



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

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

(Including Independent Auditor's Reports)



MOUNTAIN EDUCATION CENTER, INC.

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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 30, 2015

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

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, 2015, 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 from material misstatement.

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

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the basic financial statements referred to above 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, 2015, 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 1 to the financial statements, in 2015, the Mountain Education Center, Inc. adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedules of Proportionate Share of the Net Pension Liability and Schedules of Contributions to Retirement Systems and the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual as presented on pages i through viii, and pages 24 through 29, and page 30, 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 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, consisting of Schedules 6 through 8, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 30, 2015, 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 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,

A handwritten signature in black ink, appearing to read "Greg S. Griffin". The signature is fluid and cursive, with a long horizontal stroke at the end.

Greg S. Griffin
State Auditor

GSG:as
2015ARL-11

MOUNTAIN EDUCATION CENTER, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

INTRODUCTION

The Charter School's financial statements for the fiscal year ended June 30, 2015 include a series of basic financial statements that report financial information for the Charter School as a whole. The Statement of Net Position and the Statement of Activities provide financial information about all of the Charter School's activities. The fund financial statements provide information about all of the Charter School's funds. Information about these funds, such as the Charter School's General Fund, is important in its own right, but will also give insight into the Charter School's overall soundness as reported in the Statement of Net Position and the Statement of Activities.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2015 are as follows:

On the District-wide financial statements:

- The Charter School's net position at June 30, 2015 was \$6.3 million. Net position reflects the difference between all assets and deferred outflows of resources of the Charter School (including capital assets, net of depreciation) and all liabilities, and deferred inflows of resources. The net position at June 30, 2015 of \$6.3 million represented an increase of \$1.7 million when compared to the prior year, excluding the restatement of beginning net position.
- The Charter School had \$11.8 million in expenses relating to governmental activities all of which were offset by program specific charges for services and grants and contributions.
- General revenues accounted for \$109 thousand or about 1% of all revenues totaling \$14.9 million. Program specific revenues in the form of charges for services, grants, and contributions accounted for the balance of these revenues.

On the fund financial statements:

- The General Fund had \$14.9 million in revenues and almost \$11.8 million in expenditures. The General Fund balance of \$7.5 million at June 30, 2015 increased by roughly \$3.1 million from the prior year. This increase is due to increased State funding.

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial Statements consist of three parts; management's discussion and analysis (this section), the basic financial statements including notes to the financial statements and required supplementary information. The basic financial statements include two levels of statements that present different views of the Charter School. These include the District-wide and fund financial statements.

The District-wide financial statements include the 'Statement of Net Position' and 'Statement of Activities'. These statements provide information about the activities of the Charter School presenting both short-term and long-term information about the Charter School's overall financial status.

The fund financial statements focus on individual parts of the Charter School, reporting the Charter School's operation in more detail. The 'Governmental Funds' statements disclose how basic services are financed in the short-term as well as what remains for future spending. The Charter Schools major fund is the General Fund. The Charter School has no funds reported as nonmajor funds as defined by generally accepted accounting principles.

MOUNTAIN EDUCATION CENTER, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements. Additionally, other supplementary information (not required) is also presented that further supplements understanding of the financial statements.

District-wide Statements

Since Mountain Education Center, Inc. has no operations that have been classified as "Business Activities", the District-wide financial statements are basically a consolidation of all of the Charter School's operating funds into one column called governmental activities. In reviewing the District-wide financial statements, a reader might ask the question, are we in a better financial position now than last year? The 'Statement of Net Position' and the 'Statement of Activities' provides the basis for answering this question. These financial statements include all Charter School's assets and liabilities and uses the **accrual basis of accounting** similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Charter School's net position and any changes in net position. The change in net position is important because it tells the reader that, for the Charter School as a whole, the financial position of the Charter School has improved or diminished. The causes of this change may be the results of many factors, including those not under the Charter School's control, such as decreased funding, required educational programs, student-teacher ratios, and other factors.

When analyzing District-wide financial statements, it is important to remember these statements are prepared using an economic resources measurement focus (accrual accounting) and involve the following steps to format the Statement of Net Position:

- Capitalize current outlays for capital assets
- Depreciate capital assets
- Report long-term debt as a liability
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting
- Allocate net position as follows:
 - *Net Investment in Capital Assets*
 - *Restricted net position is amounts with constraints placed on the use by external sources such as creditors, grantors, contributors or laws and regulations.*
 - *Unrestricted for no specific use*

Fund Financial Statements

The fund financial statements presented in this report provide detailed information about the Charter School's significant or major fund. As discussed previously, the Charter School has no nonmajor Funds as defined by generally accepted accounting principles.

The Charter School has one kind of fund as discussed below:

Governmental Funds - All of the Charter School's activities are reported in the General fund, which focuses on how money flows into and out of the fund and the balance left at year-end available for spending in future periods. This fund is reported using the **modified accrual method of accounting**

MOUNTAIN EDUCATION CENTER, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

which measures cash and all other financial assets that can be readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Charter School's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The differences between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are reconciled in the financial statements.

FINANCIAL ANALYSIS OF THE CHARTER SCHOOL AS A WHOLE

Net position, which is the difference between total assets and deferred outflows of resources, and total liabilities and deferred inflows of resources, is one indicator of the financial condition of the Charter School. When revenues exceed expenses, the result is an increase in net position. When expenses exceed revenues, the result is a decrease in net position. The relationship between revenues and expenses can be thought of as the Charter School's operating results. The Charter School's net position, as measured in the Statement of Net Position is one way to measure the Charter School's financial health, or financial position. Over time, increases or decreases in the Charter School's net position, as measured in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. However, the Charter School's goal and mission is to provide success for each student's education, not to generate profits as private corporations do. For this reason, many other nonfinancial factors should be considered in assessing the overall health of the Charter School.

