

# MOUNTAIN EDUCATION CENTER, INC.

## CLEVELAND, GEORGIA

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011
(Including Independent Auditor's Reports)

MOUNTAIN EDUCATION CENTER, INC.

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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

**Russell W. Hinton**
**STATE AUDITOR**
**(404) 656-2174**


June 12, 2012

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 COMBINED REPORT ON BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Ladies and Gentlemen:

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) a component unit of the State of Georgia, as of and for the year ended June 30, 2011, which collectively comprise the Charter School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mountain Education Center, Inc.'s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Mountain Education Center, Inc., as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Mountain Education Center, Inc. has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not to be part of, the basic financial statements.

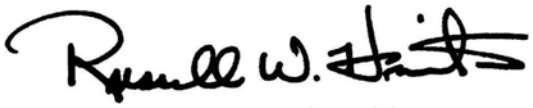
In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2012, on our consideration of the Mountain Education Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual, as presented on page 19 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mountain Education Center, Inc.'s financial statements as a whole. The accompanying supplementary information consists of Schedules 2 through 4, which are presented for purposes of additional analysis and are not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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,



Russell W. Hinton, CPA, CGFM
State Auditor

RWH:as
2011ARL-11

MOUNTAIN EDUCATION CENTER, INC.

MOUNTAIN EDUCATION CENTER, INC.
STATEMENT OF NET ASSETS
JUNE 30, 2011

EXHIBIT "A"

| | GOVERNMENTAL ACTIVITIES |
|---|---|
| ASSETS | |
| Cash and Cash Equivalents | $ 1,668,058.65 |
| Accounts Receivable, Net | |
| State Government | 384,911.28 |
| Federal Government | 54,451.38 |
| Other | 3,690.45 |
| Prepaid Items | 78,173.30 |
| Capital Assets, Depreciable (Net of Accumulated Depreciation) | 158,855.00 |
| Total Assets | $ 2,348,140.06 |
| LIABILITIES | |
| Accounts Payable | $ 20,369.91 |
| Salaries and Benefits Payable | 391,302.16 |
| Deposits and Deferred Revenues | 3,625.39 |
| Total Liabilities | $ 415,297.46 |
| NET ASSETS | |
| Invested in Capital Assets | $ 158,855.00 |
| Unrestricted | 1,773,987.60 |
| Total Net Assets | $ 1,932,842.60 |
| Total Liabilities and Net Assets | $ 2,348,140.06 |

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, 2011

EXHIBIT "B"

| | EXPENSES | PROGRAM REVENUES: CHARGES FOR SERVICES | PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS | NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS |
|---|---|---|---|---|
| GOVERNMENTAL ACTIVITIES | | | | |
| Instruction | $ 3,815,108.96 | $ 67,270.33 | $ 3,813,790.88 | $ 65,952.25 |
| Support Services | | | | |
| Pupil Services | 453,214.79 | | 463,024.58 | 9,809.79 |
| Improvement of Instructional Services | 254,086.62 | | 260,652.15 | 6,565.53 |
| School Administration | 2,218,325.37 | | 2,272,902.78 | 54,577.41 |
| Business Administration | 177,878.10 | | 183,027.52 | 5,149.42 |
| Maintenance and Operation of Plant | 172,121.92 | | 175,382.66 | 3,260.74 |
| Student Transportation Services | 7,500.00 | | 7,642.08 | 142.08 |
| Central Support Services | 9,492.00 | | 9,671.82 | 179.82 |
| Other Support Services | 93,421.85 | | 95,191.67 | 1,769.82 |
| Operations of Non-Instructional Services | | | | |
| Community Services | 2,956.44 | | 3,012.43 | 55.99 |
| Total Governmental Activities | $ 7,204,106.05 | $ 67,270.33 | $ 7,284,298.57 | $ 147,462.85 |
| General Revenues | | | | |
| Investment Earnings | | | | $ 3,099.39 |
| Miscellaneous | | | | 38,906.83 |
| Total General Revenues | | | | $ 42,006.22 |
| Change in Net Assets | | | | $ 189,469.07 |
| Net Assets - Beginning of Year | | | | 1,743,373.53 |
| Net Assets - End of Year | | | | $ 1,932,842.60 |

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

MOUNTAIN EDUCATION CENTER, INC.
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

