MARTIN LUTHER KING, JR.
EDUCATION CENTER ACADEMY

Financial Report
With Supplemental Information

June 30, 2016

MARTIN LUTHER KING, JR EDUCATION CENTER ACADEMY

CONTENTS

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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, 2016, 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, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles 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 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 29, 2016, 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 29, 2016

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, 2016, and have issued our report thereon dated October 29, 2016. 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.

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 29, 2016

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2016

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, 2016. 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, 2016. The Academy's financial position remains strong at June 30, 2016. Change in net Position for fiscal year ended June 30, 2016 was $69,487.

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

- **#1 Elementary And Middle School In The State & Mackinac A+**
    - Mackinac Center acknowledged MLKECA 'for outstanding achievement, as noted in the 2015 Elementary and Middle School Context and Performance Report Card…'

- **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.
- **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.

- 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, 2016:

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

	Governmental Activities
Assets	
Current and other assets	2,292,092

Capital assets - net of accumulated depreciation	965,250
Total assets	3,257,342
Deferred Outflows of Resources	
Related to pensions	722,899
Total Deferred Outflows of Resources	722,899
Liabilities	
Current liabilities	17,915
Accrued Expenses	65,109
Accrued Salaries	165,628
Net Pension Liability	4,360,588
Total liabilities	4,609,240
Deferred Inflows of Resources	
Related to pensions	133,606
Total Deferred Inflows of Resources	133,606
Net Position	
Invested in capital assets, net of related Debt	965,250
Unrestricted	(1,727,855)
Total Net Position	(762,605)

Net position at year-end was $(762,605). The School District's investment in capital assets, net of accumulated depreciation, was $965,205 The $(762,605) in unrestricted net assets represent the cumulative operating results for the year ended June 30, 2016 and all prior years.

Table 2 - Summary of the Statement of Activities

Revenues	
Program revenue	
Grants and categoricals	$ 422,092
General revenues	
State foundation allowance	3,278,269
Interest and Investment Earnings	23,979
Other Funds	6,397
Total revenues	3,730,737
Function/Program Expenses	
Instruction	2,131,100
Support Services	1,448,010

Food Services	132,969
Community Service	4,110
Depreciation	127,502
Total Expenses	3,843,691
Decrease in Net Assets	$ (112,964)

The Academy experienced a decrease in net position of $(112,964) due to depreciation expense.

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 charted by the Detroit Public Schools), collaborative efforts (with institutions such as University of Phoenix), 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, 2016

	Governmental activities
ASSETS:	
Cash and cash equivalents	$ 1,611,782
Receivables:	
Intergovernmental receivable	654,435
Inventories	-
Prepaid expenses	25,875
Capital assets not being depreciated	-
Capital assets, net of accumulated depreciation	965,250
TOTAL ASSETS	3,257,342
DEFERRED OUTFLOWS OF RESOURCES:	
Related to pensions	722,899
TOTAL DEFERRED OUTFLOWS OF RESOURCES	722,899
LIABILITIES:	
Accounts payable	17,915
Accrued salaries and related items	165,628
Due within one year	65,109
Net pension liability	4,360,588
TOTAL LIABILITIES	4,609,240
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	14,444
State aid funding for pension	119,162
TOTAL DEFERRED INFLOWS OF RESOURCES	133,606
NET POSITION:	
Net investment in capital assets	965,250
Unrestricted	(1,727,855)
TOTAL NET POSITION	$ (762,605)

See accompanying notes to financial statements

MARTIN LUTHER KING, JR EDUCATION CENTER ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Functions/programs	Expenses	Program revenues: Charges for services	Program revenues: Operating grants	Governmental activities: Net (expense) revenue and changes in net position
Governmental activities:				
Instruction	$ 2,182,895	$ -	$ 155,268	$ (2,027,627)
Support services	1,448,010	-	-	(1,448,010)
Food services	132,969	-	266,824	133,855
Community services	4,110	-	-	(4,110)
Interest on long-term debt	-	-	-	-
Unallocated depreciation	127,502	-	-	(127,502)
Total governmental activities	$ 3,895,486	$ -	$ 422,092	(3,473,394)
General revenues:				
State sources				3,278,269
Investment earnings				23,979
Intermediate sources				-
Other				6,387
Total general revenues				3,308,635
CHANGE IN NET POSITION				(164,759)
Prior Period Adjustment				51,795
NET POSITION, beginning of year	**RESTATED**			(649,641)
NET POSITION, end of year				$ (762,605)