In the case of the Mountain Education Center, Inc., assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$6.3 million at June 30, 2015. To better understand the Charter School's actual financial position and ability to deliver services in future periods, it is necessary to review the various components of the net position category. For example, of the \$6.3 million of net position, about \$350 thousand was Investment in Capital Assets (e.g., land improvements, buildings and improvements and equipment). The Charter School uses these capital assets to provide educational services to students. Because of the very nature and on-going use of the assets being reported in this component of net position, it must be recognized that this portion of the net position is *not* available for future spending.

The remaining balance of *unrestricted net position* of \$6.0 million may be used to meet the Charter School's ongoing obligations to citizens and creditors.

Table 1 provides a summary of the Charter School's net position for this fiscal year as compared to the prior fiscal year.

MOUNTAIN EDUCATION CENTER, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Table 1
Net Position

	Governmental Activities	
	Fiscal Year 2015	Fiscal Year 2014 (1)
Assets		
Current and Other Assets	\$ 8,177,543.47	\$ 4,983,018.18
Capital Assets, Net	350,991.95	316,956.50
Total Assets	8,528,535.42	5,299,974.68
Deferred Outflow of Resources	527,411.35	0.00
Total Assets and Deferred Outflow of Resources	\$ 9,055,946.77	\$ 5,299,974.68
Liabilities		
Current and Other Liabilities	\$ 723,674.90	\$ 626,649.53
Long-Term Liabilities	1,484,819.00	0.00
Total Liabilities	2,208,493.90	626,649.53
Deferred Inflows of Resources	502,280.00	0.00
Total Liabilities and Deferred Inflows of Resources	\$ 2,710,773.90	\$ 626,649.53
Net Position		
Invested in Capital Assets,	\$ 350,991.95	\$ 316,956.50
Unrestricted	5,994,180.92	4,356,368.65
Total Net Position	\$ 6,345,172.87	\$ 4,673,325.15

(1) Fiscal year 2014 balances do not reflect the effects on the Restatement of Net Position.
See Note 2 in the Notes to the Basic Financial Statements for additional information.

Total net position increased by about \$1.7 million in fiscal year 2015 from the prior year, excluding the effects of the restatement of beginning net position. Table 2 also shows the changes in net position as compared to the prior fiscal year.

MOUNTAIN EDUCATION CENTER, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Table 2
Change in Net Position

	Governmental Activities	
	Fiscal Year	Fiscal Year
	2015	2014 (1)
Revenues		
Program Revenues:		
Charges for Services	\$ 34,177.95	\$ 33,170.86
Operating Grants and Contributions	<u>14,738,798.29</u>	<u>10,031,509.02</u>
Total Program Revenues	<u>14,772,976.24</u>	<u>10,064,679.88</u>
General Revenues:		
Investment Earnings	6,415.23	9,219.75
Miscellaneous	<u>102,783.48</u>	<u>62,053.46</u>
Total General Revenues	<u>109,198.71</u>	<u>71,273.21</u>
Total Revenues	<u>14,882,174.95</u>	<u>10,135,953.09</u>
Program Expenses:		
Instruction	6,842,849.16	6,042,529.56
Support Services		
Pupil Services	1,214,693.63	1,032,193.84
Improvement of Instructional Services	543,695.72	520,666.28
General Administration	4,432.15	
School Administration	1,978,479.94	1,908,341.93
Business Administration	409,055.39	483,263.31
Maintenance and Operation of Plant	307,443.88	396,797.92
Student Transportation Services	25,084.00	25,000.00
Central Support Services	1,143.08	
Other Support Services	238,326.19	180,156.05
Operations of Non-Instructional Services		
Food Services	<u>186,557.09</u>	<u>159,837.20</u>
Total Expenses	<u>11,751,760.23</u>	<u>10,748,786.09</u>
Increase in Net Position	<u>\$ 3,130,414.72</u>	<u>\$ -612,833.00</u>

- (1) Fiscal year 2014 balances do not reflect the effects on the Restatement of Net Position.
See Note 2 in the Notes to the Basic Financial Statements for additional information.

MOUNTAIN EDUCATION CENTER, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Cost of Providing Services

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting these services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. Net cost of services can be defined as the total cost less fees generated by the activities and intergovernmental revenue provided for specific programs.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	Fiscal Year 2015	Fiscal Year 2014 (1)	Fiscal Year 2015	Fiscal Year 2014 (1)
Instruction	\$ 6,842,849.16	\$ 6,042,529.56	\$ -6,239,618.53	\$ -2,780,910.80
Support Services:				
Pupil Services	1,214,693.63	1,032,193.84	1,214,693.63	1,032,193.84
Improvement of Instructional Services	543,695.72	520,666.28	497,480.68	458,248.83
General Administration	4,432.15		-314.64	
School Administration	1,978,479.94	1,908,341.93	1,061,644.85	1,213,490.08
Business Administration	409,055.39	483,263.31	292,750.40	394,547.81
Maintenance and Operation of Plant	307,443.88	396,797.92	-178,298.12	61,846.92
Student Transportation Services	25,084.00	25,000.00	25,084.00	25,000.00
Central Support Services	1,143.08		-81.15	
Other Support Services	238,326.19	180,156.05	206,080.36	178,432.96
Operations of Non-Instructional Services:				
Food Services	186,557.09	159,837.20	99,362.51	101,256.57
Total Expenses	<u>\$ 11,751,760.23</u>	<u>\$ 10,748,786.09</u>	<u>\$ -3,021,216.01</u>	<u>\$ 684,106.21</u>

(1) Fiscal year 2014 balances do not reflect the effects on the Restatement of Net Position.
See Note 2 in the Notes to the Basic Financial Statements for additional information.

FINANCIAL ANALYSIS OF THE CHARTER SCHOOL'S FUNDS

Information about the Charter School's governmental funds is presented starting on Exhibit "C" of this report. Governmental funds are accounted for using the modified accrual basis of accounting. The governmental funds had total revenues of \$14.9 million and total expenditures of \$11.8 million in fiscal year 2015. Total governmental fund balance of \$7.5 million at June 30, 2015, increased about \$3.1 million from the prior year.