EXHIBIT "C"

| | GENERAL FUND |
|---|---|
| ASSETS | |
| Cash and Cash Equivalents | $ 1,668,058.65 |
| Accounts Receivable, Net | |
| State Government | 384,911.28 |
| Federal Government | 54,451.38 |
| Other | 3,690.45 |
| Prepaid Items | 78,173.30 |
| Total Assets | $ 2,189,285.06 |
| LIABILITIES AND FUND BALANCES | |
| LIABILITIES | |
| Accounts Payable | $ 20,369.91 |
| Salaries and Benefits Payable | 391,302.16 |
| Deposits and Deferred Revenue | 3,625.39 |
| Total Liabilities | $ 415,297.46 |
| FUND BALANCES | |
| Nonspendable | $ 78,173.30 |
| Unassigned | 1,695,814.30 |
| Total Fund Balances | $ 1,773,987.60 |
| Total Liabilities and Fund Balances | $ 2,189,285.06 |

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 ASSETS
JUNE 30, 2011

EXHIBIT "D"

| | | |
|---|---|---|
| Total Fund Balances - Governmental Funds (Exhibit "C") | | $ 1,773,987.60 |
| Amounts reported for Governmental Activities in the Statement of Net Assets are different because: | | |
| Capital Assets used in Governmental Activities are not financial resources and therefore are not reported in the funds. These assets consist of: | | |
| Buildings | $ 123,463.00 | |
| Equipment | 78,609.00 | |
| Accumulated Depreciation | -43,217.00 | |
| Total Capital Assets | | 158,855.00 |
| Net Assets of Governmental Activities (Exhibit "A") | | $ 1,932,842.60 |

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

MOUNTAIN EDUCATION CENTER, INC. EXHIBIT "E"
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

| | | GENERAL FUND |
|---|---|---|
| REVENUES | | |
| State Funds | $ | 6,837,339.25 |
| Federal Funds | | 446,959.32 |
| Charges for Services | | 67,270.33 |
| Investment Earnings | | 3,099.39 |
| Miscellaneous | | 38,906.83 |
| Total Revenues | $ | 7,393,575.12 |
| EXPENDITURES | | |
| Current | | |
| Instruction | $ | 3,802,806.25 |
| Support Services | | |
| Pupil Services | | 453,214.79 |
| Improvement of Instructional Services | | 254,086.62 |
| School Administration | | 2,222,388.08 |
| Business Administration | | 177,878.10 |
| Maintenance and Operation of Plant | | 172,121.92 |
| Student Transportation Services | | 7,500.00 |
| Central Support Services | | 9,492.00 |
| Other Support Services | | 93,421.85 |
| Community Services | | 2,956.44 |
| Total Expenditures | $ | 7,195,866.05 |
| Net Change in Fund Balances | $ | 197,709.07 |
| Fund Balances - Beginning | | 1,576,278.53 |
| Fund Balances - Ending | $ | 1,773,987.60 |

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

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MOUNTAIN EDUCATION CENTER, INC. EXHIBIT "F"

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2011

| | | |
|---|---|---|
| Total Net Change in Fund Balances - Governmental Funds (Exhibit "E") | | $ 197,709.07 |
| 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 | $ 5,224.00 | |
| Depreciation Expense | -13,464.00 | |
| Excess of Capital Outlay over Depreciation Expense | | -8,240.00 |
| Change in Net Assets of Governmental Activities (Exhibit "B") | | $ 189,469.07 |

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

Note 1: DESCRIPTION OF CHARTER SCHOOL 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 Special State Start-up Charter is an agreement between the Mountain Education Center, Inc. and the Georgia State Board of Education in reliance upon an intergovernmental agreement between the School Districts of Fannin County, Gilmer County, Lumpkin County, Pickens County, Towns County, Union County, and White County and in accordance with Official Code of Georgia Annotated (O.C.G.A.) §20-2-2060 et seq., and Georgia State Board of Education Rule 160-4-9-.04. The governing board consists of eleven members: the superintendents of the seven school districts who have joined in the intergovernmental agreement, a representative from each of the three sites of the Mountain Education Center, and a representative of the Communities in Schools of North Georgia/Family Connections Collaborative. The Mountain Education Center, Inc. is considered a component unit of the State of Georgia for financial reporting purposes because of the significance of its legal, operational and financial relationships with the Georgia Department of Education.

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

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

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

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

***Fund Financial Statements:***
The fund financial statements provide information about the Charter School's funds. Eliminations have been made to minimize the double counting of internal activities. The emphasis of fund financial statements is on major governmental funds.

