

FINANCIAL STATEMENTS
MOUNTAIN DISCOVERY CHARTER SCHOOL
BRYSON CITY, NORTH CAROLINA
JUNE 30, 2017

MOUNTAIN DISCOVERY CHARTER SCHOOL
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JUNE 30, 2017

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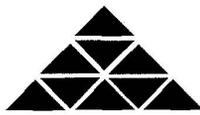
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FINANCIAL SECTION

MOUNTAIN DISCOVERY CHARTER SCHOOL

BRYSON CITY, NORTH CAROLINA

JUNE 30, 2017



Les Merritt CPA-CFP

Independent Auditor's Report

Board of Directors
Mountain Discovery Charter School
Bryson City, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Mountain Discovery Charter School, North Carolina, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Mountain Discovery 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Mountain Discovery Charter School, North Carolina, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 14 and the Schedule of the Proportionate Share of the Net Pension Liability and the Schedule of Board Contributions on pages 39 and 40, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mountain Discovery Charter School, North Carolina's basic financial statements. The combining and individual non-major fund financial statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements, budgetary schedules, other schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 combining and individual non-major fund financial statements, budgetary schedules, other schedules, and the accompanying Schedule of Expenditures of Federal and State Awards are 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 October 11, 2017, on our consideration of Mountain Discovery 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 Mountain Discovery Charter School's internal control over financial reporting and compliance.



Leslie Merritt, CPA, PC
Certified Public Accountant
Zebulon, North Carolina

October 11, 2017

Management's Discussion and Analysis
Mountain Discovery Charter School
June 30, 2017

As management of Mountain Discovery Charter School (MDCS), we offer readers of MDCS's financial statements this narrative overview and analysis of the financial activities of MDCS for the fiscal year ended June 30, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the School's financial statements which follow this narrative.

Financial Highlights

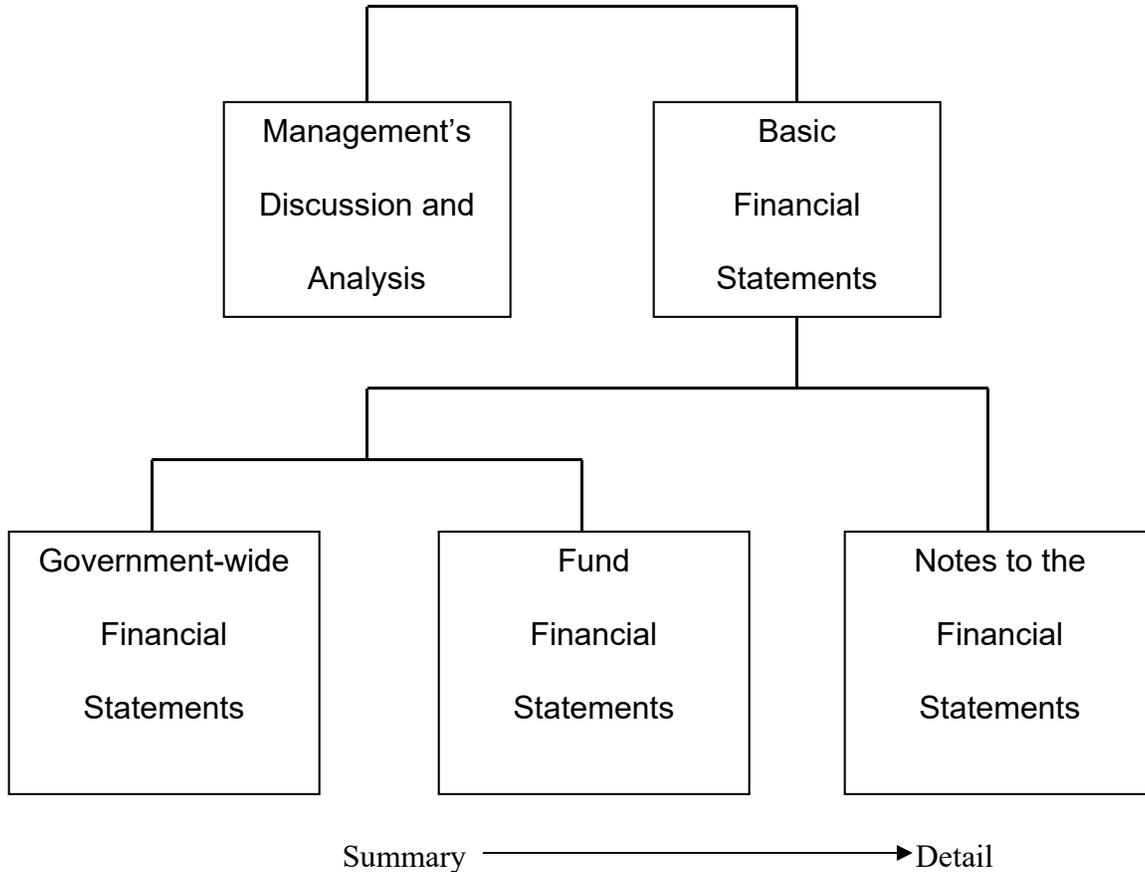
- The assets of MDCS exceeded its liabilities and deferred inflows at the close of the fiscal year by \$1,180,485 (*net position*).
- The school's total net position increased by \$132,728, primarily due to an increase in the government-type activities net position.
- As of the close of the current fiscal year, MDCS's governmental funds reported combined ending fund balances of \$446,170, an increase of \$30,765 in comparison with the prior year.
- Enrollment continues to stay consistently at or near capacity of 188.
- As of June 30, 2017 MDCS had no outstanding debt. Our pension liability totaled \$578,114.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MDCS's basic financial statements. The School's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the School through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of MDCS.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the School's financial status.

The next statements (Exhibits 3 through 7) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the School's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the School's individual funds. Budgetary information for the School also can be found in this section of the statements.

Management Discussion and Analysis
Mountain Discovery Charter School
June 30, 2017

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the School's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the School's financial status as a whole.

The two government-wide statements report the School's net position and how they have changed. Net position is the difference between the School's total assets and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the School's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the School's basic functions such as instructional services and business services. State, county, and federal funds provide virtually all of the funding for these functions. The business-type activities are those services for which the School charges its students and other customers to provide. After School child care services offered by MDCS are the only activity falling into this category.

The government-wide financial statements are Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the School's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MDCS, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the North Carolina General Statutes or the School's budget ordinance. All of the funds of MDCS can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the School's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the School's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

MDCS adopts an annual budget for each of its funds, although it is not required to do so by the General Statutes. Because the budget is not legally required by the Statutes, the budgetary comparison statements are not included in the basic financial statements, but are part of the supplemental statements and schedules that follow the notes. The budget is a legally adopted document that incorporates input from the faculty, management, and the Board of Directors of the School in determining what activities will be

Management Discussion and Analysis
Mountain Discovery Charter School
June 30, 2017

pursued and what services will be provided by the School during the year. It also authorizes the School to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for each of the funds demonstrates how well the School has complied with the budget ordinance and whether or not the School has succeeded in providing the services as planned when the budget was adopted.

Proprietary Funds – MDCS has two proprietary funds, both of which are enterprise funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. MDCS uses enterprise funds to account for its child care function.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 23 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may, over time, serve as one useful indicator of a school's financial condition. The assets of MDCS exceeded liabilities and deferred inflows of resources by \$1,180,485 as of June 30, 2017. As of June 30, 2016, the net position of MDCS stood at \$1,047,757. The School's net position increased by \$132,728 before restatement for the fiscal year ended June 30, 2017, compared to an increase of \$221,839 in 2016. The net position reflects an investment in capital assets less outstanding debt issued to acquire those items (e.g. land, buildings, machinery and equipment) of \$857,780. Mountain Discovery uses these assets to provide services to its students; consequently, these assets are not available for future spending. The remaining balance of \$322,705 is unrestricted. In 2016, the amount of net investment in capital assets was \$803,229 with unrestricted net position standing at \$244,528.

