

**MARTIN LUTHER KING, JR.  
EDUCATION CENTER ACADEMY**

**Financial Report  
With Supplemental Information**

**June 30, 2015**

# MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY

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# Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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LARRY WILKERSON, C.P.A.  
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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Martin Luther King, Jr. Education Center Academy

### Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Martin Luther King, Jr. Education Center Academy, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy'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 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, each major fund and the aggregate remaining fund information of Martin Luther King, Jr. Education Center Academy as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles accepted in the United States of America.

**Members: A.I.C.P.A. and M.I.C.P.A.**

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Government Auditing 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 Martin Luther King, Jr. Education Center Academy's basic financial statements. The nonmajor funds combining statement of revenues, expenditures, and changes in fund balances – special revenue funds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The nonmajor funds combining statement of revenues, expenditures, and changes in fund balances, statement of revenue and expenditures – budget and actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applies 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 nonmajor funds combining statement of revenues, expenditures, and changes in fund balances, statement of revenue and expenditures – budget and actual 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 30, 2015, on our consideration of Martin Luther King, Jr. Education Center Academy'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 or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering Martin Luther King, Jr. Education Center Academy's internal control over financial reporting and compliance.

*Wilkerson & Associate PC*

October 30, 2015

# Wilkerson & Associate P.C.

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## 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*

To the Board of Directors of  
Martin Luther King, Jr. Education Center Academy

We have audited the financial statements of Martin Luther King, Jr. Education Center Academy as of and for the year ended June 30, 2015, and have issued our report thereon dated October 30, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

Martin Luther King, Jr. Education Center Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Martin Luther King, Jr. Education Center Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Martin Luther King, Jr. Education Center Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Martin Luther King, Jr. Education Center Academy's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

**Members: A.I.C.P.A. and M.I.C.P.A.**

To the Board of Directors of  
Martin Luther King, Jr. Education Center Academy

Compliance and Other Matters

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

This report is intended for the information and use of the Board of Directors, management and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Wilkerson & Associate PC*

October 30, 2015

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AS OF JUNE 30, 2015**

The following discussion and analysis of Martin Luther King, Jr. Education Center Academy's financial statements provide an overview of the Academy's financial activities for the year ended June 30, 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and related notes. Responsibility for the completeness and fairness of this information rests with the Academy's management.

### **Using This Report**

Martin Luther King, Jr. Education Center Academy's financial report includes four basic financial statements: Statement of net position, which presents the assets, liabilities and net position of the Academy at the end of the fiscal year, Balance Sheet, Statement of Activities, the Statement of Revenues, Expenditures and Changes in Fund Balances which reflects revenues and expenditures recognized during the fiscal year, and Notes to Financial Statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles which establish standards for external financial reporting for public school academies.

### **Financial Highlights**

The financial statements contained in this report represent the Academy's financial position as of June 30, 2015. The Academy's financial position remains strong at June 30, 2015. Change in net Position for fiscal year ended June 30, 2015 was (\$404,218). As will be noted later in this analysis, this can be attributed to a decrease in State Aid funding for fiscal year ended June 30, 2015.

**The financial report is only one measure of our school district's viability. Our goal is to provide services to students, not to generate profits as commercial entities do. Consideration should also be given to the following non-financial factors:**

### **Academic Highlights**

- **ACADEMIC STATE CHAMPS 2014-2015**
  - Bridge Online Magazine recognized MLKECA as Academic State Champs: MLKECA had the highest MEAP Scores state wide, among schools with a high poverty level.
- **TOP 10 SCHOOLS/GRADE A**
  - MLKECA was ranked within the top 10 of Detroit schools and received a Grade A from Excellent Schools Detroit 2014 Scorecard.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AS OF JUNE 30, 2015**