General Fund Budget Highlights

The Charter School's budget is prepared according to Georgia Law. The most significant budgeted fund is the General Fund. During the course of fiscal year 2015, the Charter School amended its general fund budget as needed.

The Charter School budget is adopted at the aggregate level and maintained at the fund, function and object levels to facilitate budgetary control. The budgeting systems are designed to control the total budget, but provide flexibility to meet the ongoing programmatic needs. The budgeting systems are also designed to control total site budgets but provide flexibility for site management as well.

MOUNTAIN EDUCATION CENTER, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

For the General Fund, the final actual revenues of almost \$14.9 million exceeded the final budget by about \$4.0 million. This variance was primarily attributable to increased State funding. The Charter School traditionally estimates revenue on a conservative basis to avoid shortfalls in actual revenues. Additionally, the Charter School did not include revenues for school activity accounts (included in miscellaneous revenues) in the final budget.

The General Fund's final actual expenditures of almost \$11.8 million were less than the final budget amount of \$12.6 million by roughly \$781 thousand. This variance was primarily due to actual expenditures for pupil services less than the final budgeted amount by \$136 thousand, actual expenditures for school administration less than the final budgeted amount by \$66 thousand, actual expenditures for business administration less than the final budgeted amount by \$50 thousand, and actual expenditures for other support services less than the final budget amount by \$389 thousand. Additionally, the Charter School did not include expenditures for school activity accounts in the final budget.

CAPITAL ASSETS

Capital Assets

At fiscal year ended June 30, 2015, the Charter School had \$350,991.95 invested in capital assets, net of accumulated depreciation, all in governmental activities. These assets are made up of a broad range of items including buildings; land improvements; and technology items. Table 4 reflects a summary of these balances, net of accumulated depreciation, as compared to the prior fiscal year.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	Fiscal Year 2015	Fiscal Year 2014
Land Improvements	\$ 9,968.05	
Building and Improvements	281,104.15	\$ 268,104.50
Equipment	59,919.75	48,852.00
Total	\$ 350,991.95	\$ 316,956.50

Additional information about the Charter School's Capital Assets can be found in the Notes to the Financial Statements.

Long-Term Liabilities

At June 30, 2015 the Charter School reported a liability for its proportionate share of the net pension liability that reflected a reduction for support provided to the Charter School by the State of Georgia for certain public school support personnel. Reporting this liability was required by GASB 68.

MOUNTAIN EDUCATION CENTER, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

FACTORS BEARING ON THE CHARTER SCHOOL'S FUTURE

Currently known circumstances that are expected to have a significant effect on financial position or results of operations in future years are as follows:

- The Charter School anticipates steady growth in regard to student population in the foreseeable future.
- The Charter School is in very sound financial condition. The General Fund had an unassigned fund balance of \$7.3 million at June 30, 2015, which is up about \$3.1 million from the prior year. The Charter School will continue to be a good steward while providing a quality educational opportunity.
- In fiscal year 2015, the Charter School adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Implementation of this statement required the Charter School to record a charge (decrease) to the District-wide Net Position at July 1, 2014 for the Charter School's share of the net pension liability for the pension plans administered through the Teachers' Retirement System of Georgia (TRS) and Employees' Retirement System of Georgia (ERS). Readers should understand implementation of (GASB) Statement 68 will not affect the Charter School's Governmental Activities Fund Statements.

CONTACTING THE CHARTER SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Charter School's finances and to show the Charter School's accountability for the funding it receives. If you have questions about this report or need additional financial information, contact Mrs. Andrea Hulseley, Finance Director for Mountain Education Center, Inc., 65 Kenimer Street, Cleveland, Georgia, 30528. You may also email your questions to Mrs. Hulseley at ahulseley@mymec.org.

MOUNTAIN EDUCATION CENTER, INC.

MOUNTAIN EDUCATION CENTER, INC.
STATEMENT OF NET POSITION
JUNE 30, 2015

EXHIBIT "A"

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 7,520,968.24
Accounts Receivable, Net	
State Government	479,807.73
Federal Government	162,897.30
Other	13,870.20
Capital Assets, Depreciable (Net of Accumulated Depreciation)	<u>350,991.95</u>
 Total Assets	 <u>8,528,535.42</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Related to Defined Benefit Pension Plans	<u>527,411.35</u>
<u>LIABILITIES</u>	
Accounts Payable	224,511.28
Salaries and Benefits Payable	499,163.62
Long-Term Liabilities	
Net Pension Liability	<u>1,484,819.00</u>
 Total Liabilities	 <u>2,208,493.90</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Related to Defined Benefit Pension Plans	<u>502,280.00</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	350,991.95
Unrestricted	<u>5,994,180.92</u>
 Total Net Position	 <u>\$ 6,345,172.87</u>

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, 2015

EXHIBIT "B"

	EXPENSES	PROGRAM REVENUES		NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 6,842,849.16	\$ 33,989.45	\$ 13,048,478.24	\$ 6,239,618.53
Support Services				
Pupil Services	1,214,693.63			-1,214,693.63
Improvement of Instructional Services	543,695.72		46,215.04	-497,480.68
General Administration	4,432.15		4,746.79	314.64
School Administration	1,978,479.94		916,835.09	-1,061,644.85
Business Administration	409,055.39		116,304.99	-292,750.40
Maintenance and Operation of Plant	307,443.88		485,742.00	178,298.12
Student Transportation Services	25,084.00			-25,084.00
Central Support Services	1,143.08		1,224.23	81.15
Other Support Services	238,326.19		32,245.83	-206,080.36
Operations of Non-Instructional Services				
Food Services	186,557.09	188.50	87,006.08	-99,362.51
Total Governmental Activities	\$ 11,751,760.23	\$ 34,177.95	\$ 14,738,798.29	\$ 3,021,216.01
General Revenues				
Investment Earnings				6,415.23
Miscellaneous				102,783.48
Total General Revenues				109,198.71
Change in Net Position				3,130,414.72
Net Position - Beginning of Year (Restated)				3,214,758.15
Net Position - End of Year				\$ 6,345,172.87

