

MOUNTAIN EDUCATION CENTER, INC.
CLEVELAND, GEORGIA

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2016
(Including Independent Auditor's Reports)

MOUNTAIN EDUCATION CENTER, INC.

- TABLE OF CONTENTS -

		Page
	SECTION I	
	FINANCIAL	
	INDEPENDENT AUDITOR'S REPORT	
	REQUIRED SUPPLEMENTARY INFORMATION	
	MANAGEMENT'S DISCUSSION AND ANALYSIS	
	EXHIBITS	
	BASIC FINANCIAL STATEMENTS	
	DISTRICT-WIDE FINANCIAL STATEMENTS	
A	STATEMENT OF NET POSITION	1
B	STATEMENT OF ACTIVITIES	2
	FUND FINANCIAL STATEMENTS	
C	BALANCE SHEET GOVERNMENTAL FUNDS	3
D	RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	4
E	STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS	5
F	RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	6
G	NOTES TO THE BASIC FINANCIAL STATEMENTS	8
	SCHEDULES	
	REQUIRED SUPPLEMENTARY INFORMATION	
1	SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TEACHERS RETIREMENT SYSTEM OF GEORGIA	23
2	SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA	24
3	SCHEDULE OF CONTRIBUTIONS – TEACHERS RETIREMENT SYSTEM OF GEORGIA	25
4	SCHEDULE OF CONTRIBUTIONS – EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA	26
5	NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION	27
6	SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND	28

MOUNTAIN EDUCATION CENTER, INC.

- TABLE OF CONTENTS -

Page

SECTION I

FINANCIAL

SCHEDULES

SUPPLEMENTARY INFORMATION

7 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS 29
8 SCHEDULE OF STATE REVENUE 30
9 ALLOTMENTS AND EXPENDITURES
GENERAL FUND - QUALITY BASIC EDUCATION PROGRAMS (QBE)
BY PROGRAM 31

SECTION II

COMPLIANCE AND INTERNAL CONTROL REPORTS

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

SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

SECTION IV

FINDINGS AND QUESTIONED COSTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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 27, 2016

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

Ladies and Gentlemen:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Mountain Education Center, Inc. (Charter School), as of and for the year ended June 30, 2016, and the related notes to the financial statements (Exhibits A through G), 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 the general fund of the Charter School, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, in 2016, the Charter School adopted new accounting guidance Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets* that are not within the scope of GASB No. 68, and amendments to certain provisions of GASB Statements No. 67 and No. 68 and GASB Statement No. 79, *Certain External Investments Pools and Pool Participants.* 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, Schedules of Proportionate Share of the Net Pension Liability, Schedules of Contributions to Retirement Systems, Notes to the Required Supplementary Information and the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual as presented on pages i through viii , and pages 23 through 28 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 Charter School's basic financial statements. The accompanying supplementary information, consisting of Schedules 7 through 9, is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by ***Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2016, on our consideration of the Charter School'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 Charter School's internal control over financial reporting and compliance.

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

Respectfully submitted,



Greg S. Griffin
State Auditor

GSG:cb
2016ARL-11

MOUNTAIN EDUCATION CENTER, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

INTRODUCTION

The Mountain Education Center, Inc.'s (Charter School) financial statements for the fiscal year ended June 30, 2016 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 2016 are as follows:

On the government-wide financial statements:

- The Charter School's net position at June 30, 2016 was $9.7 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, 2016 of $9.7 million represented an increase of $3.4 million when compared to the prior year.

- The Charter School had $12.7 million in expenses relating to governmental activities all of which were offset by program specific charges for services, and grants and contributions of $15.9 million.

- General revenues accounted for $89 thousand or less than 0.6% of all revenues totaling $16.0 million. Program specific revenues in the form of charges for services and grants and contributions accounted for the balance of these revenues.

On the fund financial statements:

- The General Fund had $16.0 million in revenues and almost $12.8 million in expenditures. The General Fund balance of $10.7 million at June 30, 2016 increased by roughly $3.2 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 government-wide and fund financial statements.

The government-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 School's major fund is the General Fund. The Charter School has no funds reported as nonmajor funds as defined by generally accepted accounting principles.

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.

Government-wide Statements

Since Mountain Education Center, Inc. has no operations that have been classified as "Business Activities", the government-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 government-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 government-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* are 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** 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 $9.7 million at June 30, 2016. 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 $9.7 million of Net Position, about $500,000 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 $9.2 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.