**Management Discussion and Analysis
Mountain Discovery Charter School
June 30, 2017**

MDCS's Net Position

Figure 2

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------------|-------------------------|-------------------|--------------------------|-------------------|---------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Current and other assets | \$ 612,186 | \$ 461,398 | \$ 136,641 | \$ 75,276 | \$ 748,827 | \$ 536,674 |
| Capital assets | 145,332 | 134,658 | 743,016 | 668,571 | 888,348 | 803,229 |
| Total assets | <u>\$ 757,518</u> | <u>\$ 596,056</u> | <u>\$ 879,657</u> | <u>\$ 743,847</u> | <u>\$ 1,637,175</u> | <u>\$ 1,339,903</u> |
| Deferred Outflows of Resources | <u>379,818</u> | <u>75,826</u> | <u>-</u> | <u>-</u> | <u>379,818</u> | <u>75,826</u> |
| Long-term liabilities outstanding | \$ 578,114 | \$ 221,480 | \$ 30,568 | \$ - | \$ 608,682 | \$ 221,480 |
| Other liabilities | 2,538 | 5,919 | - | - | 2,538 | 5,919 |
| Total liabilities | <u>\$ 580,652</u> | <u>\$ 227,399</u> | <u>\$ 30,568</u> | <u>\$ -</u> | <u>\$ 611,220</u> | <u>\$ 227,399</u> |
| Deferred Inflows of Resources | <u>\$ 225,288</u> | <u>\$ 140,573</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 225,288</u> | <u>\$ 140,573</u> |
| Net Position: | | | | | | |
| Net investment in capital assets | \$ 145,332 | \$ 134,658 | \$ 712,448 | \$ 668,571 | \$ 857,780 | \$ 803,229 |
| Restricted for capital assets | - | - | 26,286 | - | 26,286 | - |
| Unrestricted | 186,064 | 169,252 | 110,355 | 75,276 | 296,419 | 244,528 |
| Total Net Position | <u>\$ 331,396</u> | <u>\$ 303,910</u> | <u>\$ 849,089</u> | <u>\$ 743,847</u> | <u>\$ 1,180,485</u> | <u>\$ 1,047,757</u> |

Several particular aspects of the School's financial operations positively influenced the total unrestricted governmental net position:

- The School adopted an annual budget for all funds except the Clubs and Activities Fund. The School's performance was measured using these budgets on a monthly basis, allowing changes in spending as needed to stay within the budget.
- The School applied for and was awarded several federal grants to assist with the expenses of meeting the education needs of exceptional children,
- Management is capitalizing on the population boom in the tri-county area and is focusing efforts on attracting students throughout the region.

**Management Discussion and Analysis
Mountain Discovery Charter School
June 30, 2017**

**MDCS Changes in Net Position
Figure 3**

| | Governmental Governmental Activities | | Business-type Activities | | Total | |
|---|---|-------------------|-----------------------------|-------------------|---------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ - | \$ - | \$ 15,065 | \$ 15,034 | \$ 15,065 | \$ 15,034 |
| Operating grants and contributions | 75,215 | 81,349 | - | - | 75,215 | 81,349 |
| Donation and Other Revenues | 25,938 | 79,378 | 25,460 | 105,244 | 51,398 | 184,622 |
| General revenues: | | | | | | |
| County, State, and Federal funds | 1,599,846 | 1,565,046 | - | - | 1,599,846 | 1,565,046 |
| Total revenues | <u>1,700,999</u> | <u>1,725,773</u> | <u>40,525</u> | <u>120,278</u> | <u>1,741,524</u> | <u>1,846,051</u> |
| Expenses: | | | | | | |
| Instructional services | 1,430,037 | 1,328,943 | - | - | 1,430,037 | 1,328,943 |
| Athletics, arts & clubs | 266 | 908 | - | - | 266 | |
| System-wide support services | 152,810 | 271,886 | - | - | 152,810 | 271,886 |
| After School | - | - | 10,039 | 8,767 | 10,039 | 8,767 |
| Foundation | - | - | 15,644 | 13,708 | 15,644 | 13,708 |
| Total expenses | <u>1,583,113</u> | <u>1,601,737</u> | <u>25,683</u> | <u>22,475</u> | <u>1,608,796</u> | <u>1,623,304</u> |
| Increase in net position before transfers | 117,886 | 124,036 | 14,842 | 97,803 | 132,728 | 221,839 |
| Transfers | (90,400) | - | 90,400 | - | - | - |
| Increase (decrease) in net position | 27,486 | 124,036 | 105,242 | 97,803 | 132,728 | 221,839 |
| Net position, July 1 | 303,910 | 265,792 | 743,847 | 646,044 | 1,047,757 | 911,836 |
| Restatement | \$ - | (85,918) | - | - | \$ - | (85,918) |
| Net position, June 30 | <u>\$ 331,396</u> | <u>\$ 303,910</u> | <u>\$ 849,089</u> | <u>\$ 743,847</u> | <u>\$ 1,180,485</u> | <u>\$ 1,047,757</u> |

Governmental activities: Governmental activities increased the School's net position by \$27,486 before restatement.

Business-type activities: Business-type activities increased MDCS's net position by \$105,242.

Financial Analysis of the School's Funds

As noted earlier, MDCS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of MDCS's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing MDCS's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of MDCS. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$440,695, while total fund balance reached \$446,170.

Proprietary Funds. The School's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Before and After School

Management Discussion and Analysis
Mountain Discovery Charter School
June 30, 2017

Fund at the end of the fiscal year amounted to \$17,142. The total growth in net position for the Before and After School Fund was \$5,026. Other factors concerning the finances of this fund have already been addressed in the discussion of the School’s business-type activities.

Capital Asset and Debt Administration

Capital assets. MDCS’s investment in capital assets for its governmental and business–type activities as of June 30, 2017, totals \$134,658 (net of accumulated depreciation). These assets include equipment and furniture,

Mountain Discovery Charter School’s Capital Assets
(Net of Depreciation)

Figure 4

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land | \$ 1,500 | \$ 1,500 | \$ 470,688 | \$ 470,688 | \$ 472,188 | \$ 472,188 |
| Construction in progress | - | - | 148,207 | 62,188 | 148,207 | 62,188 |
| Land Improvements | 1,020 | 1,075 | - | - | 1,020 | 1,075 |
| School Equipment | 2,723 | 13,618 | 124,121 | 135,696 | 126,844 | 149,314 |
| Leasehold Improvements | 138,405 | 113,414 | - | - | 138,405 | 113,414 |
| Computer equipment | 1,684 | 5,051 | - | - | 1,684 | 5,051 |
| Total | \$ 145,332 | \$ 134,658 | \$ 743,016 | \$ 668,572 | \$ 888,348 | \$ 803,230 |

Additional information on the School’s capital assets can be found in note III.A.2. of the Basic Financial Statements.

Long-term Debt. As of June 30, 2017, MDCS had no debt outstanding. Our net pension liability totaled \$578,114.

Management Discussion and Analysis
Mountain Discovery Charter School
June 30, 2017

Economic Factors

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

- Per-pupil base funding from the state increased by \$200.19 per pupil compared to the previous year. This equated to an increase of 3.11%.
- The student population has remained stable for the K through eighth grade. School growth has been historically referral-based. Among other things, we credit the superior academic performance for the past five years for increased referrals to the school.
- The website will continue to be maintained for the purpose of communicating school information for parents and students as well as to the general public. The site contains information related to school activities as well as school forms, curriculum and registration information.
- The school will focus on capital development as a long-term goal, thereby ensuring the school's ability to serve area students and their families for years to come.

Requests for Information

This report is designed to provide an overview of the School's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, MDCS, 890 Jenkins Branch Rd., Bryson City, NC 28713 Telephone 828.488.1222.