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

MOUNTAIN EDUCATION CENTER, INC.
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

EXHIBIT "C"

	GENERAL FUND
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 7,520,968.24
Accounts Receivable, Net	
State Government	479,807.73
Federal Government	162,897.30
Other	13,870.20
 Total Assets	 \$ 8,177,543.47
 <u>LIABILITIES</u>	
Accounts Payable	\$ 224,511.28
Salaries and Benefits Payable	499,163.62
 Total Liabilities	 723,674.90
 <u>FUND BALANCES</u>	
Assigned	142,337.51
Unassigned	7,311,531.06
 Total Fund Balances	 7,453,868.57
 Total Liabilities and Fund Balances	 \$ 8,177,543.47

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

MOUNTAIN EDUCATION CENTER, INC.
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2015

EXHIBIT "D"

Total Fund Balances - Governmental Funds (Exhibit "C") \$ 7,453,868.57

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:

Land Improvements	\$ 10,437.00	
Buildings	335,274.16	
Equipment	120,578.00	
Accumulated Depreciation	<u>-115,297.21</u>	
Total Capital Assets		350,991.95

Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds.

Net Pension Liability	-1,484,819.00
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Deferred Outflows and Inflows of Resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

25,131.35

Net Position of Governmental Activities (Exhibit "A") \$ 6,345,172.87

MOUNTAIN EDUCATION CENTER, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

EXHIBIT "E"

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
State Funds	\$ 14,080,968.64
Federal Funds	657,829.65
Charges for Services	34,177.95
Investment Earnings	6,415.23
Miscellaneous	<u>102,783.48</u>
Total Revenues	<u>14,882,174.95</u>
<u>EXPENDITURES</u>	
Current	
Instruction	6,870,515.38
Support Services	
Pupil Services	1,214,938.80
Improvement of Instructional Services	543,787.78
General Administration	4,432.15
School Administration	1,987,548.70
Business Administration	404,897.98
Maintenance and Operation of Plant	307,443.88
Student Transportation Services	25,084.00
Central Support Services	1,143.08
Other Support Services	238,326.19
Food Services Operation	<u>186,557.09</u>
Total Expenditures	<u>11,784,675.03</u>
Net Change in Fund Balances	3,097,499.92
Fund Balances - Beginning	<u>4,356,368.65</u>
 Fund Balances - Ending	 <u><u>\$ 7,453,868.57</u></u>

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 FUNDS STATEMENT OF
 REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2015

EXHIBIT "F"

Total Net Change in Fund Balances - Governmental Funds (Exhibit "E") \$ 3,097,499.92

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	\$ 59,844.66	
Depreciation Expense	<u>-25,809.21</u>	
Excess of Capital Outlay over Depreciation Expense		34,035.45

Some items 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		<u>-1,120.65</u>
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Change in Net Position of Governmental Activities (Exhibit "B") \$ 3,130,414.72

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, including fiduciary funds. Eliminations have been made to minimize the double counting of internal activities.

The Charter School reports the following governmental fund:

- General Fund is the Charter School's primary operating fund. It accounts for and reports all financial resources not accounted for and reported in another fund.

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, with the exception of the Charter School's proportionate share of the Net Pension Liability. These collective amounts have been allocated by the pension plan based on actual contributions made to the plan during the measurement period to actuarially determine the proportionate share to each participating employer. 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 property taxes, sales taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from sales taxes is recognized in the fiscal year in which the underlying transaction (sale) takes place. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

MOUNTAIN EDUCATION CENTER, INC.
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2015

EXHIBIT "G"

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, both restricted and unrestricted resources are 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.

RESTATEMENT OF PRIOR YEAR NET POSITION

For fiscal year 2015, the Charter School made several prior period adjustments due to the adoption of GASB Statement No. 68 and GASB Statement No. 71, as described in "New Accounting Pronouncements" below, which require the restatement of the June 30, 2014, net position in Governmental Activities. The result is a decrease in Net Position at July 1, 2014 of \$1,458,567.00. This change is in accordance with generally accepted accounting principles.

Net Position, July 1, 2014, as previously reported	\$	4,673,325.15
Prior Period adjustment - Implementation of GASB 68:		
Net pension liability (measurement date)		
TRS	\$	-1,453,061.00
ERS		-154,460.00
Deferred Outflows - Charter School's contribution made during fiscal year 2014		
TRS		132,672.00
ERS		16,282.00
		-1,458,567.00
Net Position, July 1, 2014, as restated	\$	3,214,758.15

NEW ACCOUNTING PRONOUNCEMENTS

In fiscal year 2015, the Charter School adopted Governmental Accounting 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 requires a restatement to beginning net position. The adoption of this statement has a significant impact on the Charter School's financial statements.

In fiscal year 2015, the Charter School adopted Governmental Accounting Standards Board (GASB) Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This statement also requires that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The Charter School did not have any activities of this type during the fiscal year and the adoption of this statement does not have a significant impact on the Charter School's financial statements.

In fiscal year 2015, the Charter School adopted Governmental Accounting Standards Board (GASB) Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* - an amendment of GASB No. 68. The objective of this statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of statement. This statement amends paragraph 137 of Statement No. 68 which limited recognition of pension-related deferred inflows of resources at the transition to circumstances in which it is practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions.

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.

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.

MOUNTAIN EDUCATION CENTER, INC.
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2015

EXHIBIT "G"

Capitalization thresholds and estimated useful lives of capital assets reported in the District-wide statements and proprietary funds 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 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(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until then. Under the full accrual method of accounting, the Charter School has reported the contributions to the cost sharing benefit pension plans subsequent to the measurement date and prior to the fiscal year end as deferred outflows of resources. The Charter School has also reported the actuarial changes in the Charter School's proportionate share of the governmental nonemployer cost sharing benefit pension plan, as discussed in Note 9 – Retirement Plans.

In addition to liabilities, the statement of net position and/or the balance sheet will 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(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. Under the full accrual method of accounting, the Charter School has reported the actuarial changes in the Charter School's proportionate share of the governmental nonemployer cost sharing benefit pension plan, as discussed in Note 9 – Retirement Plans. This item is reported only in the District-wide Statement of Net Position.