See accompanying notes financial statements

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Total nonmajor funds	Total governmental funds
ASSETS			
ASSETS:			
Cash and cash equivalents	$ 1,476,061	$135,721	$1,611,782
Receivables:			
Intergovernmental receivable	654,435	-	654,435
Prepaid expenses	25,875	-	25,875
TOTAL ASSETS	$ 2,156,371	$ 135,721	$ 2,292,092
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable and Accrued Expense	$ 248,652	$ -	$ 248,652
TOTAL LIABILITIES	248,652	-	248,652

	General Fund	Total nonmajor funds	Total governmental funds
FUND BALANCES:			
Nonspendable:			
Inventories	$ -	$ -	$ -
Prepaid expenditures	25,875	-	25,875
Restricted for:			
Food service	-	135,721	135,721
Unassigned	1,881,844	-	1,881,844
TOTAL FUND BALANCES	$ 1,907,719	$ 135,721	$ 2,043,440
TOTAL LIABILITIES AND FUND BALANCES	$ 2,156,371 #	$ 135,721	$ 2,292,092

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total Fund Balances - Governmental Funds		$ 2,043,440
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred outflow of resources - related to pensions		722,899
Deferred inflows of resources - related to pensions		(14,444)
Deferred inflows of resources - related to state pension funding		(119,162)
Long Term Liabilities are not due and payable in the current period and, therefore are not reported as liabilities in the funds:		
Net Pension Liability		(4,360,588)
Capital assets used in governmental activities are not financial resources and, therefore, not reported as assets in governmental funds		
Cost of capital assets	$2,167,067	
Accumulated depreciation	(1,201,817)	965,250
Total net position - Governmental Activities		$ (762,605)

MARTIN LUTHER KING, JR EDUCATION CENTER ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General Fund	Total nonmajor funds	Total governmental funds
REVENUES:			
Local sources:			
Property taxes	$ -	$ -	$ -
Other	30,365	-	30,365
Total local sources	30,365	-	30,365
State sources	3,278,270	-	3,278,270
Federal sources	155,268	266,824	422,092
Incoming transfers and other	-	-	-
Total revenues	3,463,903	266,824	3,730,727
EXPENDITURES:			
Current:			
Instruction	2,000,445	-	2,000,445
Supporting services		-	-
Pupil Support Services	489,804		489,804
Instructional Support Services	41,410		41,410
General Administration	125,829		125,829
School Administration	274,432		274,432
Business Services	77,691		77,691
Operations and Maintenance	381,719		381,719
Central Support Servies	42,766		42,766
Transportation	14,359		14,359
Food service activities	-	132,968	132,968
Community service activities	4,110	-	4,110
Total expenditures	3,452,565	132,968	3,585,533
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	11,338	133,856	145,194
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
NET CHANGE IN FUND BALANCES	11,338	133,856	145,194
PRIOR PERIOD ADJUSTMENT	51,795		51,795
FUND BALANCES:			
Beginning of year	1,844,586	1,865	1,846,451
End of year	$ 1,907,719	$ 135,721	$ 2,043,440

See accompanying notes to financial statements

MARTIN LUTHER KING JR, EDUCATIONAL CENTER ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Net change in fund balances total governmental funds	$	196,989
Amounts reported for governmental activities in the statement of activities are different because:		
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		(127,502)
Capital outlay		-
Unrecovered cost on asset adjustment		(51,797)
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 the the governmental funds.		
Pension related items		(11,492)
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period.		
State aid funding for pension		(119,162)
Change in net position of governmental activities	$	(112,964)

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, 2016 to the Detroit Public School District was approximately $94,382.35.

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.

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.

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.

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 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.

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

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.

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 $965,250 (net of depreciation of $1,201,816) 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

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.

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, 2016. 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, 2016. 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:

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 $1,611,782.

The deposits of the Academy were reflected in the accounts of the financial institution at $1,772,960 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:

	Balance July 1, 2015	Additions	Disposals and Adjustments	Balance June 30, 2016
Assets being depreciated:				
Building	$ 910,000	$ -		$ 910,000
Leasehold improvements	766,092	-	25,000	741,092
Furniture and equipment	542,770	-	26,796	515,974
Subtotal	2,218,862	-	51,796	2,167,066
Less: accumulated depreciation	1,074,313	127,502		1,201,815
Net capital assets	$ 1,144,549	$ (127,502)	$ 51,796	$ 965,251

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

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 $2,860.50 for the year ended June 30, 2016.

NOTE 7 - NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at http://michigan.gov/mpsers-cafr.

Benefits Provided

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

Plan name	Plan Type	Plan status
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes 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.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% -7.0%.

