increase or decrease the budget at any time during the year. All unexpended budget authority lapses at fiscal year-end.

See Schedule 1 – General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual for a detail of any over/under expenditures during the fiscal year under review.

Note 4: DEPOSITS

COLLATERALIZATION OF DEPOSITS

Official Code of Georgia Annotated (O.C.G.A.) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral. The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110 percent of the public funds being secured after the deduction of the amount of deposit insurance. If a depository elects the pooled method (O.C.G.A. Section 45-8-13.1) the aggregate of the market value of the securities pledged to secure a pool of public funds shall be not less than 110 percent of the daily pool balance

Acceptable security for deposits consists of any one of or any combination of the following:

- (1) Surety bond signed by a surety company duly qualified and authorized to transact business within the State of Georgia,
- (2) Insurance on accounts provided by the Federal Deposit Insurance Corporation,
- (3) Bonds, bills, notes, certificates of indebtedness or other direct obligations of the United States or of the State of Georgia,

MOUNTAIN EDUCATION CENTER, INC.
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

EXHIBIT "G"

- (4) Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia,
- (5) Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose,
- (6) Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia, and
- (7) Bonds, bills, notes, certificates of indebtedness, or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest or debt obligations issued by or securities guaranteed by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association, and the Federal National Mortgage Association.

CATEGORIZATION OF DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the Charter School's deposits may not be returned to it. The Charter School does not have a deposit policy for custodial credit risk. At June 30, 2014, the Charter School had deposits with a carrying amount of \$4,269,156.16. and a bank balance of \$4,411,098.04. The bank balances insured by Federal depository insurance were \$267,366.97 and the bank balances collateralized with securities held by the pledging financial institution or by the pledging financial institution's trust department or agent in the Charter School's name were \$4,143,731.07.

Note 5: CAPITAL ASSETS

The following is a summary of changes in the Capital Assets during the fiscal year:

	<u>Balances</u> July 1, 2013	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balances</u> June 30, 2014
Governmental Activities					
Buildings and Improvements	\$ 123,463.00	\$ 185,697.50	\$ 0.00	\$ 0.00	\$ 309,160.50
Equipment	88,609.00	8,675.00			97,284.00
Less: Accumulated Depreciation for:					
Buildings and Improvements	32,252.00	8,804.00			41,056.00
Equipment	38,779.00	9,653.00			48,432.00
Governmental Activity Capital Assets - Net	<u>\$ 141,041.00</u>	<u>\$ 175,915.50</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 316,956.50</u>

Current year depreciation expense by function is as follows:

Instruction	\$ 11,198.00
Support Services	
School Administration	<u>7,259.00</u>
	<u>\$ 18,457.00</u>

MOUNTAIN EDUCATION CENTER, INC.
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

EXHIBIT "G"

Note 6: RISK MANAGEMENT

The Charter School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; job related illness or injuries to employees; acts of God and unemployment compensation

The Charter School has obtained commercial insurance for risk of loss associated with torts, assets, errors or omissions, and job related illness or injuries to employees. The Charter School has neither significantly reduced coverage for these risks nor incurred losses (settlements) which exceeded the Charter School's insurance coverage in any of the past three years.

The Charter School has elected to self-insure for all losses related to acts of God The Charter School has not experienced any losses related to this risk in the past three years.

The Charter School is self-insured with regard to unemployment compensation claims The Charter School accounts for claims within the General Fund with expenses/expenditures and liability being reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. The Charter School has not experienced any unemployment claims in the last two fiscal years.

The School District has purchased a surety bond to provide additional insurance coverage as follows:

<u>Position Covered</u>	<u>Amount</u>
Superintendent	\$100,000.00

Note 7: OPERATING LEASES

Mountain Education Center, Inc. has entered into various leases for copiers. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended June 30, 2014, for governmental funds amounted to \$37,293.06. Future minimum lease payments for these leases are as follows:

<u>Year Ending</u>	<u>Governmental Funds</u>
2015	\$ 37,976.28
2016	15,583.99
2017	<u>4,608.45</u>
Total	<u>\$ 58,168.72</u>

Note 8: SIGNIFICANT CONTINGENT LIABILITIES

Amounts received or receivable principally from the Federal government are subject to audit and review by grantor agencies. This could result in requests for reimbursement to the grantor agency for any costs which are disallowed under grant terms. The School District believes that such disallowances, if any, will be immaterial to its overall financial position.

Note 9: SUBSEQUENT EVENTS

In fiscal year 2015, the Charter School will adopt Governmental Account Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions of this Statement establish accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. Implementation of this statement will require the Charter School to record a liability for its proportionate share of the Net Pension Liability of pension plans in which it is a member. Actuarial estimates are currently being made to determine the Charter School's liability, the effects of which are believed to be material.