PENSIONS

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' Retirement System of Georgia (TRS), the Employees' Retirement System of Georgia (ERS) and the Public School Employees Retirement System (PSERS) and additions to/deductions from TRS/ERS/PSERS's fiduciary net position have been determined on the same basis as they are reported by TRS/ERS/PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

NET POSITION

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

Net investment in capital assets - This represents the Charter School's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted net position - This represents resources for which the Charter School is legally or contractually obligated to spend resources for bus replacement, continuation of Federal programs, debt service and capital projects in accordance with restrictions imposed by external third parties.

Unrestricted net position - Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of Investment of Capital Assets and Restricted net position.

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 of Education. The Board of Education 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 of Education or (2) the budget or finance committee, or the Superintendent, 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, 2015, are as follows:

Assigned		
School Activity Accounts	\$	142,337.51
Unassigned		<u>7,311,531.06</u>
Fund Balance, June 30, 2015	\$	<u>7,453,868.57</u>

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 [Click here to enter text.](#) 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 5 – 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,
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, 2015, the Charter School had deposits with a carrying amount of \$7,520,968.24 and a bank balance of \$7,617,071.84. The bank balances insured by Federal depository insurance were \$278,521.54.

MOUNTAIN EDUCATION CENTER, INC.
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2015

EXHIBIT "G"

The amounts exposed to custodial credit risk are classified into three categories as follows:

- Category 1 - Uncollateralized,
- Category 2 - Cash collateralized with securities held by the pledging financial institution, or
- Category 3 - Cash collateralized with securities held by the pledging financial institution's trust department or agent but not in the Charter School's name.

The Charter School's deposits by custodial credit risk category at June 30, 2015, are as follows:

Custodial Credit Risk Category	Bank Balance
1	\$ 0.00
2	0.00
3	7,338,550.30
Total	\$ 7,338,550.30

NOTE 5: CAPITAL ASSETS

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

	Balances July 1, 2014	Increases	Decreases	Balances June 30, 2015
Governmental Activities				
Capital Assets Being Depreciated				
Buildings and Improvements	\$ 309,160.50	\$ 26,113.66	\$ 0.00	\$ 335,274.16
Equipment	97,284.00	23,294.00		120,578.00
Land Improvements	0.00	10,437.00		10,437.00
Less Accumulated Depreciation for:				
Buildings and Improvements	41,056.00	13,114.01		54,170.01
Equipment	48,432.00	12,226.25		60,658.25
Land Improvements	0.00	468.95		468.95
Governmental Activity Capital Assets - Net	\$ 316,956.50	\$ 34,035.45	\$ 0.00	\$ 350,991.95

Current year depreciation expense by function is as follows:

Instruction	\$ 11,821.18
Support Services	
School Administration	13,988.03
	\$ 25,809.21

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.

MOUNTAIN EDUCATION CENTER, INC.
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2015

EXHIBIT "G"

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 Charter School 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, 2015, for governmental funds amounted to \$37,293.06. Future minimum lease payments for these leases are as follows:

<u>Year Ending</u>		
2016	\$	27,394.87
2017		13,705.30
2018		<u>4,207.05</u>
Total	\$	<u>45,307.22</u>

NOTE 8: SIGNIFICANT CONTINGENT LIABILITIES

Amounts received or receivable principally from 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 Charter School believes that such disallowances, if any, will be immaterial to its overall position.

NOTE 9: 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.

MOUNTAIN EDUCATION CENTER, INC.
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2015

EXHIBIT "G"

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, 2012, contributions also vary based on years of service. On average, members with five years or more of service as of January 1, 2012, 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, 2012, 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.

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, 2015:

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

July 1, 2014 - June 30, 2015 \$945.00 per member per month

For non-certificated school personnel:

July 1, 2014 - June 30, 2015 \$596.20 per member per month

No additional contribution was required by the Board for fiscal year 2015 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 Charter School'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
2015	100%	\$ 227,811.70
2014	100%	\$ 212,428.79
2013	100%	\$ 157,860.11

NOTE 10: RETIREMENT PLANS

Mountain Education Center, Inc. participates in various retirement plans administered by the State of Georgia. There are two major retirement systems in which the Charter School participates: Teachers Retirement System of Georgia and Employees' Retirement System of Georgia (ERS). These systems issue separate publicly available financial reports that include the applicable financial statements and required supplementary information. The reports may be obtained from the respective administrative offices.

TEACHERS RETIREMENT SYSTEM OF GEORGIA (TRS)

Plan Description: All teachers of the District as defined in §47-3-60 of the *Official Code of Georgia Annotated* (O.C.G.A.) and certain other support personnel as defined by §47-3-63 are provided a pension through the Teachers Retirement System of Georgia (TRS). TRS, a cost-sharing multiple-employer defined benefit pension plan, is administered by the TRS Board of Trustees (TRS Board). Title 47 of the *O.C.G.A.* assigns the authority to establish and amend the benefit provisions to the State Legislature.

Benefits Provided: TRS provides service retirement, disability retirement, and death benefits. Normal retirement benefits are determined as 2% of the average of the employee's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. An employee 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. Ten years of service is required for disability and death benefits eligibility. Disability benefits are based on the employee's creditable service and compensation up to the time of disability. Death benefits equal the amount that would be payable to the employee's beneficiary had the employee retired on the date of death. Death benefits are based on the employee's creditable service and compensation up to the date of death.

Contributions: Per Title 47 of the O.C.G.A., contribution requirements of active employees and participating employers, as actuarially determined, are established and may be amended by the TRS Board. Pursuant to O.C.G.A. §47-3-63, the employer contributions for certain full-time public school support personnel are funded on behalf of the employer by the State of Georgia. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees were required to contribute 6% of their annual pay during fiscal year 2015. The school district's contractually required contribution rate for the year ended June 30, 2015 was 13.57% of annual school district payroll.