- **TOP 25 (MDE)**
  - MDE ranked MLKECA within the Top 25 Charter Schools in Michigan based on MEAP Score Proficiency for the 2012-2013 school year.
- **Reward School**
  - MDE graded MLKECA within the Top 5% of the Top-to-Bottom ranking list; 2013-14 & 2014-15
- **Beating the odds Schools (2013-2014)**
  - MLKECA's achievement exceeds expectations or predictions based on the demographic characteristics of the schools and students.
- **Top Ten School**
  - Rating received from Excellent Schools Detroit 2014 Scorecard
- **Excellent Schools Score Card 2014 Rating-A**
  - Grade calculated based on state standardized tests, student progress, and the overall culture (parent, teacher, and community feedback) of the school.
- **Top 10 Elementary & Middle Schools (2012-2013)**
  - Based on standardized test scores for over 2000 public elementary and middle schools in Michigan; MLKECA was ranked overall top-performing elementary and middle schools on the Mackinac report card.
- **Gold/Silver Rating- Sister School (MLKEC)**
  - MLKEC rating based on community, state and staff review.

**District Wide Financial Statements**

The District Wide Financial Statements provide information about the activities of the School District as a whole, presenting both an aggregate view of the School District's finances and a long term view of those finances. District Wide statements are presented on a full accrual basis, which is the primary accounting method used in private industry. The Statement of Net Assets includes all of the District's assets and liabilities. The Statement of Activities reports all of the School District's current year's revenues and expenses by type of activity.

The two district-wide statements report the District's net assets and how they have changed. Net Assets – the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**AS OF JUNE 30, 2015**

- Over time, increases and decreases in the District’s net assets are in indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District’s funds, focusing on its most significant or “major” funds, not the District as a whole. It provides information as to the amount of financial resources that can be spent in the near future to finance programs. It also provides information about the District’s most significant Funds – the General Fund (the principal operating fund), the Debt Service Fund, and its non-major Funds, which are grouped together and presented as Other Governmental Funds. The School District’s non-major Funds are Food Service. Fund Financial Statements are presented on a modified accrual basis. Only those assets that are measurable and currently available are reported. Liabilities are recognized to the extent that they can be paid using current financial resources.

**Martin Luther King, Jr. Education Center Academy as a Whole**

As discussed above, the Statement of Net Assets provides information of the Academy as a whole. Table 1 provides a summary of the School District’s net assets as of June 30, 2015:

**Table 1 - Summary of Martin Luther King, Jr. Education Center Academy - Net Position**

	<b>Governmental Activities</b>
<b>Assets</b>	
Current and other assets	1,977,294
Capital assets - net of accumulated depreciation	1,144,548
<b>Total assets</b>	<b>3,121,842</b>
<b>Liabilities</b>	
Current liabilities	15,677
Accrued Expenses	13,946
Accrued Salaries	99,824
Child Care	1,395
Net Pension Liability	<b>4,009,924</b>

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AS OF JUNE 30, 2015**

<b>Total liabilities</b>	130,843
<b>Net Position</b>	
Invested in capital assets, net of related Debt	1,144,548
Unrestricted	(2,163,473)
<b>Total Net Position</b>	<b>(1,018,924)</b>

Net position at year-end was \$(1,018,924). The School District's investment in capital assets, net of accumulated depreciation, was \$1,144,548. The \$(1,018,924) in unrestricted net assets represent the cumulative operating results for the year ended June 30, 2015 and all prior years.

**Table 2 - Summary of the Statement of Activities**

<b>Revenues</b>	
Program revenue	
Grants and categoricals	\$ 229,889
General revenues	
State foundation allowance	2,684,314
Interest and Investment Earnings	22,525
Other Funds	43,986
<b>Total revenues</b>	<b>2,980,713</b>
<b>Function/Program Expenses</b>	
Instruction	1,713,974
Support Services	1,332,542
Food Services	207,600
Community Service	7,313
Depreciation	123,502
Net Pension Expense	300,476
<b>Total Expenses</b>	<b>3,685,407</b>
<b>Decrease in Net Assets</b>	<b>\$ ( 704,694)</b>

The Academy experienced a decrease in net position of \$704,694 due to depreciation expense and its net proportionate share of the MP SER's net pension expense.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AS OF JUNE 30, 2015**

**General Fund Budget Highlights**

State law requires that school districts periodically amend their budgets to ensure that expenditures do not exceed appropriations. During the year, the School District revised its budget in response to and/or in anticipation of changing operating conditions. The School District had one budget amendment during the year that was approved by the Martin Luther King, Jr. Education Center Academy Board. (A schedule showing the School's District's original budget, final budget, and actual results for the General Fund is provided in the Required Supplemental Information section of the financial statements).