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.

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

Regular Retirement (no reduction factor for age)

Eligibility - Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus (PPP) members, age 60 with 10 years of credited service.

Annual Amount - Total credited service as of the Transition Date times 1.5% of final average compensation.

Pension Plus

An amount determined by the member's election of Option 1, 2, 3, or 4 described below.

Option 1 - Credited Service after the Transition Date times 1.5% times FAC.

Option 2 - Credited Service after the Transition Date (until total service reaches 30 years) times 1.5% times FAC, PLUS Credited Service after the Transition Date and over 30 years times 1.25% times FAC.

Option 3 - Credited Service after the Transition Date times 1.25% times FAC.

Option 4 - None (Member will receive benefit through a Defined Contribution plan). As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Final Average Compensation (FAC) - Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the Transition Date.

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7%. Plan members electing the defined contribution plan are not required to make additional contributions.

Employer Contributions

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

March 10, 2015 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - September 30, 2016	14.56% - 18.95%

The District’s pension contributions for the year ended June 30, 2015 were equal to the required contribution total. Pension contributions were approximately $452,000, with $435,000 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (69.45% for pension and 30.55% for OPEB).

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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

Pension Liabilities

At June 30, 2015, the District reported a liability of $4,360,588 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2013 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2015 and 2014, the District's proportion was .01785 and .01665 percent.

MPSERS (Plan) Non-university employers:	September 30, 2015	September 30, 2014
Total pension liability	$ 66,312,041,902	$ 65,160,887,182
Plan fiduciary net position	$ 41,887,015,147	$ 43,134,384,072
Net pension liability	$ 24,425,026,755	$ 22,026,503,110
Proportionate share	0.01785	0.01665
Net Pension liability for the Academy	$ 4,360,588	$ 3,709,448

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

For the year ended June 30, 2015, the District recognized pension expense of approximately $305,000. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. These amounts have been recorded as a deferred outflow as of June 30, 2016.

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

At June 30, 2016, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of resources	Deferred (Inflows) of resources
Change in assumptions	$ 107,367	$ -
Net difference between projected and actual earnings on pension plan investments	22,257	-
Differences between expected and actual experience	-	(14,444)
Changes in proportion and difference between employer contributions and proportionate share of contributions	190,730	-
Reporting Unit's contributions subsequent to the measurement date	402,545	-
	$ 722,899	$ (14,444)

$402,545, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and (deferred inflows) of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,	Amount
2016	$ 63,565
2017	63,565
2018	57,744
2019	121,036

Actuarial Assumptions

Investment rate of return - 8.0% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

Salary increases - The rate of pay increase used for individual members is 3.5%.

Inflation - 2.5%

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Mortality assumptions - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2020 using projection scale AA for men and women were used.

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2014. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The long-term expected rate of return on pension plan investments - The rate was **8%** (**7%** Pension Plus Plan) net of investment and administrative expenses was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment category	Target allocation	Long-term expected real rate of return*
Domestic Equity Pools	28.00%	5.90%
Alternate Investment Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate and Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short Term Investment Pools	2.00%	0.00%
	100.00%	

*Long term rate of return does not include 2.1% inflation.

Discount rate - The discount rate used to measure the total pension liability was **8%** (**7%** for Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent (7% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Lower (7.0%)	Discount Rate (8.0%)	1% Higher (9.0%)
Reporting Unit's proportionate share of the net pension liability	$ 5,621,916	$ 4,360,588	$ 3,297,237

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2015 Comprehensive Annual Financial Report.

Payable to the Pension Plan - At year end the School District is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

Benefit Provisions - Other Postemployment
Introduction

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Concluded)

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

Employer Contributions

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election.

The District postemployment healthcare contributions to MPSERS for the years ended June 30, 2016, 2015 and 2014 were approximately $168,000, $160,000 and $92,000.

NOTE 8 – PRIOR PERIOD RESTATEMENT

In the prior year, the District implemented the following new pronouncements: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Due to the complex nature of the calculation required to the implement the pronouncements in the prior year a prior period restatement is required to correct the Academy's beginning net position balance.

The restatement of the beginning of the year net position is as follows:

	Governmental activities
Net position as previously stated July 1, 2015	$ (1,018,924)
Correction of prior year GASB Statements 68 and 71 implementation	
Net pension liability	300,476
Deferred outflows	478,888
Deferred inflows	(410,081)
Net position as restated July 1, 2015	$ (649,641)

NOTE 9 - 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, 2015 through August 1, 2016 is $158,950, 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, 2016 was $158,950.