Mountain Discovery Charter School
Statement of Net Position
June 30, 2017

| | Primary Government | | |
|---|------------------------------------|-------------------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 589,563 | \$ 136,315 | \$ 725,878 |
| Due from other governments | 16,963 | - | 16,963 |
| Accounts receivable - trade | 185 | 326 | 511 |
| Prepaid expenses | 5,475 | - | 5,475 |
| Security deposits | - | - | - |
| Capital assets: | | | |
| Land, improvements, and construction in progress | 15,000 | 618,895 | 633,895 |
| Other capital assets, net of depreciation | 130,332 | 124,121 | 254,453 |
| Total capital assets | <u>145,332</u> | <u>743,016</u> | <u>888,348</u> |
| Total assets | <u>757,518</u> | <u>879,657</u> | <u>1,637,175</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>379,818</u> | <u>-</u> | <u>379,818</u> |
| LIABILITIES | | | |
| Accounts payable - trade | 2,538 | - | 2,538 |
| Short-term note payable | - | - | - |
| Derivative instrument - interest rate swap | - | - | - |
| Long-term liabilities: | | | |
| Net pension liability | 578,114 | - | 578,114 |
| Due within one year | - | 30,568 | 30,568 |
| Due in more than one year | - | - | - |
| Total liabilities | <u>580,652</u> | <u>30,568</u> | <u>611,220</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>225,288</u> | <u>-</u> | <u>225,288</u> |
| NET POSITION | | | |
| Net investment in capital assets | 145,332 | 712,448 | 857,780 |
| Restricted for capital assets | - | 26,286 | 26,286 |
| Unrestricted | 186,064 | 110,355 | 296,419 |
| Total net position | <u>\$ 331,396</u> | <u>\$ 849,089</u> | <u>\$ 1,180,485</u> |

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

**Mountain Discovery Charter School
Statement of Activities
For the Year Ended June 30, 2017**

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | |
| | | | | | Governmental Activities | Business-type Activities | Total |
| Primary government: | | | | | | | |
| Governmental Activities: | | | | | | | |
| Instructional programs | \$ 1,430,037 | \$ - | \$ 75,215 | \$ - | \$ (1,354,822) | \$ - | \$ (1,354,822) |
| Athletics, arts and clubs | 266 | - | - | - | (266) | - | (266) |
| Support services | 152,810 | - | - | - | (152,810) | - | (152,810) |
| Community services | - | - | - | - | - | - | - |
| Interest on long-term debt | - | - | - | - | - | - | - |
| Total governmental activities | <u>1,583,113</u> | <u>-</u> | <u>75,215</u> | <u>-</u> | <u>(1,507,898)</u> | <u>-</u> | <u>(1,507,898)</u> |
| Business-type activities: | | | | | | | |
| Foundation | 15,644 | - | - | - | - | (15,644) | (15,644) |
| Before and after school fund | 10,039 | 15,065 | - | - | - | 5,026 | 5,026 |
| Total business-type activities | <u>25,683</u> | <u>15,065</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(10,618)</u> | <u>(10,618)</u> |
| Total primary government | <u>\$ 1,608,796</u> | <u>\$ 15,065</u> | <u>\$ 75,215</u> | <u>\$ -</u> | <u>(1,507,898)</u> | <u>(10,618)</u> | <u>(1,518,516)</u> |
| General revenues: | | | | | | | |
| Unrestricted county appropriations | | | | | 191,222 | - | 191,222 |
| Unrestricted State appropriations | | | | | 1,345,835 | - | 1,345,835 |
| Unrestricted Federal appropriations | | | | | 53,620 | - | 53,620 |
| Unrestricted fines and forfeitures | | | | | 9,169 | - | 9,169 |
| Donations - general | | | | | 1,846 | 24,811 | 26,657 |
| Miscellaneous, unrestricted | | | | | 24,092 | 649 | 24,741 |
| Transfers | | | | | (90,400) | 90,400 | - |
| Total general revenues, special items, and transfers | | | | | <u>1,535,384</u> | <u>115,860</u> | <u>1,651,244</u> |
| Change in net position | | | | | 27,486 | 105,242 | 132,728 |
| Net position- beginning | | | | | 303,910 | 743,847 | 1,047,757 |
| Net position-ending | | | | | <u>\$ 331,396</u> | <u>\$ 849,089</u> | <u>\$ 1,180,485</u> |

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

**Mountain Discovery Charter School
Balance Sheet
Governmental Funds
June 30, 2017**

| | Major Funds | | Total Non-Major Funds | | Total Governmental Funds |
|---|-------------------|---------------------|-----------------------|-------------|--------------------------|
| | General | State Public School | Federal Grants | | |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 589,563 | \$ - | \$ - | \$ - | \$ 589,563 |
| Due from other governments | 16,963 | - | - | - | 16,963 |
| Accounts receivable - other | 185 | - | - | - | 185 |
| Prepaid items | 5,475 | - | - | - | 5,475 |
| Security deposits | - | - | - | - | - |
| Total assets | 612,186 | - | - | - | 612,186 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable - trade | 2,538 | - | - | - | 2,538 |
| Short term note payable | - | - | - | - | - |
| Total liabilities | 2,538 | - | - | - | 2,538 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| | 163,478 | - | - | - | 163,478 |
| Fund balances: | | | | | |
| Nonspendable: | | | | | |
| Prepaid items | 5,475 | - | - | - | 5,475 |
| Unassigned | 440,695 | - | - | - | 440,695 |
| Total fund balances | 446,170 | - | - | - | 446,170 |
| Total liabilities, deferred inflows of resources, and funds balances | \$ 612,186 | \$ - | \$ - | \$ - | |

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

| | |
|--|-------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 145,332 |
| Deferred outflows of resources related to pensions | 379,818 |
| Liabilities for earned but unavailable revenues in fund statements. Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds. | - |
| Net pension liability | (578,114) |
| Deferred inflows of resources related to pensions | (61,810) |
| Net position of governmental activities | \$ 331,396 |

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

Mountain Discovery Charter School
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

| | Major Funds | | Total Non-Major Funds | Total Governmental Funds |
|---|-------------|---------------------|-----------------------|--------------------------|
| | General | State Public School | Federal Grants | |
| Revenues | | | | |
| State of North Carolina | \$ - | \$ 1,345,835 | \$ - | \$ 1,345,835 |
| Local education agencies | 191,222 | - | - | 191,222 |
| U.S. Government | 53,620 | - | 75,215 | 128,835 |
| Fines and forfeitures | 9,169 | - | - | 9,169 |
| Contributions and donations | 1,846 | - | - | 1,846 |
| Other | 24,092 | - | - | 24,092 |
| Total revenues | 279,949 | 1,345,835 | 75,215 | 1,700,999 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instructional programs | 172,676 | 1,139,688 | 75,215 | 1,387,579 |
| Athletics, arts and clubs | 266 | - | - | 266 |
| Support services | 48,292 | 104,518 | - | 152,810 |
| Community services | - | - | - | - |
| Capital outlay | 2,750 | 36,429 | - | 39,179 |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest and other charges | - | - | - | - |
| Total expenditures | 223,984 | 1,280,635 | 75,215 | 1,579,834 |
| Excess (deficiency) of revenues over expenditures | 55,965 | 65,200 | - | 121,165 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers to foundation - rent | (25,200) | (65,200) | - | (90,400) |
| Proceeds from debt | - | - | - | - |
| Total other financing sources (uses) | (25,200) | (65,200) | - | (90,400) |
| Net change in fund balance | 30,765 | - | - | 30,765 |
| Fund balances-beginning | 415,405 | - | - | 415,405 |
| Fund balances-ending | \$ 446,170 | \$ - | \$ - | \$ 446,170 |

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

Mountain Discovery Charter School
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds to the Statements of Activities
For the Year Ended June 30, 2017

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

| | | |
|---|----|--|
| Net changes in fund balances - total governmental funds | \$ | 30,765 |
| Change in fund balance due to change in reserve for inventory | | - |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p> | | |
| | | 10,674 |
| <p>Contributions to the pension plan in the current fiscal year are not included on the statement of activities.</p> | | |
| | | 81,908 |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | |
| Amount of donated assets | | - |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p> | | |
| | | - |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p> | | |
| Pension expense | | (95,861) |
| Compensated absences | | - |
| Rounding adjustment | | - |
| | | <hr style="border-top: 1px solid black;"/> |
| Total changes in net position of governmental activities | \$ | <u><u>27,486</u></u> |