**Economic Factors That Will Affect The Future**

The Academy's history of sound fiscal management ensures its ability to maintain the competitive edge needed for survival in today's unstable educational market. The Academy continues an aggressive approach to providing quality education for Detroit's children by upgrading and expanding its facilities and programs. The Academy's history of educational excellence (30 years as an educational institution), pioneering spirit (one of the first schools chartered by the Detroit Public Schools), collaborative efforts (which institutions such as Wayne State University and Michigan State University), and commitment to investing in children (our future), keeps it poised towards a secure financial future. The Academy expects continued growth and development in its ability to serve the Metropolitan Detroit community for many years to come.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$ 1,488,859
Due from other governmental units	488,435
Capital assets, net of accumulated depreciation	<u>1,144,548</u>
Total assets	3,121,842
<b>Deferred Outflows of Resources</b>	
	-
<b>Liabilities</b>	
Accounts payable	15,677
Accrued salaries and benefits	99,824
Child care	1,395
Net pension liability	4,009,924
Other accrued expenses	<u>13,946</u>
Total liabilities	4,140,766
<b>Deferred Inflows of Resources</b>	
	-
<b>Net Position</b>	
Invested in capital assets, net of related debt	1,144,548
Unrestricted	<u>(2,163,473)</u>
Total net position	<u><u>\$ (1,018,924)</u></u>

See accompanying notes to financial statements

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Position</u>
<b>Governmental Activities</b>				
Governmental activities:				
Instruction	\$ 1,713,974	\$ -	\$ 187,910	\$ (1,526,064)
Support services	1,332,542	-	-	(1,332,542)
Food services	207,600	-	41,979	(165,621)
Community services	7,313	-	-	(7,313)
Net pension expense	300,476	-	-	(300,476)
Depreciation (unallocated)	123,502	-	-	(123,502)
Total governmental activities	<u>\$ 3,685,407</u>	<u>\$ -</u>	<u>\$ 229,889</u>	(3,455,518)
General revenues				
				2,684,314
				22,525
				<u>43,986</u>
				2,750,825
				<u>(704,694)</u>
				(8,138)
				<u>(306,092)</u>
				<u>\$ (1,018,924)</u>

See accompanying notes to financial statements

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015**

**ASSETS**

	<b>General Fund</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
Cash	\$ 1,488,859	\$ -	\$ 1,488,859
Due from other governmental units	488,435	-	488,435
Other receivables	-	1,865	1,865
<b>Total assets</b>	<b>\$ 1,977,294</b>	<b>\$ 1,865</b>	<b>\$ 1,979,159</b>

**LIABILITIES AND FUND BALANCES**

**Liabilities**

Accounts payable and accrued expenses	130,843	-	130,843
Due to other funds	1,865	-	1,865
<b>Total liabilities</b>	132,708	-	132,708

**Fund Balances**

**Non-Spendable Fund Balance:**

Prepaid assets	-	-	-
Unassigned fund balance	1,844,586	1,865	1,846,451
<b>Total fund balances</b>	1,844,586	1,865	1,846,451

**Total liabilities and fund  
balances**

	\$ 1,977,294	\$ 1,865	\$ 1,979,159
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See accompanying notes to financial statements

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2015**

<b>Total Fund Balances - Governmental Funds</b>	\$ 1,846,451
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Amounts reported for governmental activities in the statement of net position are different because:

Long-term liabilities are not due and payable in the current period and, therefore, not reported as assets in governmental funds

Net pension liability	(4,009,924)
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Capital assets used in governmental activities are not financial resources and, therefore, not reported as assets in governmental funds

Cost of capital assets	\$ 2,218,864	
Accumulated depreciation	<u>(1,074,314)</u>	<u>1,144,550</u>

<b>Total net position - Governmental Activities</b>	<b><u><u>\$ (1,018,924)</u></u></b>
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See accompanying notes to financial statements

