

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

**Financial Report
with Supplemental Information
June 30, 2013**

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY

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Wilkerson & Associate, P.C.

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INDEPENDENT AUDITOR'S REPORT

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

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, 2013, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Martin Luther King, Jr. Education Center Academy's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic 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, 2013 and the respective changes in financial position, where applicable, thereof for the year ended, in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis and budgetary comparison information are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Martin Luther King, Jr. Education Center Academy's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2013 on our consideration of Martin Luther King, Jr. Education Center Academy's internal control structure and our tests of its compliance with certain provision of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Wilkerson & Associate PC

October 2, 2013

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, 2013, and have issued our report thereon dated October 2, 2013. 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.

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

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.

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 2, 2013

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2013

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, 2013. 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, 2013. The Academy's financial position remains strong at June 30, 2013. Change in net Position for fiscal year ended June 30, 2013 was \$209,943. As will be noted later in this analysis, this can be attributed to continued tight control of expenditures and an increase in enrollment.

Statement of Net Position

The Statement of Net Position presents the financial position of the Academy at the end of the fiscal year and includes all assets and liabilities of the Academy. The difference between total assets and total liabilities, net position is one indicator of the current financial condition of the Academy while the change in Net Position is an indicator of how the overall condition has changed during the year.

The Academy's financial position at June 30, 2013 consists of assets of \$3,763,173 and liabilities of \$1,884. Net Position increased from \$3,621,833 at June 30, 2012 to \$3,763,173 at June 30, 2013.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2013

Statement of Activities

The Statement of Activities provides a snapshot of the results of operations for the Academy as a whole for the fiscal year 2013. The total cost of the Academy's governmental activities for the year was \$2,774,731. The vast majority of the Academy's activities were supported by its state foundation funding of \$2,648,000. Grants of \$291,866 for specific programs also contribute to the Academy's funding. For the twelve months ended June 30, 2013, the Academy realized a \$209,943 increase in net position. This year's increase in Net Position was a result of successful cost control measures.

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 Marygrove College), 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, 2013

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,940,354
Due from other governmental units	530,146
Prepaid expenses	500
Capital assets, net of accumulated depreciation	<u>1,292,173</u>
Total assets	3,763,173
Deferred Outflows of Resources	
Liabilities	
Accounts payable	<u>1,884</u>
Total liabilities	1,884
Deferred Inflows of Resources	
	-
Net Position	
Invested in capital assets, net of related debt	1,292,173
Unrestricted	<u>2,469,116</u>
Total net position	<u><u>\$ 3,761,289</u></u>

See accompanying notes to financial statements

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

<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>
Governmental Activities				
Governmental activities:				
Instruction	\$ 1,467,404	\$ -	\$ 157,708	\$ (1,309,696)
Support services	1,019,214	-	-	(1,019,214)
Food services	153,311	-	134,158	(19,153)
Community services	12,328	-	-	(12,328)
Depreciation (unallocated)	122,474	-	-	(122,474)
Total governmental activities	<u>\$ 2,774,731</u>	<u>\$ -</u>	<u>\$ 291,866</u>	(2,482,865)
General revenues				
				2,648,000
				5,596
				<u>39,212</u>
				2,692,808
				<u>209,943</u>
				3,551,346
				<u>\$ 3,761,289</u>

See accompanying notes to financial statements

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

ASSETS

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Cash	\$ 1,940,354	\$ -	\$ 1,940,354
Due from other governmental units	530,146	-	530,146
Due from other funds	-	140,910	
Prepaid expense	500	-	500
Total assets	\$ 2,471,000	\$ 140,910	\$ 2,611,910

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	1,884	-	1,884
Due to other funds	140,910	-	140,910
Total liabilities	142,794	-	142,794

Fund Balances

Non-Spendable Fund Balance:

Prepaid assets	500	-	500
Unassigned fund balance	2,327,706	140,910	2,468,616
Total fund balances	2,328,206	140,910	2,469,116

**Total liabilities and fund
balances**

	\$ 2,471,000	\$ 140,910	\$ 2,611,910
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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, 2013**

Total Fund Balances - Governmental Funds	\$ 2,469,116
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, not reported as assets in governmental funds