Table 1
Net Position

	Governmental Activities	
	Fiscal Year 2016	Fiscal Year 2015
Assets		
Current and Other Assets	$ 11,443,814	$ 8,177,544
Capital Assets, Net	503,744	350,992
Total Assets	11,947,558	8,528,536
Deferred Outflow of Resources	688,367	527,411
Liabilities		
Current and Other Liabilities	758,941	723,675
Long-Term Liabilities	1,986,218	1,484,819
Total Liabilities	2,745,159	2,208,494
Deferred Outflow of Resources	191,388.00	502,280.00
Net Position		
Investment in Capital Assets	503,744	350,992
Unrestricted	9,195,634	5,994,181
Total Net Position	$ 9,699,378	$ 6,345,173

Total net position increased by about $3.4 million in fiscal year 2016 from the prior year. This change in net position is detailed in Table 2 as presented below. Table 2 also shows the changes in net position as compared to the prior fiscal year.

Table 2
Change in Net Position

	Governmental Activities	
	Fiscal Year 2016	**Fiscal Year 2015**
Revenues		
Program Revenues:		
Charges for Services and Sales	$ 49,048	$ 34,178
Operating Grants and Contributions	15,887,954	14,738,798
Total Program Revenues	15,937,002	14,772,976
General Revenues:		
Investment Earnings	12,060	6,415
Miscellaneous	77,351	102,783
Total General Revenues	89,411	109,198
Total Revenues	16,026,413	14,882,174
Program Expenses		
Instruction	7,048,922	6,842,849
Support Services		
Pupil Services	999,903	1,214,694
Improvement of Instructional Services	561,875	543,696
General Administration	-	4,432
School Administration	2,609,442	1,978,480
Business Administration	489,538	409,055
Maintenance and Operation of Plant	476,960	307,444
Student Transportation Services	32,250	25,084
Central Support Services	-	1,143
Other Support Services	248,012	238,326
Operations of Non-Instructional Services		
Food Services	205,306	186,557
Total Expenses	12,672,208	11,751,760
Increase in Net Position	$ 3,354,205	$ 3,130,414

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 2016	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2015
Instruction	$ 7,048,922	$ 6,842,849	$ (7,113,953)	$ (6,239,619)
Support Services				
Pupil Services	999,903	1,214,694	999,903	1,214,694
Improvement of Instructional Services	561,875	543,696	502,830	497,481
General Administration	-	4,432	-	(315)
School Administration	2,609,442	1,978,480	1,710,252	1,061,645
Business Administration	489,538	409,055	365,489	292,750
Maintenance and Operation of Plant	476,960	307,444	(91,250)	(178,298)
Student Transportation Services	32,250	25,084	32,250	25,084
Central Support Services	-	1,143	-	(81)
Other Support Services	248,012	238,326	209,053	206,080
Operations of Non-Instructional Services				
Food Services	205,306	186,557	120,632	99,363
Total Expenses	$ 12,672,208	$ 11,751,760	$ (3,264,794)	$ (3,021,216)

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'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 $16.0 million and total expenditures of $12.8 million in fiscal year 2016. Total governmental fund balance of $10.7 million at June 30, 2016, increased about $3.2 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 2016, the Charter School amended its general fund budget as needed.

The Charter School budget is adopted at the aggregate level and maintained at the program, function, object, and site 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.

For the General Fund, the final actual revenues of almost $16.0 million exceeded the final budget by about $200 thousand. This variance was primarily attributable 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 $12.8 million were less than the final budget amount of $14.3 million by roughly $1.5 million. This variance was primarily due to conservative spending at both the Site and Department level. 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, 2016, the Charter School had $503,000 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 at June 30
(Net of Depreciation)

	Governmental Activities	
	Fiscal Year 2016	Fiscal Year 2015
Land	$ 53,750	$ -
Land Improvements	9,445	9,968
Buildings and Improvements	377,380	281,104
Equipment	63,169	59,920
Total	$ 503,744	$ 350,992

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, 2016 the Charter School reported a liability for its proportionate share of the net pension liability. Reporting this liability was required by GASB No. 68.

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 $10.4 million at June 30, 2016, 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 government-wide net position at July 1, 2014 for the Charter School's share of the net pension liability for the unfunded portion of the pension plan 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 SCHOOL DISTRICT'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 Hulsey, Finance Director for Mountain Education Center, Inc., 65 Kenimer Street, Cleveland, Georgia 30528. You may also email your questions to Mrs. Hulsey at andrea.hulsey@mymec.org.