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015**

	<b>General Fund</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Local sources	\$ 66,511	\$ -	\$ 66,511
State sources	2,684,314	-	2,684,314
Federal sources	187,910	41,979	229,889
<b>Total revenues</b>	<b>2,938,735</b>	<b>41,979</b>	<b>2,980,714</b>
<b>Expenditures</b>			
Current:			
Instruction	1,805,770	-	1,805,770
Support services:			
Pupil	314,677	-	314,677
Instructional support	72,794	-	72,794
General administration	103,660	-	103,660
School administration	347,513	-	347,513
Business services	9,510	-	9,510
Operations and maintenance	469,197	-	469,197
Transportation	15,191	-	15,191
<b>Total support services</b>	<b>3,138,312</b>	<b>-</b>	<b>3,138,312</b>
Food services	-	207,600	207,600
Community services	7,313	-	7,313
<b>Total expenditures</b>	<b>3,145,625</b>	<b>207,600</b>	<b>3,353,225</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(206,890)</b>	<b>(165,621)</b>	<b>(372,511)</b>
<b>Net Change in Fund Balances</b>	<b>(206,890)</b>	<b>(165,621)</b>	<b>(372,511)</b>
Prior period adjustment	(8,138)	-	(8,138)
<b>Fund Balances - Beginning of Year</b>	<b>2,059,615</b>	<b>167,486</b>	<b>2,227,101</b>
<b>Fund Balances - End of Year</b>	<b>\$ 1,844,586</b>	<b>\$ 1,865</b>	<b>\$ 1,846,451</b>

See accompanying notes to financial statements

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

**Total Net Change in Fund Balances - Governmental Funds** \$ (372,511)

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

Some expenses are recorded in the statement of activities when incurred; they are not reported in the governmental funds until paid: (300,476)

Academy's proportionate share of pension expense

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(123,502)	
Capital outlay	<u>91,796</u>	<u>(31,706)</u>

**Change in Net Position of Governmental Activities** \$ (704,694)

See accompanying notes to financial statements

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Martin Luther King, Jr. Education Center Academy (the “Academy”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

**A. Reporting Entity**

Martin Luther King, Jr. Education Center Academy is a public school academy that provides instructional and support services to elementary school students from kindergarten to the eighth grades. The Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

The Academy renewed a five-year contract with Detroit Public School District to charter a public school academy on June 28, 2015, effective July 1, 2015 through June 30, 2020. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Detroit Public School District is the fiscal agent for the Academy and is responsible for overseeing the Academy’s compliance with the contract and all applicable laws. The Academy pays the Detroit Public School District 3 percent of State aid as an administrative fee. The total administrative fee paid through June 30, 2015 to the Detroit Public School District was approximately \$75,888.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy’s reporting entity, and which organizations are legally separate, component units of the Academy. Based on application of the criteria, the entity does not contain component units.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**B. District-Wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of Net Position and the statement of changes in Net Position) report information on all of the nonfiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational and capital requirements of a particular function.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

**District-Wide Statements**

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

The effect of the interfund activity has been substantially eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted State aid.

**Fund-Based Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law.

The Academy also receives revenue from the State of Michigan to administer certain categorical educational programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expected to be expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

The Academy reports the following major governmental fund:

***General Fund***

The General Fund is used to record the general operation of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Additionally, the Academy reports the following nonmajor governmental Food Services Fund. This fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes in the Academy's food service program. Any deficit generated by this activity is the responsibility of the General Fund.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**D. Assets, Liabilities, and Net Position or Equity**

**Deposits, Cash Equivalents, and Investments**

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired.

The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk are used as depositories.

The Academy is authorized by Michigan Compiled Laws, Section 129.91 to invest surplus monies in federally insured United States banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is also authorized to invest in bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

Investments are recorded at fair value, based on quoted market prices, or estimated fair value.

**Capital Assets**

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**D. Assets, Liabilities, and Net Position or Equity (Continued)**

**Capital Assets (Continued)**

or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have any infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Furniture and other equipment	5 – 10 years
Leasehold improvements	20 years

**Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

**Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of Net Position. In the fund financial statements, governmental fund types recognize bond proceeds, premiums and discounts, as well as issuance costs, during the current period.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**D. Assets, Liabilities, and Net Position or Equity (Continued)**

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data**

Comparative data is not included in the Academy's financial statements.