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

Fiscal Year	Percentage Contributed	Required Contribution
2015	100%	\$ 167,783.82
2014	100%	\$ 132,672.12
2013	100%	\$ 101,765.35

EMPLOYEES RETIREMENT SYSTEM

Plan Description: The Employees Retirement System of Georgia (ERS) is a cost-sharing multiple-employer defined benefit pension plan established by the Georgia General Assembly during the 1949 Legislative Session for the purpose of providing retirement allowances for employees of the State of Georgia and its political subdivisions. ERS is directed by a Board of Trustees. Title 47 of the O.C.G.A. assigns the authority to establish and amend the benefit provisions to the State Legislature. ERS issues a publicly available financial report that can be obtained at www.ers.ga.gov/formspubs/formspubs.

Benefits Provided: The ERS Plan supports three benefit tiers: Old Plan, New Plan, and Georgia State Employees' Pension and Savings Plan (GSEPS). Employees under the old plan started membership prior to July 1, 1982 and are subject to plan provisions in effect prior to July 1, 1982. Members hired on or after July 1, 1982 but prior to January 1, 2009 are new plan members subject to modified plan provisions. Effective January 1, 2009, new state employees and rehired state employees who did not retain membership rights under the Old or New Plans are members of GSEPS. ERS members hired prior to January 1, 2009 also have the option to irrevocably change their membership to GSEPS.

Under the old plan, the new plan, and GSEPS, a member may retire and receive normal retirement benefits after completion of 10 years of creditable service and attainment of age 60 or 30 years of creditable service regardless of age. Additionally, there are some provisions allowing for early retirement after 25 years of creditable service for members under age 60.

Retirement benefits paid to members are based upon the monthly average of the member's highest 24 consecutive calendar months, multiplied by the number of years of creditable service, multiplied by the applicable benefit factor. Annually, postretirement cost-of-living adjustments may also be made to members' benefits, provided the members were hired prior to July 1, 2009. The normal retirement pension is payable monthly for life; however, options are available for distribution of the member's monthly pension, at reduced rates, to a designated beneficiary upon the member's death. Death and disability benefits are also available through ERS.

Contributions: Member contributions under the old plan are 4% of annual compensation, up to \$4,200, plus 6% of annual compensation in excess of \$4,200. Under the old plan, the state pays member contributions in excess of 1.25% of annual compensation. Under the old plan, these state contributions are included in the members' accounts for refund purposes and are used in the computation of the members' earnable compensation for the purpose of computing retirement benefits. Member contributions under the new plan and GSEPS are 1.25% of annual compensation. The Charter School's contractually required contribution rate, actuarially determined annually, for the year ended June 30, 2015 was 21.96% of annual covered payroll for old and new plan members and 18.87% for GSEPS members. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

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

Fiscal Year	Percentage Contributed	Required Contribution
2015	100%	\$ 18,179.04
2014	100%	\$ 15,281.64
2013	100%	\$ 12,010.08

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Update based on applicable retirement plans)

At June 30, 2015, the Charter School reported a liability of \$1,484,819.00 for its proportionate share of the net pension liability for TRS (\$1,337,907.00) and ERS (\$146,912.00).

The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2013. An expected total pension liability as of June 30, 2014 was determined using standard roll-forward techniques. The Charter School's proportion of the net pension liability was based on contributions to TRS and ERS during the fiscal year ended June 30, 2014.

MOUNTAIN EDUCATION CENTER, INC.
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2015

EXHIBIT "G"

At June 30, 2014, the Charter School's TRS proportion was 0.010%, which was an increase of 0.002% from its proportion measured as of June 30, 2013. At June 30, 2014, the Charter School's ERS proportion was 0.004%, which was an increase of 0.001% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Charter School recognized pension expense of \$164,343.00 for TRS and \$22,672.00 for ERS.

At June 30, 2015, the Charter School reported deferred outflows of resource and deferred inflows of resources related to pension from the following sources:

	TRS		ERS	
	Deferred Outflow of Resources	Deferred Inflows of Resources	Deferred Outflow of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments		\$ 466,423.00		\$ 35,857.00
Changes in proportion and differences between school contributions and proportionate share of contributions	\$ 319,598.00		\$ 21,919.00	
Charter School contributions subsequent to the measurement date	167,784.00		18,179.00	
Total	\$ 487,382.00	\$ 466,423.00	\$ 40,098.00	\$ 35,857.00

Mountain Education Center, Inc. contributions subsequent to the measurement date of June 30, 2014 for TRS and ERS are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	TRS		ERS	
Year Ending June 30:				
2016	\$	-43,970.00	\$	4,735.00
2017	\$	-43,970.00	\$	-744.00
2018	\$	-43,970.00	\$	-8,964.00
2019	\$	-43,970.00	\$	-8,965.00
2020	\$	29,055.00	\$	0.00
Thereafter	\$	0.00	\$	0.00

MOUNTAIN EDUCATION CENTER, INC.
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2015

EXHIBIT "G"

Actuarial assumptions: The total pension liability as of June 30, 2014 was determined by an actuarial valuation as of June 30, 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

Teachers' Retirement System:

Inflation	3.00%	
Salary increases	3.75% - 7.00%	average, including inflation
Investment rate of return	7.50%	net of pension plan investment expense including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females set back two years for males and set back three years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2004 – June 30, 2009.

Employees' Retirement System:

Inflation	3.00%	
Salary increases	5.45% - 9.25%	average, including inflation
Investment rate of return	7.50%	net of pension plan investment expense including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for the periods after service retirement, for dependent beneficiaries, and for deaths in active service, and the RP-2000 Disabled Mortality Table set back eleven years for males for the period after disability retirement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2004 – June 30, 2009.