Cost of capital assets	\$ 2,119,482	
Accumulated depreciation	<u>(827,309)</u>	<u>1,292,173</u>

Total net position - Governmental Activities	<u><u>\$ 3,761,289</u></u>
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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, 2013**

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Local sources	\$ 44,808	\$ -	\$ 44,808
State sources	2,648,000	-	2,648,000
Federal sources	157,708	134,158	291,866
	<hr/>	<hr/>	<hr/>
Total revenues	2,850,516	134,158	2,984,674
Expenditures			
Current:			
Instruction	1,537,594	-	1,537,594
Support services:			
Pupil	266,033	-	266,033
Instructional support	44,210	-	44,210
General administration	111,096	-	111,096
School administration	348,226	-	348,226
Business services	7,619	-	7,619
Operations and maintenance	269,243	-	269,243
Transportation	14,009	-	14,009
	<hr/>	<hr/>	<hr/>
Total support services	2,598,030	-	2,598,030
Food services	-	153,311	153,311
Community services	12,328	-	12,328
	<hr/>	<hr/>	<hr/>
Total expenditures	2,610,358	153,311	2,763,669
Excess (Deficiency) of Revenues Over Expenditures	<hr/>	<hr/>	<hr/>
	240,158	(19,153)	221,005
Net Change in Fund Balances	240,158	(19,153)	221,005
Fund Balances - Beginning of Year	<hr/>	<hr/>	<hr/>
	2,088,048	160,063	2,248,111
Fund Balances - End of Year	<hr/>	<hr/>	<hr/>
	\$ 2,328,206	\$ 140,910	\$ 2,469,116

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, 2013**

Total Net Change in Fund Balances - Governmental Funds \$ 221,005

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	(122,474)	
Capital outlay	<u>111,412</u>	<u>(11,062)</u>

Change in Net Position of Governmental Activities \$ 209,943

See accompanying notes to financial statements

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 entered into a five-year contract with Detroit Public School District to charter a public school academy on June 28, 2010, effective July 1, 2010 through June 30, 2015.. 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, 2013 to the Detroit Public School District was approximately \$75,638.

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, 2013

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, 2013

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, 2013

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.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013

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, 2013

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 \$1,292,173 (net of depreciation of \$827,309) 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, 2013

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.

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, 2013. 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, 2013. 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.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 \$1,940,354.

The deposits of the Academy were reflected in the accounts of the financial institution at \$2,303,447 of which \$500,000 is covered by federal depository insurance.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2012	Additions	Disposals and Adjustments	Balance June 30, 2013
Assets being depreciated:				
Building	\$ 910,000	\$ -		\$ 910,000
Leasehold improvements	701,092	-		701,092
Furniture and equipment	396,978	111,412		508,390
Subtotal	2,008,070	111,412	-	2,119,482
Less: accumulated depreciation	704,835	122,474		827,309
Net capital assets	<u>\$ 1,303,235</u>	<u>\$ (11,062)</u>	<u>\$ -</u>	<u>\$ 1,292,173</u>

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 inception.

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 \$12,000 for the year ended June 30, 2013.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7 - PENSION PLAN

Plan Description

The Academy has a defined benefit pension plan covering substantially all employees. The plan is operated by the State of Michigan's Public School Employees Retirement System (MPERS), which is a cost-sharing public employee retirement system (PERS).

The pension plan provides retirement, survivor and disability benefits. A member may retire after reaching the age of 55 with 30 or more years of credited services or at 60 with 10 or more years of credited service.

A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service; or, at age 60 with 10 years of credited services, or at age 60 with 5 years of credited services, provided the member has worked through his or her 60th birthday and has credited service in each of the five school fiscal years immediately preceding the pension effective date.

Benefits vest after 10 years of service.

There is no mandatory retirement age.

Employees who retire after reaching the above mentioned requirements are entitled to 1½ percent of their final average compensation multiplied by the number of years of credited service.

The PERS permits early retirement at the completion of 15 years of service. The amount is reduced by one-half of a percent for each full and partial month between the retirement allowance effective date and the date the member attains age 60.

Pension provisions include deferred allowances whereby an employee may terminate employment with school districts after accumulating 10 years of service.