District-wide financial statements (statement of Net Position and statement of activities) prepared using full accrual accounting for all of the Academy's activities have been provided.

Capital assets of \$1,144,548 (net of depreciation of \$1,074,314) are currently recorded in the governmental activities column of the statement of Net Position.

The fund financial statements focus on major funds rather than fund types.

**Estimates**

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

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**D. Assets, Liabilities, and Net Position or Equity (Continued)**

**Budgetary Data**

The Academy is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (the Uniform Budgetary Act). The following is a summary of the requirements of the Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced.
3. The budgets must be amended when necessary.
4. Public hearings must be held before budget adoptions.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures must be authorized by a budget before being incurred.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Adoption of New Standard** – The GASB issued *GASB Statement No. 68, Accounting Financial Reporting for Pensions and GASB Statement No. 71, Pension Transaction for contributions Made Subsequent to the Measurement Date*. Statement No. 68 requires governments providing defined benefit pensions to recognize an actuarial calculation of their unfunded pension benefit obligation as a liability for the first time. The Net Pension Liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits of eligible retirees. Statement No. 71 is a clarification to GASB 68 requiring a government to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability and to restate the beginning net assets to reflect the adoption of GASB 68.

The statements enhance accountability and transparency through revised note disclosures and required supplementary information (RSI). In accordance with the statement, the Academy has reported a Net Pension Liability of approximately \$3,709,448 made subsequent to the September 30, 2014 measurement date as a change in accounting principal adjustment to Unrestricted Net Position as of July 1, 2014.

Unrestricted Net Position at June 30, 2014	\$3,403,356
Net Pension Liability	<u>(3,709,488)</u>
Unrestricted Net Position at June 30, 2014 as restated	\$ (306,092)

**Comparative Data** - Comparative Data is not included in the Academy's financial statements.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

The Academy formally adopted General Fund, and Special Revenue Funds (Food Services) budgets by function for the fiscal year ended June 30, 2015. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. No encumbrances were outstanding in the General Fund and Special Revenue Funds at June 30, 2015. During the current year, the budget was amended in a legally permissible manner.

The combined statement of revenues, expenditures and changes in fund balances – all governmental fund types is presented in conformity with generally accepted accounting principles. The combined statement of revenues, expenditures and changes in fund balances – budget and actual is presented on the same basis of accounting used in preparing the adopted budget.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority. The Academy has designated one bank for the deposit of its funds, and has not adopted any other formal investment policy.

The Academy's cash and investments are subject to custodial credit risk, which is examined in more detail below:

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

**Custodial Credit Risk of Bank Deposits** – Custodial credit risk is the risk that in the event of a bank failure, the Academy’s deposits may not be returned to it. The Academy evaluates its depositories and only those with an acceptable risk level are used for the Academy’s deposits. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

At year end, the Academy’s deposits and investments were reported in the basic financial statements as cash and cash equivalents of \$1,488,858.

The deposits of the Academy were reflected in the accounts of the financial institution at \$1,647,472 of which \$500,000 is covered by federal depository insurance.

**NOTE 4 - CAPITAL ASSETS**

Capital assets activity of the Academy’s governmental activities was as follows:

	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Disposals and Adjustments</b>	<b>Balance June 30, 2015</b>
Assets being depreciated:				
Building	\$ 910,000	\$ -		\$ 910,000
Leasehold improvements	701,092	65,000		766,092
Furniture and equipment	515,974	26,796		542,770
Subtotal	2,127,066	91,796	-	2,218,862
Less: accumulated depreciation	950,811	123,502		1,074,313
Net capital assets	<u>\$ 1,176,255</u>	<u>\$ (31,706)</u>	<u>\$ -</u>	<u>\$ 1,144,549</u>

Depreciation expense was not charged to specific activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 5 - RISK MANAGEMENT**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employees injuries (workers compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inceptions.