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

Mountain Discovery Charter School
Statement of Net Position
Proprietary Funds
June 30, 2017

| | Enterprise Funds | | |
|-----------------------------------|-------------------|-----------------------|-------------------|
| | Major Fund | Non-major Fund | |
| | Foundation | Before & After School | Total |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 119,499 | \$ 16,816 | \$ 136,315 |
| Due from other governments | - | - | - |
| Receivables (net) | - | 326 | 326 |
| Inventories | - | - | - |
| Total current assets | <u>119,499</u> | <u>17,142</u> | <u>136,641</u> |
| Noncurrent assets: | | | |
| Capital assets: | | | |
| Land and construction in progress | 618,895 | - | 618,895 |
| Other assets, net | 124,121 | - | 124,121 |
| Total noncurrent assets | <u>743,016</u> | <u>-</u> | <u>743,016</u> |
| Total assets | <u>\$ 862,515</u> | <u>\$ 17,142</u> | <u>\$ 879,657</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable - trade | \$ - | \$ - | \$ - |
| Due to other funds | - | - | - |
| Total current liabilities | <u>-</u> | <u>-</u> | <u>-</u> |
| Long-term liabilities: | | | |
| Due within one year | 30,568 | - | 30,568 |
| Due in more than one year | - | - | - |
| Total long-term liabilities | <u>30,568</u> | <u>-</u> | <u>30,568</u> |
| Total liabilities | <u>30,568</u> | <u>-</u> | <u>30,568</u> |
| NET POSITION | | | |
| Net investment in capital assets | 712,448 | - | 712,448 |
| Restricted for capital assets | 26,286 | - | 26,286 |
| Unrestricted | 93,213 | 17,142 | 110,355 |
| Total net position | <u>\$ 831,947</u> | <u>\$ 17,142</u> | <u>\$ 849,089</u> |

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

Mountain Discovery Charter School
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2017

| | Enterprise Funds | | |
|---|--------------------------|---|-------------------|
| | Major Fund Foundation | Non-major Fund Before and After School | Total |
| OPERATING REVENUES | | | |
| Lunch collections | \$ - | \$ 15,065 | \$ 15,065 |
| Donations | 24,811 | - | 24,811 |
| Other revenues | 635 | - | 635 |
| Total operating revenues | <u>25,446</u> | <u>15,065</u> | <u>40,511</u> |
| OPERATING EXPENSES | | | |
| Salaries and related costs | - | 9,973 | 9,973 |
| Supplies and equipment | 200 | 66 | 266 |
| Facilities and equipment | 1,594 | - | 1,594 |
| Depreciation | 11,575 | - | 11,575 |
| Advertising | 70 | - | 70 |
| Insurance | 265 | - | 265 |
| Contracted services | 1,690 | - | 1,690 |
| Conferences and meetings | 250 | - | 250 |
| Total operating expenses | <u>15,644</u> | <u>10,039</u> | <u>25,683</u> |
| Operating income (loss) | <u>9,802</u> | <u>5,026</u> | <u>14,828</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Federal reimbursements | - | - | - |
| Total nonoperating revenue (expenses) | <u>-</u> | <u>-</u> | <u>-</u> |
| Income (loss) before contributions and transfers | 9,802 | 5,026 | 14,828 |
| Interest and investment income (expense), net | 14 | - | 14 |
| Transfers from general fund - rent | 90,400 | - | 90,400 |
| Change in net position | <u>100,216</u> | <u>5,026</u> | <u>105,242</u> |
| Total net position - beginning | 731,731 | 12,116 | 743,847 |
| Total net position - ending | <u>\$ 831,947</u> | <u>\$ 17,142</u> | <u>\$ 849,089</u> |

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

Mountain Discovery Charter School
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

| | Enterprise Funds | | |
|---|-------------------|--------------------------|-------------------|
| | Major Fund | Non-major Fund | |
| | Foundation | Before & After School | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from customers | \$ 25,446 | \$ 14,739 | \$ 40,185 |
| Cash paid for goods and services | (4,069) | (66) | (4,135) |
| Cash paid to employees for services | - | (9,973) | (9,973) |
| Net cash provided (used) by operating activities | <u>21,377</u> | <u>4,700</u> | <u>26,077</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Federal reimbursements | - | - | - |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Purchase of fixed assets | (86,019) | - | (86,019) |
| Proceeds from loans | 30,568 | - | 30,568 |
| Transfers from general fund | 90,400 | - | 90,400 |
| Interest income (expense) | 14 | - | 14 |
| Rounding adjustment | (1) | - | (1) |
| Net cash (used) by capital and related financing | <u>34,962</u> | <u>-</u> | <u>34,962</u> |
| Net increase (decrease) in cash and cash equivalents | <u>56,339</u> | <u>4,700</u> | <u>61,039</u> |
| Balances-beginning of the year | <u>63,160</u> | <u>12,116</u> | <u>75,276</u> |
| Balances-end of the year | <u>\$ 119,499</u> | <u>\$ 16,816</u> | <u>\$ 136,315</u> |
| Reconciliation of operating income to net cash provided by operating activities | | | |
| Operating income | \$ 9,802 | \$ 5,026 | \$ 14,828 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | 11,575 | - | 11,575 |
| Transfers in from general fund | - | - | - |
| Changes in assets and liabilities: | | | |
| (Increase) in due from other governments | - | - | - |
| (Increase) Decrease in accounts receivable | - | (326) | (326) |
| Increase (decrease) in accounts payable and accrued liabilities | - | - | - |
| Increase in salaries and wages payable | - | - | - |
| Total adjustments | <u>11,575</u> | <u>(326)</u> | <u>11,249</u> |
| Net cash provided by operating activities | <u>\$ 21,377</u> | <u>\$ 4,700</u> | <u>\$ 26,077</u> |

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

**Mountain Discovery Charter School, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017**

I. Summary of Significant Accounting Policies

The accounting policies of the Mountain Discovery Charter School, North Carolina (the School) conform to generally accepted accounting principles (GAAP) as applicable to governments. Charter schools are established by non-profit entities. Because of the authority of the State Board of Education (SBE) to unilaterally abolish a school with all the assets reverting to a local education agency, the charter schools in North Carolina follow the governmental reporting model, as used by local education agencies. The following is a summary of the more significant accounting policies.

A. Reporting Entity

The Mountain Discovery Charter School is a public school operated by a local non-profit corporation, serving approximately 180 students. The School operates under an approved charter received from the SBE, and applied for under the provisions of General Statute (G.S.) 115C-238.29B. G.S. 115C-238.29F(f)(1) states that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act (SBFCA). G.S. 115C-447 also requires financial statements to be prepared in accordance with GAAP. As required by generally accepted accounting principles, these financial statements present the School and its component unit, a legally separate entity for which the School is financially accountable. Swain Community Education Foundation exist to provide a building and components for the School to educate their students. The Foundation is reported as an enterprise fund in the School's financial statements. The Foundation is reported using the blended presentation method which presents the component unit as a department of the School and offers no separate presentation as with the discrete method.

| Component Unit | Reporting Method | Criteria for Inclusion | Separate Financial Statements |
|--------------------------------------|-------------------------|---|---|
| Swain Community Education Foundation | Blended | The Foundation is fiscally dependent on the School and the School is obligated to repay the debt of the Foundation. The Foundation only exists to support the School. | Yes, issued by Les Merritt PO Box 127 Zebulon, NC 27597 (919) 269-8553 |

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the School. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the School. Governmental activities generally are financed through inter-governmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the School and for each function of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the School funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The School reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the School. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.

State Public School Fund. The State Public School Fund includes appropriations from the Department of Public Instruction for specific operating needs of the public school system and is reported as a special revenue fund.

The School reports the following non-major governmental funds:

Federal Fund. The Federal Fund is used to account for the Federal moneys that are passed through the State Department of Public Instruction to the School.

The School reports the following major enterprise fund:

Foundation. The Foundation Fund is used to report all activity of the Swain Community Education Foundation within the School. The Foundation provides a building and components to the School while in return the School pays rent to the Foundation.

The School reports the following non-major enterprise fund:

Before and After School Fund. The Before and After School Fund is used to account for the before and after school program within the school system.

C. Measurement Focus and Basis of Accounting

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

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

Under the terms of grant agreements, the School funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the School's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

D. Budgetary Data

Annual budgets are adopted for all funds on a government-wide basis. All budgets are prepared using the modified accrual basis of accounting.

The governing board has voluntarily established the policy, as a sound business practice, that expenditures may not exceed appropriations, for all of the School's funds, based on the adopted budget and subsequent amendments. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget presented in the supplemental data represents the budget of the School at June 30, 2017. All appropriations lapse at year end.

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Fund Equity

1. Deposits and Investments

All deposits of the School are made in a local bank, whose accounts are FDIC insured.