Note 10: POST-EMPLOYMENT BENEFITS

Georgia School Personnel Post-employment Health Benefit Fund

Plan Description. The Georgia School Personnel Post-employment Health Benefit Fund (School OPEB Fund) is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers eligible former employees of public school systems, libraries and regional educational service agencies. The School OPEB Fund provides health insurance benefits to eligible former employees and their qualified beneficiaries through the State Employees Health Benefit Plan administered by the Department of Community Health. The Official Code of Georgia Annotated (O.C.G.A.) assigns the authority to establish and amend the benefit provisions of the group health plans, including benefits for retirees, to the Board of Community Health (Board). The Department of Community Health, which includes the School OPEB Fund, issues a separate stand alone financial audit report and a copy can be obtained from the Georgia Department of Audits and Accounts.

Funding Policy. The contribution requirements of plan members and participating employers are established by the Board in accordance with the current Appropriations Act and may be amended by the Board. Contributions of plan members or beneficiaries receiving benefits vary based on plan election, dependent coverage, and Medicare eligibility and election. For members with fewer than five years of service as of January 1, 2013, contributions also vary based on years of service. On average, members with five years or more of service as of January 1, 2013 pay approximately 25 percent of the cost of the health insurance coverage. In accordance with the Board resolution dated December 8, 2011, for members with fewer than five years of service as of January 1, 2013, the State provides a premium subsidy in retirement that ranges from 0% for fewer than 10 years of service to 75% (but no greater than the subsidy percentage offered to active employees) for 30 or more years of service. The subsidy for eligible dependents ranges from 0% to 55% (but no greater than the subsidy percentage offered to dependents of active employees minus 20%). No subsidy is available to Medicare eligible members not enrolled in a Medicare Advantage Option. The Board of Community Health sets all member premiums by resolution and in accordance with the law and applicable revenue and expense projections. Any subsidy policy adopted by the Board may be changed at any time by Board resolution and does not constitute a contract or promise of any amount of subsidy.

Participating employers are statutorily required to contribute in accordance with the employer contribution rates established by the Board. The contribution rates are established to fund all benefits due under the health insurance plans for both active and retired employees based on projected "pay-as-you-go" financing requirements. Contributions are not based on the actuarially calculated annual required contribution (ARC) which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

MOUNTAIN EDUCATION CENTER, INC.
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

EXHIBIT "G"

The combined active and retiree contribution rates established by the Board for employers participating in the School OPEB Fund were as follows for the fiscal year ended June 30, 2014:

For certificated teachers, librarians and regional educational service agencies and certain other eligible participants:

July 1, 2013 - June 30, 2014 \$945 per member per month

For non-certificated school personnel:

July 1, 2013 - June 30, 2014 \$596.20 per member per month

No additional contribution was required by the Board for fiscal year 2014 nor contributed to the School OPEB Fund to prefund retiree benefits. Such additional contribution amounts are determined annually by the Board in accordance with the School plan for other post-employment benefits and are subject to appropriation.

The School District's combined active and retiree contributions to the health insurance plans, which equaled the required contribution, for the current fiscal year and the preceding two fiscal years were as follows:

Fiscal Year	Percentage Contributed	Required Contribution
2014	100%	\$ 212,428.79
2013	100%	\$ 157,860.11
2012	100%	\$ 130,123.27

Note 11: RETIREMENT PLANS

TEACHERS RETIREMENT SYSTEM OF GEORGIA (TRS)

Plan Description. The TRS is a cost-sharing multiple-employer defined benefit plan created in 1943 by an act of the Georgia General Assembly to provide retirement benefits for qualifying employees in educational service. A Board of Trustees comprised of active and retired members and ex-officio State employees is ultimately responsible for the administration of TRS. The Teachers' Retirement System of Georgia issues a separate stand alone financial audit report and a copy can be obtained from the Georgia Department of Audits and Accounts.

On October 25, 1996, the Board created the Supplemental Retirement Benefits Plan of the Georgia Teachers' Retirement System (SRBP-TRS). SRBP-TRS was established as a qualified excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC) as a portion of TRS. The purpose of SRBP-TRS is to provide retirement benefits to employees covered by TRS whose benefits are otherwise limited by IRC Section 415. Beginning July 1, 1997, all members and retired former members in TRS are eligible to participate in the SRBP-TRS whenever their benefits under TRS exceed the IRC Section 415 imposed limitation on benefits.

TRS provides service retirement, disability retirement, and survivor's benefits. The benefit structure of TRS is defined and may be amended by State statute. A member is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. A member is eligible for early retirement after 25 years of creditable service.