**NOTE 6 - RELATED PARTY TRANSACTIONS**

Certain Academy employees utilize a day care facility that is operated as a separate entity and managed by the Academy's Administrative Director. Payments to the day care center totaled \$5,000 for the year ended June 30, 2015.

**NOTE 7 - PENSION PLAN**

**Plan Description**

The Academy participates in the statewide Michigan Public School Employees' Retirement System(System) which is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan originally created under Public Act 1363 of 1945, re-codified and currently operating under the provisions of Public Act 300 of 1980, as amended. The System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan School Employees' Retirement Act.

The System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget.

**Benefit Provisions – Pension**

Benefit provisions of the defined benefit pension plan are established by State statute. Public Act 300 of 1980, as amended, established eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members. A DB member or Pension Plus hybrid plan member who leaves

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 7 - PENSION PLAN (Continued)**

Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their services through repayment of the refund upon satisfaction of certain requirements.

***Pension Reform 2010***

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus hybrid plan described above and a Defined Contribution (DC) plan that provides 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period to elect to opt out of the Pension Plus hybrid plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus hybrid plan. If they elect to opt out of the Pension Plus hybrid plan, their participation in the DC plan will be retroactive to their date of hire.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 7 - PENSION PLAN (Continued)**

***Member Contributions***

Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later, including Pension Plus plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic plan members make no contributions.

Under Public Act 300 of 2012, eligible members voluntarily choose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Members who elected to increase their level of contributions contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain 1.5% pension factor in their pension formula. Members who elected to maintain their level of contributions will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date.

***Employer Contributions***

The Academy is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts. For the period October 1 through September 30, the Academy pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees' Retirement System ("MPERS"), which is administered by the State of Michigan. The Academy's current year covered payroll for all amounted to \$1,428,577. These contributions are required by law and are calculated by using the contribution rates and periods provided in the table below of the employees' wages. The Academy's required and actual contributions to the plan for the years ended June 30, 2014 and 2015 were \$364,671 and \$536,725, respectively.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 7 - PENSION PLAN (Continued)**

	Basic MIP	Pension Plus	Pension Plus PHF First worked after 9/3/12	Pension DC with PHF First worked after 9/3/12	Basic MIP DB to DC with DB Health	Basic MP DB to DC with PHF	Basic MIP with PHF
<b><u>DB Contributions</u></b>							
Pension Normal Cost	2.90%	2.67%	2.67%	0.00%	0.00%	0.00%	2.90%
Pension UAL	14.08%	14.08%	14.08%	14.08%	14.08%	14.08%	14.08%
Pension Early Retirement Incentive	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
<b><i>Pension Contributions - Total Rate</i></b>	<b>18.34%</b>	<b>18.11%</b>	<b>18.11%</b>	<b>15.44%</b>	<b>15.44%</b>	<b>15.44%</b>	<b>18.34%</b>
Health Normal Cost	0.93%	0.93%	0.00%	0.00%	0.93%	0.00%	0.00%
Health UAL	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%
<b><i>Health Contributions - Total Rate</i></b>	<b>6.45%</b>	<b>6.45%</b>	<b>5.52%</b>	<b>5.52%</b>	<b>6.45%</b>	<b>5.52%</b>	<b>5.52%</b>
<b><i>Total</i></b>	<b>24.79%</b>	<b>24.56%</b>	<b>23.63%</b>	<b>20.96%</b>	<b>21.89%</b>	<b>20.96%</b>	<b>23.86%</b>
<b><u>DC Contributions</u></b>							
DC Employer Contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%
<b><i>Total</i></b>	<b>0.00%</b>	<b>1.00%</b>	<b>3.00%</b>	<b>5.00%</b>	<b>4.00%</b>	<b>6.00%</b>	<b>2.00%</b>

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 8 - OPERATING LEASE**

The Academy entered into a five year lease with Legacy Educational Enterprises for premises located at 16841 Appoline, Detroit, Michigan. The total annual rent for the period September 1, 2014 through September 1, 2015 is \$173,400, payable in \$14,450 monthly payments. The lease automatically renews unless either party gives a 30 day written notice to terminate. Rent expense for the year ended June 30, 2015 was \$173,400.