The long-term expected rate of return on TRS and ERS pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) 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 percentage and by adding expected inflation. The target asset allocation and best estimates of 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	30.00%	3.00%
Domestic large stocks	39.70%	6.50%
Domestic mid stocks	3.70%	10.00%
Domestic small stocks	1.60%	13.00%
International developed market stocks	18.90%	6.50%
International emerging market stocks	6.10%	11.00%
	100.00%	

* Rates shown are net of the 3.00% assumed rate of inflation

MOUNTAIN EDUCATION CENTER, INC.
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2015

EXHIBIT "G"

Discount rate: The discount rate used to measure the total TRS and ERS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and nonemployer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the TRS and ERS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of 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 Mountain Education Center, Inc.'s proportionate share of the net pension liability to changes in the discount rate: The following presents the Charter School's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Charter School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

Teachers' Retirement System:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Charter School's proportionate share of the net pension liability	\$ 2,465,583.00	\$ 1,337,907.00	\$ 409,289.00

Employees' Retirement System:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Charter School's proportionate share of the net pension liability	\$ 214,226.00	\$ 146,912.00	\$ 89,611.00

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS and ERS financial report which is publically available at www.trsga.com/publications and www.ers.ga.gov/formspubs/formspubs.

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REQUIRED SUPPLEMENTARY INFORMATION

MOUNTAIN EDUCATION CENTER, INC.
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 TEACHERS' RETIREMENT SYSTEM OF GEORGIA
 FOR THE YEAR ENDED JUNE 30, 2015

SCHEDULE "1"

	2015
School District's proportion of the net pension liability	0.01059%
School District's proportionate share of the net pension liability	\$ 1,337,907.00
School District's covered-employee payroll	\$ 1,424,356.62
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	93.93%
Plan fiduciary net position as a percentage of the total pension liability	84.03%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available. Schedule includes all significant plans and funds administered by Mountain Education Center, Inc.

MOUNTAIN EDUCATION CENTER, INC.
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
 FOR THE YEAR ENDED JUNE 30, 2015

SCHEDULE "2"

	2015
School District's proportion of the net pension liability	0.003917%
School District's proportionate share of the net pension liability	\$ 146,912.00
School District's covered-employee payroll	\$ 82,782.48
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	177.47%
Plan fiduciary net position as a percentage of the total pension liability	77.99%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available. Schedule includes all significant plans and funds administered by Mountain Education Center, Inc.

MOUNTAIN EDUCATION CENTER, INC.
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS
 TEACHERS' RETIREMENT SYSTEM OF GEORGIA
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 167,783.82	\$ 132,672.12	\$ 101,765.35
Contributions in relation to the contractually required contribution	<u>167,783.82</u>	<u>132,672.12</u>	<u>101,765.35</u>
Contribution deficiency (excess)	\$ 0.00	\$ 0.00	\$ 0.00
School District's covered-employee payroll	\$ 1,424,356.62	\$ 1,080,391.83	\$ 837,668.74
Contributions as a percentage of covered-employee payroll	11.78%	12.28%	12.15%

This schedule is intended to show information for 10 years. Mountain Education Charter, Inc. was created on July 1, 2007 (FY08). Additional years will be displayed as they become available.

SCHEDULE "3"

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 78,635.92	\$ 67,118.84	\$ 39,862.76	\$ 43,415.17	\$ 48,163.11
<u>78,635.92</u>	<u>67,118.84</u>	<u>39,862.76</u>	<u>43,415.17</u>	<u>48,163.11</u>
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
\$ 763,503.27	\$ 652,910.28	\$ 509,268.10	\$ 567,835.95	\$ 499,851.09
10.30%	10.28%	7.83%	7.65%	9.64%

MOUNTAIN EDUCATION CENTER, INC.
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS
 EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 18,179.04	\$ 15,281.64	\$ 12,106.08
Contributions in relation to the contractually required contribution	<u>\$ 18,179.04</u>	<u>\$ 15,281.64</u>	<u>\$ 12,106.08</u>
Contribution deficiency (excess)	\$ 0.00	\$ 0.00	\$ 0.00
School District's covered-employee payroll	\$ 82,782.48	\$ 82,782.48	\$ 80,604.36
Contributions as a percentage of covered-employee payroll	21.96%	18.46%	15.02%

This schedule is intended to show information for 10 years. Mountain Education Charter, Inc. was created on July 1, 2007 (FY08). Additional years will be displayed as they become available.

SCHEDULE "4"

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 7,807.32	\$ 7,807.32	\$ 7,807.32	\$ 5,118.48	\$ 0.00
<u>\$ 7,807.32</u>	<u>\$ 7,807.32</u>	<u>\$ 7,807.32</u>	<u>\$ 5,118.48</u>	<u>\$ 0.00</u>
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
\$ 74,998.68	\$ 74,998.68	\$ 74,998.68	\$ 49,168.80	\$ 0.00
10.41%	10.41%	10.41%	10.41%	

MOUNTAIN EDUCATION CENTER, INC.
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2015

SCHEDULE "5"

	NONAPPROPRIATED BUDGETS		ACTUAL AMOUNTS	VARIANCE OVER/UNDER
	ORIGINAL (1)	FINAL (1)		
REVENUES				
State Funds	\$ 10,175,370.00	\$ 10,181,904.00	\$ 14,080,968.64	\$ 3,899,064.64
Federal Funds		579,935.00	657,829.65	77,894.65
Charges for Services			34,177.95	34,177.95
Investment Earnings	10,600.00	10,600.00	6,415.23	-4,184.77
Miscellaneous	4,000.00	31,430.00	102,783.48	71,353.47
Total Revenues	10,189,970.00	10,803,869.00	14,882,174.95	4,078,305.95
EXPENDITURES				
Current				
Instruction	6,669,753.62	6,911,618.81	6,870,515.38	41,103.43
Support Services				
Pupil Services	1,327,173.18	1,351,033.18	1,214,938.80	136,094.38
Improvement of Instructional Services	510,535.97	532,635.97	543,787.78	-11,151.81
General Administration	32,542.00	39,085.00	4,432.15	34,652.85
School Administration	2,045,996.18	2,054,030.18	1,987,548.70	66,481.48
Business Administration	454,740.45	454,740.45	404,897.98	49,842.47
Maintenance and Operation of Plant	322,800.00	322,800.00	307,443.88	15,356.12
Student Transportation Services	55,000.00	55,000.00	25,084.00	29,916.00
Central Support Services		1,000.00	1,143.08	-143.08
Other Support Services	306,820.00	626,910.20	238,326.19	388,584.01
Food Services Operation	216,535.80	216,535.80	186,557.09	29,978.71
Total Expenditures	11,941,897.20	12,565,389.59	11,784,675.03	780,714.56
Net Change in Fund Balances	-1,751,927.20	-1,761,520.59	3,097,499.92	4,859,020.51
Fund Balances - Beginning	4,356,368.65	4,356,368.65	4,356,368.65	
Fund Balances - Ending	\$ 2,604,441.45	\$ 2,594,848.06	\$ 7,453,868.57	\$ 4,859,020.51