2. Cash and Cash Equivalents

The School pools money from several funds to facilitate disbursement and investment and to maximize investment income. All cash and investments with original maturities of three months or less are considered cash and cash equivalents.

3. Capital Assets

The School's donated capital assets received prior to June 15, 2016 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2016 are recorded at acquisition value. All other capital assets are recorded at original cost. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

It is the policy of the School to capitalize all capital assets costing more than \$3,000 with an estimated useful life of two or more years. In addition, other items which are purchased and used in large quantities such as student desks and office furniture are capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. All depreciable assets are depreciated using the straight-line method of depreciation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated over the following estimated useful lives:

| | <u>Years</u> |
|-------------------------------------|--------------|
| Building and leasehold improvements | 20 |
| Furniture and office equipment | 10 |
| Electronic equipment | 3 |

4. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The School has two items that meets the criterion for this category - a pension related deferral and contributions made to the pension plan in the current fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as

revenue until then. The School has two items that meet the criterion for this category – deferred revenues and pension related deferrals.

5. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statements of net position.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

6. Compensated Absences

Employees do not accumulate vacation pay. The sick leave policy of the School provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the board has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

7. Net position/Fund Balances

Net Position

Net position in the government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balance

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Prepaid Items- portion of fund balance that is not an available resource because it represents the year-end balance of prepaid rent on the school facility which is not a spendable resource.

Restricted Fund Balance –This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Unassigned fund balance – the portion of fund balance that has not been assigned to another fund or restricted, committed, or assigned to specific purposes within the general fund.

Mountain Discovery Charter School has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Board of Directors will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-board of education funds, board of education funds. For purposes of fund balance, classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Board of Directors has the authority to deviate from this policy if it is in the best interest of the School.

8. Defined Benefit Pension Plans

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers’ and State Employees’ Retirement System (TSERS) and additions to/deductions from TSERS’ fiduciary net position have been determined on the same basis as they are reported by TSERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Board’s employer contributions are recognized when due and the Board has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of TSERS. Investments are reported at fair value.

9. The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. The net adjustment of (\$114,774) consists of several elements as follows:

| <u>DESCRIPTION</u> | <u>AMOUNT</u> |
|---|---------------------|
| Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column). | \$ 415,301 |
| Less accumulated depreciation | (269,969) |
| Pension related deferred outflows of resources | |
| Contributions made to the pension plan in current fiscal year | 81,908 |
| Changes of assumptions | 85,258 |
| Differences between projected and actual earnings on plan investments | 206,175 |
| Differences between contributions and proportional share of contributions and changes in proportion | 6,477 |
| Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not reported in the fund statements: | |
| Long-term notes payable | - |
| Capital leases payable | - |
| Rounding adjustment | - |
| Compensated absences | - |
| Net pension liability | (578,114) |
| Deferred inflows of resources related to pensions | |
| Differences between contributions and proportional share of contributions and changes in proportion | (34,487) |
| Differences between expected and actual experience | (27,323) |
| Total adjustment | <u>\$ (114,774)</u> |

F. Revenues, Expenditures, and Expenses

1. Funding

Mountain Discovery Charter School is funded by the State Board of Education, receiving (i) an amount equal to the average per pupil allocation for the average daily membership (ADM) from the local school administrative unit allotments in which the school is located (i.e. Alamance County Board of Education) for each child attending the School except for the allocation for children with special needs and (ii) an additional amount for each child attending the School who is a child with special needs [G.S. 115C-238.29H(a)]. Additionally, the appropriate local school administrative unit(s) transfers to the School, for each student who resides in the local administrative unit and attends the charter school, an amount equal to the per pupil local current expense appropriation to the respective unit for the fiscal year. [G.S.

115C.238.29H(b)]. For the fiscal year ended June 30, 2017, Mountain Discovery Charter School received funding from the Boards of Education for Graham, Haywood, Jackson, Macon and Swain Counties.

Furthermore, Mountain Discovery Charter School has received donations of cash and/or equipment from private organizations. The cash has been used for the purchase of new equipment for the School's facilities.

2. Reconciliation between government-wide and fund statements

The governmental fund statement of revenues, expenditures, and changes in fund balance is followed by a reconciliation between the change in fund balance – governmental activities and the change in net position – governmental funds as reported on the government-wide statement of activities. The net difference of (\$3,279) between the two amounts consists of the following elements:

| <u>DESCRIPTION</u> | <u>AMOUNT</u> |
|---|-------------------|
| Capital outlay expenditures recorded in the fund statements but capitalized as assets on the statement of activities. | \$ 39,179 |
| Depreciation expense that is recorded on the statement of activities but not in the fund statements. | (28,505) |
| Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities. | 81,908 |
| New debt issued during the year is recorded as a source of funds on the fund statements but has no effect on the statement of activities, only the statement of net assets. | - |
| Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net assets in the government-wide statements. | - |
| Pension expense | (95,861) |
| Compensated absences | - |
| Total | <u>\$ (3,279)</u> |

G. Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures.

II. Stewardship, Compliance, and Accountability

A. Material Violations of Finance-Related Legal and Contractual Provisions

Noncompliance with North Carolina General Statutes

None.

Contractual Violations

None.

B. Deficit Fund Balance or Net position of Individual Funds

None.

III. Detail Notes on All Funds

A. Assets

1. Deposits

At June 30, 2017, the School had deposits with banks and savings and loans with a carrying amount of \$606,279. The bank balances with the financial institutions totaled \$612,451 of which \$250,000 is insured by the FDIC, the remaining \$362,451 is a credit risk at June 30, 2017. The School does not have a deposit policy for custodial credit risk. The School has petty cash of \$100.

2. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

| | Beginning | Increases | Decreases | Ending |
|---|-------------------|------------------|-------------|-------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,500 | \$ - | \$ - | \$ 1,500 |
| Capital assets being depreciated: | | | | |
| School equipment | 76,112 | - | - | 76,112 |
| Computer equipment | 33,850 | - | - | 33,850 |
| Furniture and fixtures | 12,466 | - | - | 12,466 |
| Leasehold improvements | 251,101 | 39,179 | - | 290,280 |
| Land improvements | 1,093 | - | - | 1,093 |
| Total capital assets being depreciated | <u>374,622</u> | <u>39,179</u> | <u>-</u> | <u>413,801</u> |
| Less accumulated depreciation for: | | | | |
| School equipment | 62,494 | 10,895 | - | 73,389 |
| Computer equipment | 28,799 | 3,367 | - | 32,166 |
| Furniture and fixtures | 12,466 | - | - | 12,466 |
| Leasehold improvements | 137,687 | 14,188 | - | 151,875 |
| Land improvements | 18 | 55 | - | 73 |
| Total accumulated depreciation | <u>241,464</u> | <u>\$ 28,505</u> | <u>\$ -</u> | <u>269,969</u> |
| Total capital assets being depreciated, net | <u>133,158</u> | | | <u>143,832</u> |
| Governmental activity capital assets, net | <u>\$ 134,658</u> | | | <u>\$ 145,332</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------|------------------|
| Instructional programs | \$ 28,505 |
| Supporting services | - |
| | <u>\$ 28,505</u> |

| | Beginning | Increases | Decreases | Ending |
|--|-------------------|-----------|-----------|-------------------|
| Business type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 470,688 | \$ - | \$ - | \$ 470,688 |
| Construction in progress | 62,188 | 86,019 | - | 148,207 |
| Total capital assets not being depreciated | 532,876 | 86,019 | - | 618,895 |
| Capital assets being depreciated: | | | | |
| School equipment and improvements | 265,881 | - | - | 265,881 |
| Total capital assets being depreciated | 265,881 | - | - | 265,881 |
| Less accumulated depreciation for: | | | | |
| School equipment and improvements | 130,185 | 11,575 | - | 141,760 |
| Total accumulated depreciation | 130,185 | \$ 11,575 | \$ - | 141,760 |
| Total capital assets being depreciated, net | 135,696 | | | 124,121 |
| Business type activities capital assets, net | <u>\$ 668,572</u> | | | <u>\$ 743,016</u> |

B. Liabilities

1. Pension Plan Obligations

a. Teachers' and State Employees' Retirement System

Plan Description. The Board is a participating employer in the statewide Teachers' and State Employees' Retirement System (TSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. TSERS membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the employees of Local Education Agencies and charter schools. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the TSERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (or 10 years of creditable service for members joining TSERS on or after August 1, 2011). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60 (10 years for members joining on or after August 1, 2011). Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

TSERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer (or 10 years of creditable service for members joining TSERS on or after August 1, 2011), or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either

completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Board employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the TSERS Board of Trustees. The Board's contractually required contribution rate for the year ended June 30, 2017, was 9.15% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Board were \$81,908 for the year ended June 30, 2017.