The Charter School reports the following major governmental fund:

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

## BASIS OF ACCOUNTING

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

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

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

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

The State of Georgia reimburses the Charter School for teachers' salaries and operating costs through the Quality Basic Education Formula Earnings program (QBE). Generally teachers are contracted for the school year (July 1 – June 30) and paid over a twelve month contract period, generally September 1 through August 31. In accordance with the respective rules and regulations of the QBE program, the State of Georgia reimburses the Charter School over the same twelve month period in which teachers are paid. At June 30, the amount of teachers' salaries incurred but not paid until July and August of the subsequent year are accrued. Since the State of Georgia recognizes its QBE liability for the July and August salaries at June 30, the Charter School recognizes the same QBE as a receivable and revenue, consistent with symmetrical recognition.

## NEW ACCOUNTING PRONOUNCEMENTS

In fiscal year 2011, the Charter School adopted the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The provisions of this Statement establish accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental funds.

## 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 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 periods subsequent to June 30, 2011, are recorded as prepaid items.

## CAPITAL ASSETS

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

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

| | 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 |

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.

## NET ASSETS

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

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

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

## FUND BALANCES

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

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

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

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

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

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

Fund Balances of the Governmental Funds at June 30, 2011, are as follows:

| | | |
|---|---|---|
| Nonspendable | | |
| Prepaid Assets | $ | 78,173.30 |
| Unassigned | | 1,695,814.30 |
| Fund Balance, June 30, 2011 | $ | 1,773,987.60 |

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

## USE OF ESTIMATES

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

## Note 3: 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, 2011, the bank balances were $1,875,311.00. 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, 2011, are as follows:

| Custodial Credit Risk Category | Bank Balance |
|---|---|
| 1 | $ 0.00 |
| 2 | 0.00 |
| 3 | 1,509,219.56 |
| Total | $ 1,509,219.56 |

Note 4: CAPITAL ASSETS

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

| | Balances July 1, 2010 | Increases | Decreases | Balances June 30, 2011 |
|---|---|---|---|---|
| Governmental Activities | | | | |
| Capital Assets, Being Depreciated: | | | | |
| Buildings and Improvements | $ 123,463.00 | | $ 0.00 | $ 123,463.00 |
| Equipment | 73,385.00 | $ 5,224.00 | | 78,609.00 |
| Less: Accumulated Depreciation: | | | | |
| Buildings and Improvements | 14,660.00 | 5,864.00 | | 20,524.00 |
| Equipment | 15,093.00 | 7,600.00 | | 22,693.00 |
| Governmental Activity Capital Assets - Net | $ 167,095.00 | $ -8,240.00 | $ 0.00 | $ 158,855.00 |

Current year depreciation expense by function is as follows:

| | |
|---|---|
| Instruction | $ 9,948.00 |
| Support Services | |
| School Administration | 3,516.00 |
| | $ 13,464.00 |

Note 5: RISK MANAGEMENT

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

The Charter School has obtained commercial insurance for risk of loss associated with torts, assets, errors or omissions, 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 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:

| Position Covered | Amount |
|---|---|
| Director | $ 100,000.00 |

Note 6: ON-BEHALF PAYMENTS

The Charter School has recognized revenues and costs in the amount of $4,201.81 for health insurance contributions paid on the Charter School's behalf by the following State Agency.

Georgia Department of Education
Paid to the Georgia Department of Community Health
For Health Insurance of Non-Certificated Personnel
In the amount of $4,201.81

Note 7: SIGNIFICANT CONTINGENT LIABILITIES

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

Note 8: POST-EMPLOYMENT BENEFITS

***Georgia School Personnel Post-employment Health Benefit Fund***

*Plan Description*. The Georgia School Personnel Post-employment Health Benefit Fund (School OPEB Fund) is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers eligible former employees of public school systems, libraries and regional educational service

agencies. The School OPEB Fund provides health insurance benefits to eligible former employees and their qualified beneficiaries through the State Employees Health Benefit Plan administered by the Department of Community Health. The Official Code of Georgia Annotated (O.C.G.A.) assigns the authority to establish and amend the benefit provisions of the group health plans, including benefits for retirees, to the Board of Community Health (Board). The Department of Community Health, which includes the School OPEB Fund, issues a separate stand alone financial audit report and a copy can be obtained from the Georgia Department of Audits and Accounts.

*Funding Policy*. The contribution requirements of plan members and participating employers are established by the Board in accordance with the current Appropriations Act and may be amended by the Board. Contributions of plan members or beneficiaries receiving benefits vary based on plan election, dependent coverage, and Medicare eligibility and election. On average, plan members pay approximately 25 percent of the cost of the health insurance coverage.