MOUNTAIN EDUCATION CENTER, INC.
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014

EXHIBIT "G"

Normal retirement (pension) benefits paid to members are equal to 2% of the average of the member's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. Early retirement benefits are reduced by the lesser of one-twelfth of 7% for each month the member is below age 60 or by 7% for each year or fraction thereof by which the member has less than 30 years of service. It is also assumed that certain cost-of-living adjustments, based on the Consumer Price Index, will be made in future years. Retirement benefits are payable monthly for life. A member may elect to receive a partial lump-sum distribution in addition to a reduced monthly retirement benefit. Death, disability and spousal benefits are also available.

Funding Policy. TRS is funded by member and employer contributions as adopted and amended by the Board of Trustees. Members become fully vested after 10 years of service. If a member terminates with less than 10 years of service, no vesting of employer contributions occurs, but the member's contributions may be refunded with interest. Member contributions are limited by State law to not less than 5% or more than 6% of a member's earnable compensation. Member contributions as adopted by the Board of Trustees for the fiscal year ended June 30, 2014, were 6.00% of annual salary. Employer contributions required for fiscal year 2014 were 12.28% of annual salary as required by the June 30, 2011, actuarial valuation.

Employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

Fiscal Year	Percentage Contributed	Required Contribution
2014	100%	\$ 132,672.12
2013	100%	\$ 101,765.35
2012	100%	\$ 78,635.92

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MOUNTAIN EDUCATION CENTER, INC.
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2014

SCHEDULE "1"

	NONAPPROPRIATED BUDGETS		ACTUAL AMOUNTS	VARIANCE OVER/UNDER
	ORIGINAL (1)	FINAL (1)		
REVENUES				
State Funds	\$ 9,344,785.00	\$ 9,351,468.00	\$ 9,578,517.09	\$ 227,049.09
Federal Funds	40,000.00	495,630.00	452,991.93	-42,638.07
Charges for Services			33,170.86	33,170.86
Investment Earnings	7,800.00	7,800.00	9,219.75	1,419.75
Miscellaneous			62,053.46	62,053.46
Total Revenues	<u>\$ 9,392,585.00</u>	<u>\$ 9,854,898.00</u>	<u>\$ 10,135,953.09</u>	<u>\$ 281,055.09</u>
EXPENDITURES				
Current				
Instruction	\$ 5,662,265.14	\$ 6,541,557.34	\$ 6,036,826.02	\$ 504,731.32
Support Services				
Pupil Services	1,231,264.39	1,341,034.39	1,032,193.84	308,840.55
Improvement of Instructional Services	479,315.87	566,402.87	520,666.28	45,736.59
School Administration	1,865,035.67	1,965,625.23	1,904,263.47	61,361.76
Business Administration	426,542.50	426,542.50	483,263.31	-56,720.81
Maintenance and Operation of Plant	318,475.00	318,475.00	396,797.92	-78,322.92
Student Transportation Services	30,000.00	30,000.00	25,000.00	5,000.00
Central Support Services		241.00		241.00
Other Support Services	186,620.00	216,620.00	180,156.05	36,463.95
Food Services Operation	95,601.00	95,601.00	159,837.20	-64,236.20
Capital Outlay	185,000.00	185,000.00	185,697.50	-697.50
Total Expenditures	<u>\$ 10,480,119.57</u>	<u>\$ 11,687,099.33</u>	<u>\$ 10,924,701.59</u>	<u>\$ 762,397.74</u>
Net Change in Fund Balances	<u>\$ -1,087,534.57</u>	<u>\$ -1,832,201.33</u>	<u>\$ -788,748.50</u>	<u>\$ 1,043,452.83</u>
Fund Balances - Beginning	<u>5,145,117.15</u>	<u>5,145,117.15</u>	<u>5,145,117.15</u>	<u>0.00</u>
Fund Balances - Ending	<u>\$ 4,057,582.58</u>	<u>\$ 3,312,915.82</u>	<u>\$ 4,356,368.65</u>	<u>\$ 1,043,452.83</u>

Notes to the Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual

- (1) Original and Final Budget amounts do not include the budgeted revenues or expenditures of the various principal accounts. The actual revenues and expenditures of the various principal accounts are \$85,157.45 and \$92,809.35, respectively.