(This page left intentionally blank)

MOUNTAIN EDUCATION CENTER, INC.

MOUNTAIN EDUCATION CENTER, INC.
STATEMENT OF NET POSITION
JUNE 30, 2016

EXHIBIT "A"

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and Cash Equivalents	$ 10,755,583.08
Receivables, Net	
State Government	578,809.07
Federal Government	11,311.84
Other	2,475.00
Prepaid Items	95,635.13
Capital Assets, Non-Depreciable	53,750.00
Capital Assets, Depreciable (Net of Accumulated Depreciation)	449,994.05
Total Assets	11,947,558.17
DEFERRED OUTFLOWS OF RESOURCES	
Related to Defined Benefit Pension Plans	688,367.00
LIABILITIES	
Accounts Payable	179,890.45
Salaries and Benefits Payable	578,809.09
Payroll Withholdings Payable	241.78
Net Pension Liability	1,986,218.00
Total Liabilities	2,745,159.32
DEFERRED INFLOWS OF RESOURCES	
Related to Defined Benefit Pension Plans	191,388.00
NET POSITION	
Investment in Capital Assets	503,744.05
Unrestricted	9,195,633.80
Total Net Position	$ 9,699,377.85

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, 2016

EXHIBIT "B"

	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION
GOVERNMENTAL ACTIVITIES				
Instruction	$ 7,048,922.03	$ 48,904.76	$ 14,113,970.73	$ 7,113,953.46
Support Services				
Pupil Services	999,903.13	-	-	(999,903.13)
Improvement of Instructional Services	561,875.09	-	59,044.66	(502,830.43)
School Administration	2,609,442.09	-	899,189.56	(1,710,252.53)
Business Administration	489,538.22	-	124,049.39	(365,488.83)
Maintenance and Operation of Plant	476,959.61	-	568,210.00	91,250.39
Student Transportation Services	32,250.00	-	-	(32,250.00)
Other Support Services	248,011.91	-	38,958.36	(209,053.55)
Operations of Non-Instructional Services				
Food Services	205,305.59	143.00	84,530.91	(120,631.68)
Total Governmental Activities	$ 12,672,207.67	$ 49,047.76	$ 15,887,953.61	3,264,793.70
General Revenues				
Investment Earnings				12,060.29
Miscellaneous				77,350.99
Total General Revenues				89,411.28
Change in Net Position				3,354,204.98
Net Position - Beginning of Year				6,345,172.87
Net Position - End of Year				$ 9,699,377.85

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

MOUNTAIN EDUCATION CENTER, INC.
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

EXHIBIT "C"

	GENERAL FUND
ASSETS	
Cash and Cash Equivalents	$ 10,755,583.08
Receivables, Net	
State Government	578,809.07
Federal Government	11,311.84
Other	2,475.00
Prepaid Items	95,635.13
Total Assets	$ 11,443,814.12
LIABILITIES	
Accounts Payable	$ 179,890.45
Salaries and Benefits Payable	578,809.09
Payroll Withholdings Payable	241.78
Total Liabilities	758,941.32
FUND BALANCES	
Nonspendable	95,635.13
Assigned	173,447.86
Unassigned	10,415,789.81
Total Fund Balances	10,684,872.80
Total Liabilities and Fund Balances	$ 11,443,814.12

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

MOUNTAIN EDUCATION CENTER, INC. EXHIBIT "D"
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total fund balances - governmental funds (Exhibit "C")		$ 10,684,872.80
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 in the funds.		
Land	$ 53,750.00	
Buildings and improvements	444,727.69	
Equipment	138,612.70	
Land improvements	10,437.00	
Accumulated depreciation	(143,783.34)	503,744.05
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Net pension liability		(1,986,218.00)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		496,979.00
Net position of governmental activities (Exhibit "A")		$ 9,699,377.85

EXHIBIT "E"