**NOTE 9 - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through October 30, 2015, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required

**REQUIRED SUPPLEMENTAL INFORMATION**

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variance Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
<b>Revenues</b>				
Local revenues	\$ 5,500	\$ 46,834	\$ 66,511	\$ 19,677
State program revenues	2,634,050	2,677,703	2,684,314	6,611
Federal program revenues	340,766	211,000	187,910	(23,090)
<b>Total revenues</b>	<b>2,980,316</b>	<b>2,935,537</b>	<b>2,938,735</b>	<b>3,198</b>
<b>Expenditures</b>				
Current				
Instruction	1,319,496	1,425,432	1,805,770	380,338
Supporting services				
Pupil	199,897	264,416	314,677	50,261
Instructional support	51,670	74,100	72,794	(1,306)
General administration	89,514	84,000	103,660	19,660
School administration	300,550	302,444	347,513	45,069
Business services	5,000	15,000	9,510	(5,490)
Operations and maintenance	428,740	360,000	469,197	109,197
Transportation	11,651	12,000	15,191	3,191
Community services	7,500	10,000	7,313	(2,687)
<b>Total expenditures</b>	<b>2,414,018</b>	<b>2,547,392</b>	<b>3,145,625</b>	<b>598,234</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>566,298</b>	<b>388,145</b>	<b>(206,890)</b>	<b>(595,035)</b>
<b>Other Financing Sources (Uses)</b>				
Prior period adjustment	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>566,298</b>	<b>388,145</b>	<b>(206,890)</b>	<b>(595,035)</b>
<b>Fund Balance - Beginning of year</b>	<b>2,059,615</b>	<b>2,059,615</b>	<b>2,059,615</b>	<b>-</b>
<b>Fund Balance - End of year</b>	<b>\$ 2,625,913</b>	<b>\$ 2,447,760</b>	<b>\$ 1,852,725</b>	<b>\$ (595,035)</b>

See accompanying notes to financial statements

**Required Supplemental Information**  
**Schedule of Martin Luther King, Jr. Education Center Academy's Contributions**  
**Michigan Public School Employee's Retirement System**  
**Determined as of the Year Ended June 30, 2015**

	2015
The Academy's proportionate share of net pension liability (as a %)	0.0001684084%
The Academy's proportionate share of net pension liability	4,009,924
School District's covered employee payroll	1,428,577
Statutorily required contribution	300,476
Actual Contributions paid in relation to the statutorily required contribution	536,725
Contributions as a percentage of covered employee payroll	0.375706035

See accompanying notes to financial statements.

**OTHER SUPPLEMENTAL INFORMATION**

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2015**

	<b>Food Services</b>
<b>Revenues</b>	
Local sources	\$ -
State sources	-
Federal sources	41,979
Total revenues	41,979
<b>Expenditures</b>	
Food services	207,600
Total expenditures	207,600
<b>Other Financing Sources</b>	
Operating transfers	-
<b>Excess of Revenues Over Expenditures and Other Financing Sources</b>	(165,621)
<b>Fund Balance - Beginning of year</b>	167,486
<b>Fund Balance - End of year</b>	\$ 1,865

See accompanying notes to financial statements

MARTIN LUTHER KING, JR. EDUCATION  
CENTER ACADEMY

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REPORT TO THE BOARD OF DIRECTORS

JUNE 30, 2015

# Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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3 PARKLANE BLVD. SUITE 612  
DEARBORN, MICHIGAN 48126  
313-982-4340 FAX 313-982-4342

LARRY WILKERSON, C.P.A.  
THOMAS E. WILKERSON, C.P.A.