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, 2011:

**For certificated teachers, librarians and regional educational service agencies:**

| | | |
|---|---|---|
| July 2010 - April 2011 | 21.955% | of covered payroll for August - May Coverage |
| May 2011 - June 2011 | 1.429% | of covered payroll for June - July Coverage |

**For non-certificated school personnel:**

| | | |
|---|---|---|
| July 2010 - December 2010 | $162.72 | per member per month |
| January 2011 - May 2011 | $218.20 | per member per month |
| June 2011 | $246.20 | per member per month |

The Department of Education was appropriated an additional $25,081,633 for non-certificated personnel health insurance payments. The amount attributable to the Charter School is reflected in the On-behalf note disclosure.

No additional contribution was required by the Board for fiscal year 2011 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 |
|---|---|---|
| 2011 | 100% | $ 88,483.41 |
| 2010 | 100% | $ 82,264.85 |
| 2009 | 100% | $ 57,869.95 |

Note 9: RETIREMENT PLANS

TEACHERS' RETIREMENT SYSTEM OF GEORGIA (TRS)

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

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

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

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

*Funding Policy*. TRS is funded by member and employer contributions as adopted and amended by the Board of Trustees. Members become fully vested after 10 years of service. If a member terminates with less than 10 years of service, no vesting of employer contributions occurs, but the member's contributions may be refunded with interest. Member contributions are limited by State law to not less than 5% or more than 6% of a member's earnable compensation. Member contributions as adopted by the Board of Trustees for the fiscal year ended June 30, 2011, were 5.53% of annual salary. The member contribution rate will increase to 6.00% effective July 1, 2012.

Employer contributions required for fiscal year 2011 were 10.28% of annual salary as required by the June 30, 2008, actuarial valuation. The employer contribution rate will increase to 11.41% effective July 1, 2012.

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

| Fiscal Year | Percentage Contributed | | Required Contribution |
|---|---|---|---|
| 2011 | 100% | $ | 67,118.84 |
| 2010 | 100% | $ | 49,602.85 |
| 2009 | 100% | $ | 52,704.77 |

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MOUNTAIN EDUCAITON CENTER, INC.
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011

SCHEDULE "1"

| | NONAPPROPRIATED BUDGETS | | ACTUAL |
|---|---|---|---|
| | ORIGINAL (1) | FINAL (1) | AMOUNTS |
| REVENUES | | | |
| State Funds | $ 6,275,490.00 | $ 6,785,533.00 | $ 6,837,339.25 |
| Federal Funds | 145,279.00 | 463,227.00 | 446,959.32 |
| Charges for Services | | | 67,270.33 |
| Investment Earnings | 4,700.00 | 4,700.00 | 3,099.39 |
| Miscellaneous | | | 38,906.83 |
| Total Revenues | $ 6,425,469.00 | $ 7,253,460.00 | $ 7,393,575.12 |
| EXPENDITURES | | | |
| Current | | | |
| Instruction | $ 4,254,426.34 | $ 4,355,058.82 | $ 3,802,806.25 |
| Support Services | | | |
| Pupil Services | 315,787.83 | 411,108.52 | 453,214.79 |
| Improvement of Instructional Services | 363,075.47 | 373,003.47 | 254,086.62 |
| School Administration | 1,838,567.30 | 1,910,100.06 | 2,222,388.08 |
| Business Administration | 359,529.34 | 456,238.60 | 177,878.10 |
| Maintenance and Operation of Plant | 155,100.00 | 155,100.00 | 172,121.92 |
| Student Transportation Services | 10,000.00 | 10,000.00 | 7,500.00 |
| Central Support Services | | | 9,492.00 |
| Other Support Services | 175,000.00 | 175,000.00 | 93,421.85 |
| Community Services Operations | | | 2,956.44 |
| Total Expenditures | $ 7,471,486.28 | $ 7,845,609.47 | $ 7,195,866.05 |
| Net Change in Fund Balances | $ -1,046,017.28 | $ -592,149.47 | $ 197,709.07 |
| Fund Balances - Beginning | 1,419,931.92 | 1,419,931.92 | 1,576,278.53 |
| Fund Balances - Ending | $ 373,914.64 | $ 827,782.45 | $ 1,773,987.60 |

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 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.

See notes to the basic financial statements.

MOUNTAIN EDUCATION CENTER, INC.
SCHEDULE OF FEDERAL EXPENDITURES
YEAR ENDED JUNE 30, 2011

SCHEDULE "2"

| FUNDING AGENCY<br>PROGRAM/GRANT | | EXPENDITURES<br>IN PERIOD |
|---|---|---|
| Education, U. S. Department of | | |
| Special Education Cluster | | |
| Pass-Through From Georgia Department of Education | | |
| Special Education | | |
| ARRA - Grants to States | $ | 33,058.33 |
| Grants to States | | 113,880.52 |
| Total Special Education Cluster | $ | 146,938.85 |
| Other Programs | | |
| Pass-Through From Georgia Department of Education | | |
| Career and Technical Education - Basic Grants to States | $ | 73,943.55 |
| Education Jobs Fund | | 228,213.05 |
| English Language Acquisition Grants | | 3,408.62 |
| Total Other Programs | $ | 305,565.22 |
| Total Federal Expenditures | $ | 452,504.07 |

See notes to the basic financial statements.