MOUNTAIN EDUCATIN CENTER, INC.
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	GENERAL FUND
REVENUES	
State Funds	$ 15,318,541.14
Federal Funds	569,412.47
Charges for Services	49,047.76
Investment Earnings	12,060.29
Miscellaneous	77,350.99
Total Revenues	16,026,412.65
EXPENDITURES	
Current	
Instruction	7,036,281.70
Support Services	
Pupil Services	996,508.13
Improvement of Instructional Services	561,071.09
School Administration	2,579,480.72
Business Administration	491,993.22
Maintenance and Operation of Plant	476,959.61
Student Transportation Services	32,250.00
Other Support Services	248,011.91
Food Services Operation	205,305.59
Capital Outlay	167,546.45
Total Expenditures	12,795,408.42
Net Change in Fund Balances	3,231,004.23
Fund Balances - Beginning	7,453,868.57
Fund Balances - Ending	$ 10,684,872.80

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

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, 2016

EXHIBIT "F"

Net change in fund balances total governmental funds (Exhibit "E")		$ 3,231,004.23
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.		
Capital outlay	$ 185,581.15	
Depreciation expense	(28,486.13)	157,095.02
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, donations, and disposals) is to decrease net position.		(4,342.92)
District pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the Charter School's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.		
Pension expense		(29,551.35)
Change in net position of governmental activities (Exhibit "B")		$ 3,354,204.98

(This page left intentionally blank)

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

The accompanying financial statements of the Charter School have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the Charter School's accounting policies are described below.

BASIS OF PRESENTATION

The Charter School's basic financial statements are collectively comprised of the government-wide financial statements, fund financial statements and notes to the basic financial statements. The government-wide statements focus on the Charter School as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the information's usefulness.

GOVERNMENT-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 Net Position presents the Charter School's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories as follows:

1. Net Investment in Capital Assets consists of the Charter School's total investment in capital assets, net of accumulated depreciation, and reduced by 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.
2. Restricted Net Position consists of resources for which the Charter School is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position consists of resources not meeting the definition of the two preceding categories. Unrestricted net positon often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Charter School's governmental activities.

Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses (expenses of the Charter School related to the administration and support of the Charter School's programs, such as office and maintenance personnel and accounting) are not allocated to programs.

Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

FUND FINANCIAL STATEMENTS:

The fund financial statements provide information about the Charter School's funds. Eliminations have been made to minimize the double counting of internal activities.

The Charter School reports the following governmental fund:

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

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Charter School considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. The Charter School considers all intergovernmental revenues to be available if they are collected within 120 days after year-end. Interest is considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred. Capital asset acquisitions are reported as expenditures in governmental funds.

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

NEW ACCOUNTING PRONOUNCEMENTS

In fiscal year 2016, the Charter School adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application.* The provisions of this statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This

statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Charter School did not have any items that required a reassessment of value for reporting purposes as a result of adoption of this statement.

In fiscal year 2016, the Charter School adopted Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68*, Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. The adoption of this statement does not have a significant impact on the Charter Schools financial statements.

In fiscal year 2016, the Charter School adopted Governmental Accounting Standards Board (GASB) Statement No. 79, *Certain External Investment Pools and Pool Participants.* This statement addresses accounting and financial reporting for certain external investment pools and pool participants. If an external investment pool meets the criteria in this statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. The Charter School does not participate in an external investment pool.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, demand deposits, investments in the State of Georgia local government investment pool (Georgia Fund 1) 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 (O.C.G.A.) §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.

PREPAID ITEMS

Payments made to vendors for services that will benefit future accounting periods are recorded as prepaid items, in both the government-wide and governmental fund financial statements.

CAPITAL ASSETS

On the government-wide financial statements, capital assets are recorded 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. 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. The Charter School does not capitalize book collections or works of art.

Capital acquisition and construction are recorded as expenditures in the governmental fund financial statements at the time of purchase (including ancillary charges), and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

Depreciation is computed using the straight-line method for all assets, except land, and is used to allocate the actual or estimated historical cost of capital assets over estimated useful lives.

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

		Capitalization Policy	Estimated Useful Life
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

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position 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.

In addition to liabilities, the statement of financial position 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.

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 pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

FUND BALANCES

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

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

Nonspendable consists of resources 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 consists of resources that can be used only for specific purposes pursuant constraints either (1) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

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

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

Unassigned consists of resources within the general fund not meeting the definition of any aforementioned category. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

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, as well as the Charter School's website. 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 O.C.G.A. §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 the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual in the Supplementary Information Section for a detail of any over/under expenditures during the fiscal year under review.