Pension provisions include death and disability benefits. A disabled employee is entitled to full benefits whereas a surviving spouse is entitled to reduced benefits.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7 - PENSION PLAN (Continued)

The Academy's current year covered payroll for all employees amounted to \$1,289,691.

The plan also provides health, dental and vision benefits for its retirees. Obligations related thereto are included in Part C Funding Status and Progress.

Contributions Required and Made

MIP members hired prior to January 1, 1990 contribute 3.9% of their gross wages to the retirement system. Members hired after January 1, 1990 contribute to the plan at a graduated rate of their gross wages.

If an employee leaves MPSERS services and no pension is payable, the employee's accumulated contributions plus interest, if any, are refundable.

The Academy is required to contribute at an actuarially determined rate. The required employer contribution rates for pensions for the fiscal year ended September 30, 2011 was 20.66% of covered payroll for employees that worked before July 1, 2010 and 24.46% at June 30, 2012. For those employees that worked after July 1, 2010 the rate was 19.16% and 23.23% at June 30, 2012. The contribution rates on member's wages paid between February 1, 2013 and September 30, 2013 are 23.39%. Total contributions made for the year ended June 30, 2013 amounted to \$342,050. The contribution requirements of the Academy are established by the State of Michigan statutes and may be amended only by action of the State of Michigan Legislature.

Funding Statutes and Progress

The amount of the total pension benefit obligation is based on a standardized measurement established by Governmental Accounting Standards Board (GASB) No. 5 that, with some exceptions, must be used by PERS. The standardized measurement is the actuarial present value of credited projected benefits.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7 - PENSION PLAN (Continued)

The pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date, and is adjusted for the effects of projected salary increases. A standardized measure of the pension benefits obligation is adopted by the GASB to enable readers of PERS financial statements to (a) assess the PERS funding status on a going-concern basis, (b) assess progress made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among PERS. Based on this measurement including health insurance liability, the system is 100% funded. The pension benefit obligation for the Academy could not be obtained and, therefore, is not presented here.

NOTE 8- OPERATING LEASE

The Academy entered into a five year lease with Legacy Educational Enterprises for premises located at 16841 James Couzens, Detroit, Michigan. The total annual rent is \$42,000, payable in \$3,500 monthly payments. The lease automatically renews unless either party gives a 30 day written notice to terminate.

NOTE 9 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 2, 2013, 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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
Revenues				
Local revenues	\$ 10,000	\$ 20,620	\$ 44,808	\$ 24,188
State program revenues	2,785,548	2,648,000	2,648,000	-
Federal program revenues	354,960	461,666	157,708	(303,958)
Total revenues	3,150,508	3,130,286	2,850,516	(279,770)
Expenditures				
Current				
Instruction	1,391,458	1,537,602	1,537,594	(8)
Supporting services				
Pupil	162,600	266,033	266,033	-
Instructional support	40,000	44,210	44,210	-
General administration	102,226	111,096	111,096	-
School administration	364,588	348,226	348,226	-
Business services	9,230	7,619	7,619	-
Operations and maintenance	284,950	269,232	269,243	11
Transportation	14,865	13,584	14,009	425
Community services	7,000	12,328	12,328	-
Total expenditures	2,376,917	2,609,930	2,610,358	428
Excess (Deficiency) of Revenues Over Expenditures	773,591	520,356	240,158	(280,198)
Other Financing Sources (Uses)				
Operating transfers - in (out)	-	-	-	-
Total other financing sources (uses)	2,088,048	2,088,048	2,088,048	-
Net Change in Fund Balance	2,861,639	2,608,404	2,328,206	(280,198)
Fund Balance - Beginning of year	2,088,048	2,088,048	2,088,048	-
Fund Balance - End of year	\$ 4,949,687	\$ 4,696,452	\$ 4,416,254	\$ (280,198)

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, 2013**

	Food Services
Revenues	
Local sources	\$ -
State sources	134,158
Federal sources	-
Total revenues	134,158
Expenditures	
Food services	153,311
Total expenditures	153,311
Other Financing Sources	
Operating transfers	-
Excess of Revenues Over Expenditures and Other Financing Sources	(19,153)
Fund Balance - Beginning of year	160,063
Fund Balance - End of year	\$ 140,910

See accompanying notes to financial statements