The accompanying schedule of revenues, expenditures and changes in fund balances budget and actual is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

MOUNTAIN EDUCATION CENTER, INC.
 SCHEDULE OF FEDERAL REVENUE
 YEAR ENDED JUNE 30, 2014

SCHEDULE "2"

FUNDING AGENCY <u>PROGRAM/GRANT</u>	GOVERNMENTAL FUND TYPE <u>GENERAL FUND</u>
Agriculture, U. S. Department of Child Nutrition Cluster Pass-Through From Georgia Department of Education Food Services National School Lunch Program	\$ <u>54,220.52</u>
Education, U. S. Department of Special Education Cluster Pass-Through From Georgia Department of Education Special Education Grants to States	\$ <u>134,855.60</u>
Title I, Part A Cluster Pass-Through From Georgia Department of Education Title I Grants to Local Educational Agencies	\$ <u>240,998.98</u>
Other Programs Pass-Through From Georgia Department of Education Career and Technical Education - Basic Grants to States Improving Teacher Quality State Grants	\$ <u>4,877.99</u> <u>18,038.84</u>
Total Other Programs	\$ <u>22,916.83</u>
Total U. S. Department of Education	\$ <u>398,771.41</u>
Total Federal Revenue	\$ <u><u>452,991.93</u></u>

See notes to the basic financial statements.

MOUNTAIN EDUCATION CENTER, INC.
SCHEDULE OF STATE REVENUE
YEAR ENDED JUNE 30, 2014

SCHEDULE "3"

<u>AGENCY/FUNDING</u>	<u>GOVERNMENTAL FUND TYPE</u>
	<u>GENERAL FUND</u>
GRANTS	
Education, Georgia Department of Quality Basic Education	
Direct Instructional Cost	
Vocational Laboratory (9-12) Program	\$ 48,127.33
Students with Disabilities	1,037,281.51
Alternative Education Program	3,537,628.20
English Speakers of Other Languages (ESOL)	39,000.86
Media Center Program	105,022.53
20 Days Additional Instruction	541.67
Staff and Professional Development	32,306.00
Principal and Staff Development	313.00
Indirect Cost	
Central Administration	77,078.86
School Administration	605,124.97
Facility Maintenance and Operations	313,646.00
Mid-term Adjustment Hold-Harmless	377,126.00
Amended Formula Adjustment	-941,212.84
Categorical Grants	
Nursing Services	19,411.00
State Commission Charter Supplement	4,402,600.00
State Charter Commission Administration	-101,161.00
Other State Programs	
Technology for Digital Learning Bonds	19,000.00
Vocational Education	6,683.00
	<u>9,578,517.09</u>
	<u>\$ 9,578,517.09</u>

See notes to the basic financial statements.

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MOUNTAIN EDUCATION CENTER, INC.
GENERAL FUND - QUALITY BASIC EDUCATION PROGRAMS (QBE)
ALLOTMENTS AND EXPENDITURES BY PROGRAM
YEAR ENDED JUNE 30, 2014

SCHEDULE "4"

<u>DESCRIPTION</u>	ALLOTMENTS FROM GEORGIA DEPARTMENT OF EDUCATION (1) (2)	ELIGIBLE QBE PROGRAM COSTS		
		SALARIES	OPERATIONS	TOTAL
Direct Instructional Programs				
Vocational Laboratory (9-12) Program	\$ 53,639.00			
Students with Disabilities	1,082,154.00			
Alternative Education Program	3,712,613.00	\$ 4,640,186.32	\$ 994,554.60	\$ 5,634,740.92
English Speakers of Other Languages (ESOL)	38,543.00			
TOTAL DIRECT INSTRUCTIONAL PROGRAMS	\$ 4,886,949.00	\$ 4,640,186.32	\$ 994,554.60	\$ 5,634,740.92
Media Center Program	109,622.00			
Staff and Professional Development	34,501.00			
 TOTAL QBE FORMULA FUNDS	 \$ 5,031,072.00	 \$ 4,640,186.32	 \$ 994,554.60	 \$ 5,634,740.92

(1) Comprised of State Funds plus Local Five Mill Share.

(2) Allotments do not include the impact of the State amended formula adjustment.

See notes to the basic financial statements.

SECTION II

COMPLIANCE AND INTERNAL CONTROL REPORTS



DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

September 15, 2014

Honorable Nathan Deal, Governor
Members of the General Assembly
Members of the State Board of Education
and
Superintendent and Members of the
Mountain Education Center, Inc. Governing Board

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*

Ladies and Gentlemen:

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, and the general fund of Mountain Education Center, Inc. (Charter School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Mountain Education Center, Inc.'s basic financial statements and have issued our report thereon dated September 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mountain Education Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mountain Education Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Mountain Education Center, 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mountain Education Center, 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, not to provide an opinion on the effectiveness of the Mountain Education Center, Inc.'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 Mountain Education Center, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Greg S. Griffin
State Auditor

GSG:as
2014YB-10