NOTE 4: DEPOSITS

COLLATERALIZATION OF DEPOSITS

O.C.G.A. § 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% 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. § 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% 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, 2016, the Charter School had deposits with a carrying amount of $10,755,583.08, and a bank balance of $10,974,703.40. The bank balances insured by Federal depository insurance were $295,724.70.

At June 30, 2016, $10,678,978.70 of the Charter School's bank balance was exposed to custodial credit risk as follows:

Uninsured with collateral held by the pledging financial institution's trust department or agent but not in the School District's name	$ 10,678,978.70

NOTE 5: CAPITAL ASSETS

The following is a summary of changes in the capital assets for governmental activities during the fiscal year:

	Balances July 1, 2015	Increases	Decreases	Transfers	Balances June 30, 2016
Governmental Activities					
Capital Assets, Not Being Depreciated:					
Land	$ -	$ 25,000.00	$ -	$ 28,750.00	$ 53,750.00
Capital Assets Being Depreciated					
Buildings and Improvements	335,274.16	142,546.45	4,342.92	(28,750.00)	444,727.69
Equipment	120,578.00	18,034.70	-	-	138,612.70
Land Improvements	10,437.00	-	-	-	10,437.00
Less Accumulated Depreciation for:					
Buildings and Improvements	54,170.01	13,177.69	-	-	67,347.70
Equipment	60,658.25	14,785.16	-	-	75,443.41
Land Improvements	468.95	523.28	-	-	992.23
Total Capital Assets, Being Depreciated, Net	350,991.95	132,095.02	4,342.92	(28,750.00)	449,994.05
Governmental Activity Capital Assets - Net	$ 350,991.95	$ 132,095.02	$ 4,342.92	$ -	$ 478,744.05

Current year depreciation expense by function is as follows:

Instruction	$ 11,886.42
Support Services	
School Administration	16,599.71
	$ 28,486.13

NOTE 6: RISK MANAGEMENT

INSURANCE

Commercial Insurance

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; and natural disasters. The Charter School carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

UNEMPLOYMENT COMPENSATION

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.

SURETY BOND

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

Position Covered	Amount
Superintendent	$ 100,000.00

NOTE 7: FUND BALANCE CLASSIFICATION DETAILS

The Charter School's financial statements include the following amounts presented in the aggregate at June 30, 2016:

Nonspendable	
Prepaid Assets	$ 95,635.13
Assigned	
School Activity Accounts	173,447.86
Unassigned	10,415,789.81
Fund Balance, June 30, 2016	$ 10,684,872.80

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

NOTE 8: OPERATING LEASES

The Charter School leases copiers under the provisions of one or more long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases totaled $40,001.55 for governmental activities for the year ended June 30, 2016. The following future minimum lease payments were required under operating leases at June 30, 2016:

Year Ending	Governmental Funds
2017	$ 34,284.34
2018	24,786.09
2019	9,198.48
Total	$ 68,268.91

NOTE 9: SIGNIFICANT CONTINGENT LIABILITIES

FEDERAL GRANTS

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

NOTE 10: POST-EMPLOYMENT BENEFITS

GEORGIA SCHOOL PERSONNEL POST-EMPLOYMENT HEALTH BENEFIT FUND

Plan Description. The Georgia School Personnel Post-Employment Health Benefit Fund (School OPEB Fund) is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers eligible former employees of public school systems, libraries and regional educational service agencies. The School OPEB Fund provides health insurance benefits to eligible former employees and their qualified beneficiaries through the State Employees Health Benefit Plan administered by the Department of Community Health. The Official Code of Georgia Annotated (O.C.G.A.) assigns the authority to establish and amend the benefit provisions of the group health plans, including benefits for retirees, to the Board of Community Health (Board). Additional information about the School OPEB Fund is disclosed in the *State of Georgia* Comprehensive Annual Financial Report. This report can be obtained from the Georgia Department of Audits and Accounts at www.audits.ga.gov/SGD/CAFR.html.

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% 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, 2016:

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

July 1, 2015 – June 30, 2016 $945.00 per member per month

For non-certificated school personnel:

July 1, 2015 – June 30, 2016 $746.20 per member per month

No additional contribution was required by the School for fiscal year 2016 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
2016	100%	$ 249,049.38
2015	100%	$ 227,811.70
2014	100%	$ 212,428.79

NOTE 11: RETIREMENT PLANS

The Charter School participates in various retirement plans administered by the State of Georgia, as further explained below.