MOUNTAIN EDUCATION CENTER, INC.
SCHEDULE OF STATE REVENUE
YEAR ENDED JUNE 30, 2011

SCHEDULE "3"

| AGENCY/FUNDING | GOVERNMENTAL FUND TYPE GENERAL FUND |
|---|---|
| GRANTS | |
| Communities in Schools of Georgia, Inc. | |
| Communities in Schools Program | $ 35,505.73 |
| Education, Georgia Department of | |
| Quality Basic Education | |
| Direct Instructional Cost | |
| Vocational Laboratory (9-12) Program | 207,524.77 |
| Students with Disabilities | |
| Category I | 245,056.96 |
| Category II | 49,046.41 |
| Category III | 488,391.41 |
| Category V | 8,475.94 |
| Alternative Education Program | 4,461,193.42 |
| English Speakers of Other Languages (ESOL) | 43,150.13 |
| Media Center Program | 116,392.23 |
| 20 Days Additional Instruction | 2,378.12 |
| Staff and Professional Development | 33,996.00 |
| Indirect Cost | |
| Central Administration | 90,673.25 |
| School Administration | 687,867.07 |
| Facility Maintenance and Operations | 320,646.00 |
| Categorical Grants | |
| Nursing Services | 34,772.00 |
| Vocational Education | 7,318.00 |
| Other State Programs | |
| Health Insurance | 4,201.81 |
| OTHER | |
| Community Affairs, Georgia Department of | |
| Reimbursement for Training | 750.00 |
| | $ 6,837,339.25 |

See notes to the basic financial statements.

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MOUNTAIN EDUCATION CENTER, INC.
GENERAL FUND - QUALITY BASIC EDUCATION PROGRAM (QBE)
ALLOTMENTS AND EXPENDITURES - BY PROGRAM
YEAR ENDED JUNE 30, 2011

SCHEDULE "4"

| DESCRIPTION | ALLOTMENTS FROM GEORGIA DEPARTMENT OF EDUCATION (1) | ELIGIBLE QBE PROGRAM COSTS SALARIES | OPERATIONS | TOTAL |
|---|---|---|---|---|
| Direct Instructional Programs | | | | |
| Vocational Laboratory (9-12) Program | $ 205,062.00 | | | |
| Students with Disabilities | | | | |
| Category I | 242,808.00 | | | |
| Category II | 47,280.00 | | | |
| Category III | 480,259.00 | | | |
| Category V | 8,006.00 | | | |
| Alternative Education Program | 4,436,488.00 | $ 2,749,187.48 | $ 477,831.35 | $ 3,227,018.83 |
| English Speakers of Other Languages (ESOL) | 43,593.00 | | | |
| TOTAL DIRECT INSTRUCTIONAL PROGRAMS | $ 5,463,496.00 | $ 2,749,187.48 | $ 477,831.35 | $ 3,227,018.83 |
| Staff and Professional Development | 33,996.00 | | | |
| TOTAL QBE FORMULA FUNDS | $ 5,497,492.00 | $ 2,749,187.48 | $ 477,831.35 | $ 3,227,018.83 |

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

See notes to the basic financial statements.

SECTION II

COMPLIANCE AND INTERNAL CONTROL REPORTS

# DEPARTMENT OF AUDITS AND ACCOUNTS

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

**Russell W. Hinton**
**STATE AUDITOR**
**(404) 656-2174**


June 12, 2012

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 the financial statements of the governmental activities and general fund of Mountain Education Center, Inc. (Charter School), a component unit of the State of Georgia, as of and for the year ended June 30, 2011, which collectively comprise Mountain Education Center, Inc.'s basic financial statements and have issued our report thereon dated June 12, 2012. 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.

Internal Control Over Financial Reporting

Management of Mountain Education Center, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Mountain Education Center, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mountain Education Center, Inc.'s internal control over financial reporting.

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.

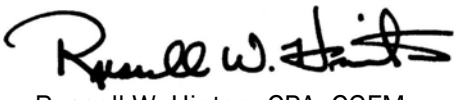
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, members of the Mountain Education Center, Inc., others within the entity, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Russell W. Hinton, CPA, CGFM
State Auditor

RWH:as
2011YB-10