Refunds of Contributions – Board employees who have terminated service as a contributing member of TSERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by TSERS.

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

At June 30, 2017, the Board reported a liability of \$578,114 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating TSERS employers, actuarially determined. At June 30, 2017 and at June 30, 2016, the Board's proportion was .01%.

For the year ended June 30, 2017, the Board recognized pension expense of \$95,861. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ - | \$ 27,323 |
| Changes of assumptions | 85,258 | - |
| Net difference between projected and actual earnings on pension plan investments | 206,175 | - |
| Changes in proportion and differences between Board contributions and proportionate share of contributions | 6,477 | 34,487 |
| Board contributions subsequent to the measurement date | 81,908 | - |
| Total | <u>\$ 379,818</u> | <u>\$ 61,810</u> |

\$81,908 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | |
|------------|-----------|
| 2017 | \$ 28,965 |
| 2018 | 32,337 |
| 2019 | 110,865 |
| 2020 | 63,934 |
| 2021 | - |
| Thereafter | - |

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 3.0 percent |
| Salary increases | 3.50 to 8.10 percent, including inflation and productivity factor |
| Investment rate of return | 7.25 percent, net of pension plan investment expense, including inflation |

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Fixed Income | 29.0% | 1.4% |
| Global Equity | 42.0% | 5.3% |
| Real Estate | 8.0% | 4.3% |
| Alternatives | 8.0% | 8.9% |
| Credit | 7.0% | 6.0% |
| Inflation Protection | 6.0% | 4.0% |
| Total | <u>100%</u> | |

The information above is based on 30 year expectations developed with the consulting actuary for the 2015 asset liability and investment policy study for the North Carolina Retirement Systems, including TSERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County’s proportionate share of the net pension asset to changes in the discount rate. The following presents the Board’s proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Board’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

| | <u>1% Decrease</u> <u>(6.25%)</u> | <u>Discount Rate</u> <u>(7.25%)</u> | <u>1% Increase</u> <u>(8.25%)</u> |
|--|--------------------------------------|--|--------------------------------------|
| Board's proportionate share of the net pension liability (asset) | \$ 1,087,324 | \$ 578,116 | \$ 149,941 |

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

b. Other Employment Benefits

1. Healthcare Benefits

Plan Description. The postemployment healthcare benefits are provided through a cost-sharing multiple-employer defined benefit plan administered by the Executive Administrator and the Board of Trustees of the Comprehensive Major Medical Plan (the Plan). The Executive Administrator and the Board of Trustees of the Plan establishes premium rates except as may be established by the General Assembly in an appropriation act. The Plan’s benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3 of the General Statutes and may be amended only by the North Carolina General Assembly. By General Statute, the Plan accumulates contributions from employers and any earnings on those contributions in the Retiree Health Benefit Fund. These assets shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. These contributions are irrevocable. Also by law, these assets are not subject to the claims of creditors of the employers making contributions to the Plan.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the State’s Comprehensive Major Medical Plan (also referred to as the State Health Plan). An electronic version of this report is available by accessing the North Carolina Office of the State Controller’s Internet home page <http://www.ncosc.net/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

Funding Policy. The Comprehensive Major Medical Plan is administered by the Executive Administrator and Board of Trustees of the Plan, which establishes premium rates except as may be established by the General Assembly in an appropriation act. The healthcare benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees become eligible for Medicare. For employees

first hired on and after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium. For employees hired before October 1, 2006, healthcare benefits are provided to retirees (at no charge to the retirees) who have at least five years of contributing retirement membership prior to disability or retirement. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees at the State's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal years ended June 30, 2017, 2016, 2015 and 2014, the School paid all annual required contributions to the Plan for postemployment healthcare benefits of \$49,408, \$46,407, \$45,692, and \$38,190, respectively. These contributions represented 6.02%, 5.60%, 5.49%, and 5.40%, respectively.

2. Long-term Disability Benefits

Plan Description. Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan. The DIPNC is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System. Long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan accumulates contributions from employers and any earnings on those contributions in the Disability Income Plan Trust Fund. The plan does not provide for automatic post-retirement benefit increases.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the DIPNC. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Funding Policy. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System of North Carolina, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the Retirement System; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the Retirement System after (1) reaching the age of 65 and completing five years of creditable service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

The monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one twelfth of the annual longevity payment to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled. The monthly benefit shall be further reduced by the amount of any monthly payments

from the Department of Veterans Affairs, any other federal agency or any payments made under the provisions of G.S.127A-108, to which the participant or beneficiary may be entitled on account of the same disability. Provided in any event, the benefits payable shall be no less than \$10 a month. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS. For members who obtain five years of membership service on or after August 1, 2007, the monthly long-term disability benefit is reduced by the primary Social Security retirement benefit to which one might be entitled should one become age 62 during the first 36 months. After 36 months of long-term disability, there will be no further payments from the DIPNC unless the member is approved for and is in receipt of primary Social Security disability benefits. It is payable so long as the member remains disabled and is in receipt of a primary Social Security disability benefit until eligible for an unreduced service retirement benefit. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS.

The Board's contributions are established in the Appropriations Bill by the General Assembly. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit. For the fiscal years ended June 30, 2017, 2016, 2015 and 2014, the Board paid all annual required contributions to the DIPNC for disability benefits of \$4,432, \$4,724, \$4,744 and \$3,678, respectively. These contributions represented 0.54%, 0.57%, 0.52% and 0.52% of covered payroll, respectively.

3. Deferred Inflows/Outflows of Resources

The balance in deferred inflows and outflows of resources at year-end is composed of the following:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ - | \$ 27,323 |
| Changes of assumptions | 85,258 | - |
| Net difference between projected and actual earnings on pension plan investments | 206,175 | - |
| Unearned revenues | - | 163,478 |
| Changes in proportion and differences between Board contributions and proportionate share of contributions | 6,477 | 34,487 |
| Board contributions subsequent to the measurement date | 81,908 | - |
| Total | <u>\$ 379,818</u> | <u>\$ 225,288</u> |

4. Long-term Obligations

a.) Notes Payable

The Swain Community Education Foundation, Inc. obtained a note from the USDA on December 15, 2016 in the amount of \$2,600,000 for the construction of a school building. The note bears interest at 2.375% and annual payments of \$101,426 in principal and interest begin on December 15, 2017. Final payment is due December 15, 2057. The balance as of June 30, 2017 totaled \$30,568, with the remaining balance being drawn and constructed during the year ended June 30, 2018.

Future minimum payments once the loan is fully drawn are expected to be:

| | Principal | Interest | Total |
|---------------------------------|---------------------|---------------------|---------------------|
| Year Ending June 30, 2018 | \$ 39,676 | \$ 61,750 | \$ 101,426 |
| Year Ending June 30, 2019 | 40,618 | 60,808 | 101,426 |
| Year Ending June 30, 2020 | 41,583 | 59,843 | 101,426 |
| Year Ending June 30, 2021 | 42,571 | 58,855 | 101,426 |
| Year Ending June 30, 2022 | 43,582 | 57,844 | 101,426 |
| Years Ending June 30, 2023-2027 | 233,935 | 273,195 | 507,130 |
| Years Ending June 30, 2028-2032 | 263,066 | 244,064 | 507,130 |
| Years Ending June 30, 2033-2037 | 295,824 | 211,306 | 507,130 |
| Years Ending June 30, 2038-2042 | 332,662 | 174,468 | 507,130 |
| Years Ending June 30, 2043-2047 | 374,088 | 133,042 | 507,130 |
| Years Ending June 30, 2048-2052 | 420,671 | 86,459 | 507,130 |
| Years Ending June 30, 2053-2057 | 471,724 | 34,074 | 505,798 |
| | <u>\$ 2,600,000</u> | <u>\$ 1,455,708</u> | <u>\$ 4,055,708</u> |

b.) Changes in General Long-Term Obligations

| | Balance July 1, 2016 | Increases | Decreases | Balance June 30, 2017 | Current Portion |
|---------------------------|-------------------------|------------|-----------|--------------------------|--------------------|
| Governmental activities: | | | | | |
| Net pension liability | \$ 221,480 | \$ 356,634 | \$ - | \$ 578,114 | \$ - |
| Business-type activities: | | | | | |
| Note payable - USDA | \$ - | \$ 30,568 | \$ - | \$ 30,568 | \$ 30,568 |

5. Risk Management

The School is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School maintains general liability and errors and omissions insurance coverage of \$1 million per occurrence with a commercial carrier.