TEACHERS RETIREMENT SYSTEM OF GEORGIA (TRS)

Plan Description: All teachers of the Charter School as defined in O.C.G.A §47-3-60 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. The Teachers Retirement System of Georgia issues a publicly available separate financial audit report that can be obtained at www.trsga.com/publications.

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. 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 2016. The Charter School's contractually required contribution rate for the year ended June 30, 2016 was 14.27%. For the current fiscal year, employer contributions to the pension plan were $206,708.00.

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 $4,200.00, plus 6% of annual compensation in excess of $4,200.00. 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, 2016 was 24.72% of annual covered payroll for old and new plan members and 21.69% 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 to the pension plan were $21,018.00 for the current fiscal year.

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

At June 30, 2016, the Charter School reported a liability of $1,986,218.00 for its proportionate share of the net pension liability for TRS ($1,839,517.00) and ERS ($146,701.00).

The net pension liability for TRS and ERS was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of

June 30, 2014. An expected total pension liability as of June 30, 2015 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, 2015.

At June 30, 2015, the Charter School's TRS proportion was 0.012083%, which was an increase of 0.001493% from its proportion measured as of June 30, 2014. At June 30, 2015, the Charter School's ERS proportion was 0.003621%, which was a decrease of 0.000296% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Charter School recognized pension expense of $241,423.00 for TRS and $15,854.00 for ERS.

At June 30, 2016, the Charter School reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	TRS		ERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 16,179.00	$ -	$ 1,172.00
Net difference between projected and actual earnings on pension plan investments	-	155,165.00	-	10,585.00
Changes in proportion and differences between Charter School contributions and proportionate share of contributions	452,421.00	-	8,220.00	8,287.00
Charter School contributions subsequent to the measurement date	206,708.00	-	21,018.00	-
Total	$ 659,129.00	$ 171,344.00	$ 29,238.00	$ 20,044.00

The Charter School contributions subsequent to the measurement date of $206,708.00 for TRS and $21,018.00 for 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	TRS	ERS
2017	$ 45,650.00	$ (2,804.00)
2018	$ 45,650.00	$ (7,871.00)
2019	$ 45,650.00	$ (4,718.00)
2020	$ 135,113.00	$ 3,569.00
2021	$ 9,014.00	

Actuarial assumptions: The total pension liability as of June 30, 2015 was determined by an actuarial valuation as of June 30, 2014, 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, 2014 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, 2014 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%
Total	100.00%	

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

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 Charter School'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%)
School District's proportionate share of the Net Pension Liability	$ 3,161,070.00	$ 1,839,517.00	$ 750,242.00

Employees' Retirement System:	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the Net Pension Liability	$ 207,954.00	$ 146,701.00	$ 94,481.00

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 http://www.ers.ga.gov/formspubs/formspubs.html.

(This page left intentionally blank)

MOUNTAIN EDUCATION CENTER, INC. SCHEDULE "1"
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITIES
TEACHERS RETIREMENT SYSTEM OF GEORGIA
FOR THE YEAR ENDED JUNE 30

Year Ended	School District's proportion of the net pension liability	School District's proportionate share of the net pension liability	School District's covered-employee payroll	School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.012083%	$ 1,839,517.00	$ 1,275,922.59	144.17%	81.44%
2015	0.01059%	$ 1,337,907.00	$ 1,080,391.83	123.84%	84.03%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

MOUNTAIN EDUCATION CENTER, INC. SCHEDULE "2"
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITIES
EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA
FOR THE YEAR ENDED JUNE 30

Year Ended	School District's proportion of the net pension liability	School District's proportionate share of the net pension liability	School District's covered-employee payroll	proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of total net pension liability
2016	0.003621%	$ 146,701.00	$ 82,782.48	177.21%	76.20%
2015	0.003917%	$ 146,912.00	$ 82,782.48	177.47%	77.99%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

Year Ended	Contractually required contribution	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	School District's covered-employee payroll	Contribution as a percentage of covered-employee payroll
2016	$ 206,708.00	$ 206,708.00	$ -	$ 1,448,549.40	14.27%
2015	$ 167,783.82	$ 167,783.82	$ -	$ 1,275,922.59	13.15%
2014	$ 132,672.12	$ 132,672.12	$ -	$ 1,080,391.83	12.28%
2013	$ 101,765.35	$ 101,765.35	$ -	$ 891,896.14	11.41%
2012	$ 78,635.92	$ 78,635.92	$ -	$ 764,940.86	10.28%
2011	$ 67,118.84	$ 67,118.84	$ -	$ 652,910.28	10.28%
2010	$ 39,862.76	$ 39,862.76	$ -	$ 409,268.58	9.74%
2009	$ 43,415.17	$ 43,415.17	$ -	$ 467,835.88	9.28%
2008	$ 48,163.11	$ 48,163.11	$ -	$ 518,999.03	9.28%

The schedule is inteneded to show information for 10 years. Mountain Education Center, Inc. was created on July 1, 2007 (fiscal year 2008). Additional years will be dislplayed as they become available.