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

- (1) Original and Final Budget amounts do not include budgeted revenues or expenditures of the various principal accounts. The actual revenues and expenditures of the various principal accounts are \$110,460.80 and \$97,452.93, 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 EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

SCHEDULE "6"

FUNDING AGENCY PROGRAM/GRANT	<u>CFDA NUMBER</u>	<u>PASS- THROUGH ENTITY ID NUMBER</u>	<u>EXPENDITURES IN PERIOD</u>
Agriculture, U. S. Department of Child Nutrition Cluster Pass-Through From Georgia Department of Education Food Services National School Lunch Program	10.555	N/A	\$ <u>115,519.35</u>
Education, U. S. Department of Special Education Cluster Pass-Through From Georgia Department of Education Special Education Grants to States	84.027	N/A	<u>196,429.23</u>
Other Programs Pass-Through From Georgia Department of Education Career and Technical Education - Basic Grants to States Improving Teacher Quality State Grants Title I Grants to Local Educational Agencies	84.048 84.367 * 84.010	N/A N/A N/A	2,327.22 26,305.46 <u>372,352.61</u>
Total Other Programs			<u>400,985.29</u>
Total U. S. Department of Education			<u>597,414.52</u>
Total Expenditures of Federal Awards			<u>\$ 712,933.87</u>

N/A = Not Available

Notes to the Schedule of Expenditures of Federal Awards

Major Programs are identified by an asterisk (*) in front of the CFDA number.

The School District did not provide Federal Assistance to any Subrecipient.

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the Mountain Education Center, Inc. and is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

See notes to the basic financial statements.

MOUNTAIN EDUCATION CENTER, INC.
SCHEDULE OF STATE REVENUE
YEAR ENDED JUNE 30, 2015

SCHEDULE "7"

<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	\$ 57,048.97
Students with Disabilities	1,418,259.50
Alternative Education Program	5,292,721.31
English Speakers of Other Languages (ESOL)	44,292.02
Media Center Program	154,465.35
20 Days Additional Instruction	644.90
Staff and Professional Development	42,664.00
Principal and Staff Development	319.00
Indirect Cost	
Central Administration	111,124.99
School Administration	869,863.09
Facility Maintenance and Operations	464,286.00
Amended Formula Adjustment	-592,396.55
Categorical Grants	
Pupil Transportation	
Nursing Services	20,000.00
State Special Charter Supplement	6,459,126.00
State Charter Commission Administration	-287,200.00
Other State Programs	
Technology Infrastructure	19,216.06
Vocational Education	6,534.00
	<u>14,080,968.64</u>
	\$ <u>14,080,968.64</u>

See notes to the basic financial statements.

MOUNTAIN EDUCATION CENTER, INC.
 GENERAL FUND - QUALITY BASIC EDUCATION PROGRAMS (QBE)
 ALLOTMENTS AND EXPENDITURES - BY PROGRAM
 YEAR ENDED JUNE 30, 2015

SCHEDULE "8"

<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	\$ 61,311.00			
Students with Disabilities	1,502,354.00			
Alternative Education Program	5,573,544.00	\$ 5,367,549.73	\$ 854,725.65	\$ 6,222,275.38
English Speakers of Other Languages (ESOL)	47,416.00			
TOTAL DIRECT INSTRUCTIONAL PROGRAMS	7,184,625.00	5,367,549.73	854,725.65	6,222,275.38
Media Center Program	155,446.00			
Staff and Professional Development	44,636.00			
 TOTAL QBE FORMULA FUNDS	 \$ 7,384,707.00	 \$ 5,367,549.73	 \$ 854,725.65	 \$ 6,222,275.38

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

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

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 30, 2015

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.

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 general fund of Mountain Education Center, Inc. (Charter School) as of and for the year ended June 30, 2015, 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 30, 2015.

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,

A handwritten signature in black ink, appearing to read "Greg S. Griffin". The signature is written in a cursive style with a horizontal line at the end.

Greg S. Griffin
State Auditor

GSG:as
2015YB-10



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 30, 2015

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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Ladies and Gentlemen:

Report on Compliance for Each Major Federal Program

We have audited Mountain Education Center, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015. Mountain Education Center, 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Mountain Education Center, Inc.'s major federal program 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the Mountain Education Center, 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 the major federal program. However, our audit does not provide a legal determination of Mountain Education Center, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, the Mountain Education Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of Mountain Education Center, 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 Mountain Education Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Mountain Education Center, 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Greg S. Griffin
State Auditor

SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

MOUNTAIN EDUCATION CENTER, INC.
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

No matters were reported.

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV
FINDINGS AND QUESTIONED COSTS

MOUNTAIN EDUCATION CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

I SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issue: Governmental Activities; General Fund	Unmodified
Internal control over financial reporting:	
▪ Material weakness identified?	No
▪ Significant deficiency identified?	None Reported
Noncompliance material to financial statements noted:	No

Federal Awards

Internal Control over major programs:	
▪ Material weakness identified?	No
▪ Significant deficiency identified?	None Reported
Type of auditor's report issued on compliance for major programs: All major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-143, Section 510(a)?	No
Identification of major program:	
<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Educational Agencies
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000.00
Auditee qualified as low-risk auditee?	No

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

No matters were reported.

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.