To the Board of Directors  
Martin Luther King, Jr. Education Center Academy

We have recently completed our audit of the basic financial statements of Martin Luther King, Jr. Education Center Academy (the "Academy") as of and for the year ended June 30, 2015. In addition to our audit report, we are providing the following required audit communication, recommendations, and informational items which impact the Academy:

	<u>Page(s)</u>
<b>Results of the Audit</b>	<b>2-5</b>
<b>Recommendations</b>	<b>6</b>
<b>Informational Items</b>	<b>6-7</b>

We are grateful for the opportunity to be of service to Martin Luther King, Jr. Education Center Academy. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Wilkerson & Associate PC*

October 30, 2015

**Members: A.I.C.P.A. and M.A.C.P.A.**

To the Board of Directors  
Martin Luther King, Jr. Education Center Academy  
October 30, 2015

## **Results of the Audit**

We have audited the financial statements of Martin Luther King, Jr. Education Center Academy (the “Academy”) as of and for the year ended June 30, 2015 and have issued our report thereon dated October 30, 2015. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated March 2, 2015 our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all materials respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Academy. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the Academy’s financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Academy’s compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated October 30, 2015 regarding our consideration of the Academy’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

To the Board of Directors  
Martin Luther King, Jr. Education Center Academy  
October 30, 2015

We are also obligated to communicate certain matters related to our audit to those responsible for the governance of the Academy, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters during the preliminary audit phase.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Academy are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2015.

We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are in integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates included in this year's financial statements.

To the Board of Directors  
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The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statements disclosures are particularly sensitive because of their significance to financial statements users. There were no particularly sensitive disclosures included in the financial statements.

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such misstatements identified.

***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statement or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 30, 2015.

***Management Consultants with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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***Other Audit Findings or Issues***

In the normal course of our professional association with the Academy, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Academy, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Academy's auditors.

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the Academy's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such information is properly stated. However, we read the management's discussion and analysis and budgetary comparison schedule and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation in the financial statements.

In addition to the comments and recommendations in this letter, our observations and comments regarding the Academy's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on and audit of financial statements performed in accordance with *Government Auditing Standards*.

This information is intended solely for the use of the board of directors and management of Martin Luther King, Jr. Education Center Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Wilkerson & Associate PC*

Larry D. Wilkerson, CPA

To the Board of Directors  
Martin Luther King, Jr. Education Center Academy  
October 30, 2015

## Recommendations

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### MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY RECOMMENDATIONS

As a result of auditing standards required to be implemented last year, the audit continues to require a strong emphasis be placed on the Academy's internal controls systems. The primary goal of internal controls is to provide a reasonable (as opposed to absolute) protection to the Academy and its assets and financial information. During this year's audit process, we noted no items that required management to make changes; therefore, no recommendations are made for this year.

## Informational items

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### **New Rules Governing Management of Federal Programs**

In December 2013, the Office of Management and Budget (OMB) issued long-awaited reforms to the compliance requirements that must be followed by non-federal entities receiving federal funding. All schools receiving federal dollars will need to understand the changes made as a result of these reforms and may be required to make some changes to their internal procedures, processes, and controls.

These reforms impact three key areas of federal grants management:

1. **Audit Requirements** – For fiscal years beginning on or after January 1, 2015 (fiscal year ending June 30, 2016 for Michigan schools), the threshold for obtaining a federal awards audit will increase from the current threshold of \$500,000 of annual federal spending to \$750,000. There will also be significant changes to the criteria for qualifying as a low-risk auditee and a reduction in the number of major programs required to be tested for some districts.

The Academy has historically been below the new \$750,000 threshold. However, from time to time, depending upon the level of federal spending, the Academy may go above the audit requirement threshold and monitoring of federal program expenditures will be important to ensure compliance with the audit requirement.

2. **Cost Principles** – Effective December 26, 2014, the grant reforms related to cost principles go into effect. Not only were certain changes made to allowable costs under this new guidance, but there were significant changes in the area of time and effort reporting and indirect costs. The State of Michigan will have a significant impact on how these changes will be applied to Michigan schools, as they often have different requirements than the federal government in this area.
  
3. **Administrative Requirements** – Also effective December 26, 2014, non-federal entities receiving federal funding must adhere to new rules related to administering federal awards. Most notably, these requirements may impact the Academy’s procurement systems, including maintaining written conflict of interest policies and disclosures as well as updated grants management policies and procedures. The MDE has indicated that failure to adhere to these rules could result in the disqualification for participation in federal programs through the MDE. Please, note, these requirements are more stringent than those required under your federal program audit, which focuses on key controls versus overall process.