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

Year Ended	Contractually required contribution	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	School District's covered-employee payroll	Contribution as a percentage of covered-employee payroll
2016	$ 21,018.00	$ 21,018.00	$ -	$ 85,028.88	24.72%
2015	$ 18,179.04	$ 18,179.04	$ -	$ 82,782.48	21.96%
2014	$ 15,281.64	$ 15,281.64	$ -	$ 82,782.48	18.46%
2013	$ 12,106.08	$ 12,106.08	$ -	$ 81,248.86	14.90%
2012	$ 7,807.32	$ 7,807.32	$ -	$ 67,130.87	11.63%
2011	$ 7,807.32	$ 7,807.32	$ -	$ 74,998.68	10.41%
2010	$ 7,807.32	$ 7,807.32	$ -	$ 74,998.68	10.41%
2009	$ 5,118.48	$ 5,118.48	$ -	$ 49,168.80	10.41%

The schedule is inteneded to show information for 10 years. Mountain Education Center, Inc. was created on July 1, 2007 (fiscal year 2008). Additional years will be dislplayed as they become available.

Teachers Retirement System:

Changes of assumptions: In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2010. In 2010, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2010, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates in the schedule of contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for year ended June 30, 2016 reported in that schedule:

Valuation date	June 30, 2013
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	Five-year smoothed market
Inflation rate	3.00%
Salary increases	3.75 – 7.00%, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Employees' Retirement System:

Changes of assumptions: There were no changes in assumptions or benefits that affect the measurement of the total pension liability since the prior measurement date.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates in the schedule of contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for year ended June 30, 2016 reported in that schedule:

Valuation date	June 30, 2013
Actuarial cost method	Entry age
Amortization method	Level dollar, closed
Remaining amortization period	25 years
Asset valuation method	Five-year smoothed market
Inflation rate	3.00%
Salary increases	5.45% - 9.25%
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

MOUNTAIN EDUCATION CENTER, INC. SCHEDULE "6"

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2016

	NONAPPROPRIATED BUDGETS		ACTUAL	VARIANCE
	ORIGINAL (1)	FINAL (1)	AMOUNTS	OVER/UNDER
REVENUES				
State Funds	$ 14,854,775.00	$ 14,993,175.00	$ 15,318,541.14	$ 325,366.14
Federal Funds	-	755,841.00	569,412.47	(186,428.53)
Charges for Services	-	-	49,047.76	49,047.76
Investment Earnings	7,500.00	7,500.00	12,060.29	4,560.29
Miscellaneous	30,000.00	30,000.00	77,350.99	47,350.99
Total Revenues	14,892,275.00	15,786,516.00	16,026,412.65	239,896.65
EXPENDITURES				
Current				
Instruction	7,035,927.99	8,132,659.52	7,036,281.70	1,096,377.82
Support Services				
Pupil Services	1,135,626.52	1,256,216.11	996,508.13	259,707.98
Improvement of Instructional Services	511,189.49	674,706.13	561,071.09	113,635.04
General Administration	-	247,838.27	-	247,838.27
School Administration	2,488,272.88	2,510,787.86	2,579,480.72	(68,692.86)
Business Administration	493,002.59	493,002.59	491,993.22	1,009.37
Maintenance and Operation of Plant	417,854.90	452,543.90	476,959.61	(24,415.71)
Student Transportation Services	54,000.00	54,000.00	32,250.00	21,750.00
Other Support Services	431,018.77	301,019.00	248,011.91	53,007.09
Food Services Operation	212,599.81	217,599.81	205,305.59	12,294.22
Capital Outlay	-	-	167,546.45	(167,546.45)
Total Expenditures	12,779,492.95	14,340,373.19	12,795,408.42	1,544,964.77
Net Change in Fund Balances	2,112,782.05	1,446,142.81	3,231,004.23	1,784,861.42
Fund Balances - Beginning	7,453,868.57	7,453,868.57	7,453,868.57	-
Fund Balances - Ending	$ 9,566,650.62	$ 8,900,011.38	$ 10,684,872.80	$ 1,784,861.42