NOTE 9- PRIOR PERIOD ADJUSTMENT

The prior period adjustment of $51,796 relates to fixed asset adjustment

NOTE 10 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 28, 2016 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, 2016

	Budgeted Amounts		Actual	Variances Over/(Under) Final
	Original	Final	(GAAP Basis)	to Actual
Revenues				
Local revenues	$ 1,350	$ 15,000	$ 30,365	$ 15,365
State program revenues	2,742,064	3,269,094	3,278,270	9,175
Federal program revenues	447,242	493,773	422,092	(71,680)
Total revenues	3,190,656	3,777,867	3,730,727	(47,140)
Expenditures				
Current				
Instruction	1,706,735	1,930,259	1,908,774	(21,485)
Added Needs	-	96,219	91,671	(4,548)
Supporting services				
Pupil	291,798	483,945	489,804	5,859
Instructional support	40,000	39,912	41,410	1,498
General administration	110,055	129,770	125,829	(3,941)
School administration	139,300	274,317	274,432	115
Business services	61,188	86,187	77,691	(8,496)
Operations and maintenance	356,271	373,548	381,719	8,172
Transportation	9,484	11,800	14,359	2,559
Central Support Services	32,790	31,179	42,766	11,587
Community services	7,500	5,500	4,110	(1,390)
Total expenditures	2,755,121	3,462,636	3,452,565	(10,071)
Excess (Deficiency) of Revenues Over Expenditures	435,536	315,231	278,162	(37,069)
Other Financing Sources (Uses)				
Prior period adjustment	-	-	51,796	51,796
Total other financing sources (uses)	-	-	51,796	51,796
Net Change in Fund Balance	435,536	315,231	329,958	14,727
Fund Balance - Beginning of year	1,852,725	1,852,725	1,852,725	-
Fund Balance - End of year	$ 2,288,261	$ 2,167,956	$ 2,182,683	$ 14,727

See accompanying notes to financial statements

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)

	2015	2014
Reporting unit's proportion of net pension liability (%)	0.01785%	0.01665%
Reporting unit's proportionate share of net pension liability	$4,360,588	$ 3,709,448
Reporting unit's covered-employee payroll	$1,450,230	$ 1,432,460
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	300.68%	258.96%
Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)

	2016	2015
Statutorily required contributions	$ 434,926	$ 362,324
Contributions in relation to statutorily required contributions	434,926	362,324
Contribution deficiency (excess)	$ -	$ -
Reporting unit's covered-employee payroll	$ 1,686,253	$ 1,428,577
Contributions as a percentage of covered-employee payroll	25.79%	25.36%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
SCHEDULE OF NET PENSION LIABILITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Changes of benefits terms: There were no changes of benefit terms in 2015.

Changes of assumptions: There were no changes of benefit assumptions in 2015.

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, 2016

	Food Services
Revenues	
Local sources	$ -
State sources	-
Federal sources	266,824
Total revenues	266,824
Expenditures	
Food Services	132,968
Total expenditures	132,968
Excess (Deficiency) of Revenues Over Expenditures	133,856
Net Change in Fund Balances	133,856
Prior period adjustment	-
Fund Balances - Beginning of Year	1,865
Fund Balances - End of Year	$ 135,721

See accompanying notes to financial statements

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY

REPORT TO THE BOARD OF DIRECTORS

JUNE 30, 2016

Wilkerson & Associate P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2016. In addition to our audit report, we are providing the following required audit communication, recommendations, and informational items which impact the Academy:

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 29, 2016

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 29, 2016

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, 2016 and have issued our report thereon dated October 29, 2016. 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, 2016 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 29, 2016 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.

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, 2016.

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.

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 29, 2016.

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.

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

Recommendations

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

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, 2016 (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 that those required under your federal program audit, which focuses on key controls versus overall process.

EARLY WARNING INDICATORS

Early Warning Legislation was enacted July 7, 2016 to address districts and Public School Academies with early warning indicators of financial stress. This legislation included five legislative bills that address any district or PSA with a general fund balance of less than 5% of the general fund revenue in either of the two most recent fiscal years. These schools are required to send budgetary assumptions to the Center for Educational Performance and Information (CEPI). The MDE and Department of Treasury analyze and review this information in an effort to make determinations of potential financial stress. The Office of State Aid and School Finance worked collaboratively with the Department of Treasury to help those districts identified as being in financial stress either through an administrative review conducted by the school district's ISD or the academy's authorizer or through increased reporting to the Department of Treasury. The goal is to prevent districts or academies from going into a budget deficit.