The School also participates in the Teachers' and State Employees' Comprehensive Major Medical Plan, a self-funded risk financing pool of the State administered by Blue Cross and Blue Shield of North Carolina. Through the Plan, permanent full-time employees of the School are eligible to receive health care benefits up to a \$2 million lifetime limit. In addition, employees have the option of receiving health care benefits through one of the available health maintenance organizations (HMOs). The School pays the full cost of coverage for employees enrolled in the Comprehensive Major Medical Plan and makes an equal contribution for employees enrolled in one of the available HMO plans [G.S. 115C-238.29F(e)(4)].

The School carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and claims have not exceeded coverage in any of the past two fiscal years.

6. Operating Leases

The School leases the facilities in which it operates from the Foundation created in support of the School (Refer to Note IV). The lease commenced on November 12, 2004 ran for a ten-year term that ended June 30, 2015. The School now leases the facilities on a month to month basis. The amount of rent remains the same at \$4,200 per month. Lease payments under the terms of the month to month arrangement over the next five years are expected to be \$50,400 per year. The School also has a copier lease which extends through March 2017. The lease calls for payments of \$415 per month. During the year ended June 30, 2017, the School paid a one-time payment of \$40,000 in addition to the \$50,400 lease amount for a total of \$90,400 paid to the Foundation.

Future expected payments under the leases are as follows:

| For the year ended June 30, | Facilities |
|--------------------------------|------------|
| 2018 | \$ 90,400 |
| 2019 | 90,400 |
| 2020 | 90,400 |
| 2021 | 90,400 |
| 2022 | 90,400 |
| | \$ 452,000 |

C. Fund Balance

Mountain Discovery Charter School has a revenue spending policy that provides policy for programs with multiple revenue sources. The Board of Directors will use resources in the following hierarchy: federal funds, State funds, local non-School funds, Mountain Discovery Charter School funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Board of Directors has the authority to deviate from this policy if it is in the best interest of the School. The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation.

| | |
|---|------------------|
| Total fund balance | \$446,170 |
| Less: | |
| Inventories | - |
| Prepaid Items | 5,475 |
| Appropriated Fund Balance in 2017 budget | - |
| Remaining Fund Balance | \$440,695 |

IV. Related Party Transactions

The School leases land from the Swain Community Education Foundation, Inc., the discretely presented component unit, created in support of Mountain Discovery Charter School. The Foundation has a separate board of directors; however, the Board membership is common with that of Mountain Discovery Charter School sufficient to establish control. In addition, the not for profit status of the foundation before the Internal Revenue Service comes from the stated purpose of providing support to a public charter school, which is Mountain Discovery Charter School.

V. Commitments

The School has a contract with a management agency that extends past June 30, 2017. The contract calls for payments of at least \$29,500 for the next year. Payments under the contract for the year ended June 30, 2017 were \$30,252.

VI. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The School has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

VII. Subsequent Events – Date of Management’s Review

The School has evaluated subsequent events from the date of the balance sheet through the date the report is available to be issued which is the date of the Independent Auditor’s Report. The School has not evaluated subsequent events after that date.

Required Supplemental Financial Data

- Schedule of Proportionate Share of Net Pension Asset for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System

Mountain Discovery Charter School
Schedules of Required Supplementary Information
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Teachers' and State Employees' Retirement System
Last Four Fiscal Years *

| | 2017 | 2016 | 2015 | 2014 |
|--|------------|------------|------------|------------|
| Board's proportion of the net pension liability (asset) | 0.0063% | 0.0060% | 0.0065% | 0.0480% |
| Board's proportionate share of the net pension liability (asset) | \$ 578,116 | \$ 221,480 | \$ 66,594 | \$ 339,977 |
| Board's covered-employee payroll | \$ 820,726 | \$ 828,703 | \$ 832,281 | \$ 707,227 |
| Board's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 70.44% | 26.73% | 8.00% | 48.07% |
| Plan fiduciary net position as a percentage of the total pension liability | 87.32% | 98.24% | 98.24% | 90.60% |

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

**Mountain Discovery Charter School
Schedules of Board Contributions
Teachers' and State Employees' Retirement System
Last Four Fiscal Years ***

| | 2017 | 2016 | 2015 | 2014 |
|--|------------|------------|------------|------------|
| Contractually required contributions | \$ 81,908 | \$ 75,826 | \$ 76,154 | \$ 61,458 |
| Contributions in relation to the contractually required contribution | 81,908 | 75,826 | 76,154 | 61,458 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - |
| Board covered-employee payroll | \$ 820,726 | \$ 828,703 | \$ 832,281 | \$ 707,227 |
| Contributions as a percentage of covered-employee payroll | 9.98% | 9.15% | 9.15% | 8.69% |

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

NON-MAJOR FUNDS

Federal Grants Fund - This fund is used to account for the federal grant activity of the school.

Before and After School Fund - This fund is used to account for the before and after school care of students that attend the school.

**Mountain Discovery Charter School
Non-major Governmental Fund
Balance Sheet
June 30, 2017**

| | Special Revenue Funds |
|--|--------------------------|
| Assets | |
| Cash and cash equivalents | \$ - |
| Due from other governments | - |
| Total assets | \$ - |
| Liabilities and Fund Balances | |
| Liabilities | |
| Accrued salaries and wages payable | \$ - |
| Deferred revenue | - |
| Total liabilities | - |
| Fund balances-unreserved | - |
| Total liabilities and fund equity | \$ - |

**Mountain Discovery Charter School
Non-major Governmental Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances
For the Fiscal Year Ended June 30, 2017**

| | Special Revenue Funds |
|-------------------------------------|--------------------------|
| | Totals 2017 |
| Revenues: | |
| U.S. Government | |
| Title 1 Basic Funding | \$ 15,788 |
| Idea VI-B Handicapped | 29,884 |
| Rural Education Achievement Program | 2,344 |
| Children with Special Needs | 26,152 |
| Idea VI-B Targeted Assistance | 1,047 |
| Total | 75,215 |
| Donations | - |
| Other | - |
| Total | - |
| Total Revenues | 75,215 |
| Expenditures: | |
| Current | |
| Instructional programs: | |
| Regular programs | 2,344 |
| Special programs | 57,083 |
| Other | 15,788 |
| Total | 75,215 |
| Support services: | |
| Pupil services | - |
| Special population | - |
| General administrative | - |
| School administrative | - |
| Club and activity expenditures | - |
| Total | - |
| Non-programmed charges: | |
| Other | - |
| Total | - |
| Total expenditures | 75,215 |
| Revenues over expenditures | - |
| Fund balances: | |
| Beginning of year, July 1 | - |
| End of year, June 30 | \$ - |

Mountain Discovery Charter School
Statement of Net Position
Non-major Proprietary Fund
June 30, 2017

| | | Enterprise Fund |
|-------------------------------------|----|----------------------------------|
| | | Non-major Fund |
| | | Before & After School |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ | 16,816 |
| Due from other governments | | - |
| Receivables (net) | | 326 |
| Inventories | | - |
| Total current assets | | 17,142 |
| Noncurrent assets: | | |
| Capital assets: | | |
| Furniture and office equipment, net | | - |
| Computer equipment, net | | - |
| Total noncurrent assets | | - |
| Total assets | \$ | 17,142 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable - trade | \$ | - |
| Due to other funds | | - |
| Total current liabilities | | - |
| Long-term liabilities: | | |
| Due within one year | | - |
| Due in more than one year | | - |
| Total long-term liabilities | | - |
| Total liabilities | | - |
| NET POSITION | | |
| Net investment in capital assets | | - |
| Unrestricted | | 17,142 |
| Total net position | \$ | 17,142 |