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

(1) Original and Final Budget amounts do not include the budgeted revenues or expenditures of the various principal accounts. The actual revenues and expenditures of the various principal accounts are $117,417.64 and $79,327.32, 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, 2016

FUNDING AGENCY PROGRAM/GRANT	CFDA NUMBER	PASS-THROUGH ENTITY ID NUMBER	EXPENDITURES IN PERIOD
Agriculture, U. S. Department of			
Child Nutrition Cluster			
Pass-Through From Georgia Department of Education			
Food Services			
National School Lunch Program	10.555	16165GA324N1099	$ 5,222.07
Education, U. S. Department of			
Special Education Cluster			
Pass-Through From Georgia Department of Education			
Special Education			
Grants to States	84.027	H027A150073	153,491.26
Other Programs			
Pass-Through From Georgia Department of Education			
Career and Technical Education - Basic Grants to States	84.048	V048A150010	4,093.00
English Language Acquisition Grants	84.365	S365A150010	484.22
Improving Teacher Quality State Grants	84.367	S367A150001	29,297.48
Title I Grants to Local Educational Agencies	84.010	S010A150010	304,533.80
Total Other Programs			338,408.50
Total U. S. Department of Education			491,899.76
Total Expenditures of Federal Awards			$ 497,121.83

MOUNTAIN EDUCATION CENTER, INC.
SCHEDULE OF STATE REVENUE
YEAR ENDED JUNE 30, 2016

AGENCY/FUNDING	GOVERNMENTAL FUND TYPE GENERAL FUND
GRANTS	
Education, Georgia Department of	
Quality Basic Education	
Direct Instructional Cost	
Vocational Laboratory (9-12) Program	$ 106,831.36
Students with Disabilities	1,775,157.51
Alternative Education Program	5,500,582.80
English Speakers of Other Languages (ESOL)	133,821.90
Media Center Program	164,075.86
20 Days Additional Instruction	1,223.08
Staff and Professional Development	42,892.00
Principal Staff and Professional Development	283.00
Indirect Cost	
Central Administration	126,177.05
School Administration	909,350.92
Facility Maintenance and Operations	458,076.00
Amended Formula Adjustment	(526,431.14)
Categorical Grants	
Nursing Services	20,000.00
State Special Charter Supplement	6,689,590.00
State Charter Commission Administration	(167,384.00)
Other State Programs	
Math and Science Supplements	7,193.04
Technology for Connections to Classrooms Bonds	70,309.76
Vocational Education	6,792.00
	$ 15,318,541.14

See notes to the basic financial statements.

MOUNTAIN EDUCATION CENTER, INC. SCHEDULE "9"
GENERAL FUND - QUALITY BASIC EDUCATION PROGRAMS (QBE)
ALLOTMENTS AND EXPENDITURES - BY PROGRAM
YEAR ENDED JUNE 30, 2016

DESCRIPTION	ALLOTMENTS FROM GEORGIA DEPARTMENT OF EDUCATION (1) (2)	ELIGIBLE QBE PROGRAM COSTS SALARIES	OPERATIONS	TOTAL
Direct Instructional Programs				
Vocational Laboratory (9-12) Program	$ 109,980.00	$ -	$ -	$ -
Students with Disabilities	1,853,189.00	-	-	-
Alternative Education Program	5,799,682.00	5,715,329.53	890,817.37	6,606,146.90
English Speakers of Other Languages (ESOL)	135,534.00	-	-	-
TOTAL DIRECT INSTRUCTIONAL PROGRAMS	7,898,385.00	5,715,329.53	890,817.37	6,606,146.90
Media Center Program				
Staff and Professional Development	45,594.00	-	-	-
TOTAL QBE FORMULA FUNDS	$ 7,943,979.00	$ 5,715,329.53	$ 890,817.37	$ 6,606,146.90

(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 27, 2016

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 the general fund of the Mountain Education Center, Inc. as of and for the year ended June 30, 2016, 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 27, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mountain Education Center, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

Respectfully submitted,



Greg S. Griffin
State Auditor

GSG:cb
2016YB-10

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, 2016

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, 2016

I FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

No matters were reported.