Mountain Discovery Charter School
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2017

| | Enterprise Fund |
|---|----------------------------------|
| | Non-major Fund |
| | Before & After School |
| OPERATING REVENUES | |
| Before and after school care | \$ - |
| Total operating revenues | - |
| OPERATING EXPENSES | |
| Salaries and related costs | 9,973 |
| Supplies and equipment | 66 |
| Contracted services | - |
| Food purchases | - |
| Total operating expenses | 10,039 |
| Operating income (loss) | (10,039) |
| NONOPERATING REVENUES (EXPENSES) | |
| Federal reimbursements | - |
| Total nonoperating revenue (expenses) | - |
| Income (loss) before contributions and transfers | (10,039) |
| Capital contributions | - |
| Transfers from other funds | - |
| Change in net position | (10,039) |
| Total net position - beginning | 12,116 |
| Total net position - ending | \$ 2,077 |

Mountain Discovery Charter School
All Fund Types
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2017

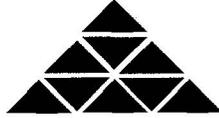
| | 2017 | | |
|---|------------------|------------------|--|
| | Final Budget | Actual | Favorable (Unfavorable) Variance |
| Revenues: | | | |
| State of North Carolina | \$ 1,360,694 | \$ 1,345,835 | \$ (14,859) |
| Boards of Education | 191,222 | 191,222 | - |
| U.S. Government | 128,844 | 128,835 | (9) |
| Fines and forfeitures | 9,169 | 9,169 | - |
| Before and after school revenues | 15,065 | - | (15,065) |
| Contributions and donations | 1,846 | 1,846 | - |
| Others | 26,709 | 24,092 | (2,617) |
| Total revenues | <u>1,733,549</u> | <u>1,700,999</u> | <u>(32,550)</u> |
| Expenditures | | | |
| Salaries and bonuses | 1,007,764 | 992,405 | 15,359 |
| Benefits | 316,519 | 316,519 | - |
| Books and supplies | 32,464 | 32,455 | 9 |
| Technology | 11,981 | 11,981 | - |
| Non capitalized equipment | 9,386 | 9,386 | - |
| Contracted student services | 44,128 | 44,128 | - |
| Staff development | 1,428 | 1,428 | - |
| Administrative services | 39,356 | 39,356 | - |
| Insurances | 30,404 | 30,404 | - |
| Rents and debt service | 91,413 | 91,413 | - |
| Facilities | 64,334 | 64,334 | - |
| Utilities | 25,408 | 25,408 | - |
| Nutrition and food | 695 | 695 | - |
| Transportation and travel | 20,361 | 20,361 | - |
| Capital purchases | - | - | - |
| Total expenditures | <u>1,695,641</u> | <u>1,680,273</u> | <u>15,368</u> |
| Other financing sources (uses): | | | |
| Proceeds from capital lease | - | - | - |
| Proceeds from notes payable | - | - | - |
| Total other financing sources | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess of revenues over expenditures | <u>\$ 37,908</u> | <u>\$ 20,726</u> | <u>\$ (17,182)</u> |

COMPLIANCE SECTION

MOUNTAIN DISCOVERY CHARTER SCHOOL

BRYSON CITY, NORTH CAROLINA

JUNE 30, 2017



Les Merritt CPA-CFP

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*

Board of Directors
Mountain Discovery Charter School
Bryson City, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Mountain Discovery Charter School as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprises Mountain Discovery Charter School's basic financial statements and have issued our report thereon dated October 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mountain Discovery Charter School'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 Mountain Discovery Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Mountain Discovery Charter School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School'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 the 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 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 Discovery Charter School'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*.

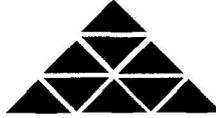
Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Leslie Merritt, CPA, PC
Certified Public Accountant
Zebulon, North Carolina

October 11, 2017



Les Merritt CPA-CFP

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE; IN ACCORDANCE WITH UNIFORM GUIDANCE; AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT

Board of Directors
Mountain Discovery Charter School
Bryson City, North Carolina

Report on Compliance for Each Major State Program

We have audited Mountain Discovery Charter School's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on its major State program for the year ended June 30, 2017. Mountain Discovery Charter School's major State program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its major State program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Mountain Discovery Charter School's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in and applicable sections of Title 2 US *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act. Those standards, Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Mountain Discovery Charter School's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Mountain Discovery Charter School's compliance.

Opinion on Each Major State Program

In our opinion, the Mountain Discovery Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Mountain Discovery Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Mountain Discovery Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Leslie Merritt, CPA, PC
Certified Public Accountant
Zebulon, North Carolina

October 11, 2017

MOUNTAIN DISCOVERY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

SECTION I. -- SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance to GAAP: Unmodified

Internal control over financial reporting:

| | | |
|---|------------------------------|---|
| Material weakness(es) identified? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> none reported |

| | | |
|--|------------------------------|--|
| Noncompliance material to financial statements noted | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
|--|------------------------------|--|

State Awards

Internal control over major state programs:

| | | |
|---|------------------------------|---|
| Material weakness(es) identified? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> none reported |

Type of auditor's report issued on compliance for major state programs: Unmodified

| | | |
|--|------------------------------|--|
| Any audit findings disclosed that are required to be reported in accordance with State Single Audit Implementation Act | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
|--|------------------------------|--|

Identification of major state programs:

Program Name

State Public School Funds (PRC036 - Charter School Funds)

MOUNTAIN DISCOVERY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

SECTION II. -- FINANCIAL STATEMENT FINDINGS

None reported

SECTION III. -- STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

MOUNTAIN DISCOVERY CHARTER SCHOOL
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2017

SECTION II. -- FINANCIAL STATEMENT FINDINGS

None reported

SECTION III. -- STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

MOUNTAIN DISCOVERY CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR YEARS' AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

There were no prior year audit findings.

MOUNTAIN DISCOVERY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| GRANTOR/PASS-THROUGH GRANTOR PROGRAM TITLE | FEDERAL CFDA NUMBER | STATE/ PASS-THROUGH GRANTOR'S NUMBER | EXPENDITURES |
|---|---------------------------|---|---------------------|
| FEDERAL GRANTS: | | | |
| CASH ASSISTANCE | | | |
| <u>US Department of Education</u> | | | |
| Passed Through the North Carolina | | | |
| Department of Public Instruction: | | | |
| Title 1 Basic Funding | 84.010A | PRC 050 | \$ 15,788 |
| Rural Education Achievement Program | 84.358A | PRC 091 | 2,344 |
| Special Education Cluster: | | | |
| Idea VI-B Handicapped | 84.027A | PRC 060 | 29,884 |
| Children with Special Needs | 84.027A | PRC 114 | 26,152 |
| Special Needs Targeted Assistance | 84.027A | PRC 118 | 1,047 |
| Total Special Education Cluster | | | <u>57,083</u> |
| Total Passed through NC | | | <u>75,215</u> |
| Direct awards: | | | |
| Impact Aid | 84.041 | PRC 308 | 29,843 |
| Improving Teacher Quality State Grants | 84.336 | PRC 341 | 23,777 |
| Total direct awards | | | <u>53,620</u> |
| TOTAL FEDERAL CASH ASSISTANCE | | | <u>128,835</u> |
| NC STATE GRANTS: | | | |
| CASH ASSISTANCE | | | |
| <u>NC Department of Public Instruction</u> | | | |
| State Summer Reading Camps | | PRC 016 | - |
| State Public School Funds | | PRC 036 | 1,345,835 |
| TOTAL NC STATE CASH ASSISTANCE | | | <u>1,345,835</u> |
| TOTAL FEDERAL AND STATE AWARDS | | | <u>\$ 1,474,670</u> |

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

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Mountain Discovery Charter School under the programs of the federal government and the State of North Carolina for the year ended June 30, 2017. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of Mountain Discovery Charter School, it is not intended to and does not present the financial position, changes in net position, or cash flows of Mountain Discovery Charter School.

Note 2: Summary of Significant Accounting Policies

Mountain Discovery Charter School has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.