

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

**Financial Report
With Supplemental Information**

June 30, 2017

MARTIN LUTHER KING, JR EDUCATION CENTER ACADEMY

CONTENTS

FINANCIAL STATEMENTS

Independent auditor's report	1 - 2
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	3 - 4
Management's discussion and analysis	5 - 9

BASIC FINANCIAL STATEMENTS

District-wide financial statements:	
Statement of net position	10
Statement of activities	11
Fund financial statements:	
Governmental funds:	
Balance sheet	12
Reconciliation of the governmental funds balance to the statement of net position	13
Statement of revenues, expenditures, and changes in fund balances	14
Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the statement of activities	15
Notes to financial statements	16 - 35

REQUIRED SUPPLEMENTAL INFORMATION

Budgetary comparison schedule - general fund	36
Gasb 68- Supplementary information	37 - 39

OTHER SUPPLEMENTAL INFORMATION

Special Revenue Funds:	
Combining statement of revenues, expenditures, and changes in fund balance	40

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.

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, 2017, 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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles accepted in the United States of America.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Martin Luther King, Jr. Education Center Academy's basic financial statements. The nonmajor funds combining statement of revenues, expenditures, and changes in fund balances – special revenue funds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The nonmajor funds combining statement of revenues, expenditures, and changes in fund balances, statement of revenue and expenditures – budget and actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applies in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the nonmajor funds combining statement of revenues, expenditures, and changes in fund balances, statement of revenue and expenditures – budget and actual are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2017, 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 24, 2017

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.

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, 2017, and have issued our report thereon dated October 24, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

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

Wilkerson & Associate PC

October 24, 2017

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2017

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, 2017. 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, 2017. The Academy's financial position remains strong at June 30, 2017. Change in net Position for fiscal year ended June 30, 2017 was \$479,719.

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

- **Top Ranking M-STEP 2017 Results/ DPSCD Charter Portfolio**
- **Top School/DPSCD 2015-2016 Annual Report**
- **2015 elementary/middle school context and performance report card grade A. Mackinac Center for Public Policy**
- **Academic State Champs For Academic Excellence In 2014**
 - Bridge Online Magazine recognized MLKECA as Academic State Champs: MLKECA had the highest MEAP Scores state wide, among schools with a high poverty level.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2017

- **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.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
MANAGEMENT’S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2017

- 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, 2017:

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

	Governmental Activities
Assets	
Current and other assets	2,773,507
Capital assets - net of accumulated depreciation	837,748
Total assets	3,611,256
 Deferred Outflows of Resources	
Related to pensions	895,004
Total Deferred Outflows of Resources	895,004
 Liabilities	

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2017

Current liabilities	63,520
Accrued Expenses	38,115
Accrued Salaries	21,210
Net Pension Liability	4,671,118
Total liabilities	<u>4,793,964</u>

Deferred Inflows of Resources

Related to pensions	161,041
Total Deferred Inflows of Resources	<u>161,041</u>

Net Position

Invested in capital assets, net of related Debt	837,748
Unrestricted	(1,286,493)
Total Net Position	<u><u>(448,745)</u></u>

Net position at year-end was \$(448,745). The School District's investment in capital assets, net of accumulated depreciation, was \$837,748. The \$(448,745) in unrestricted net assets represent the cumulative operating results for the year ended June 30, 2017 and all prior years.

Table 2 - Summary of the Statement of Activities

Revenues

Program revenue	
Grants and categoricals	\$ 397,306
General revenues	
State foundation allowance	3,471,574
Interest and Investment Earnings	24,022
Other Funds	4,414
	<u>4,414</u>
Total revenues	3,897,316

Function/Program Expenses

Instruction	2,017,894
Support Services	1,239,111
Food Services	194,251
Community Service	4,699
Depreciation	127,502
	<u>127,502</u>
Total Expenses	3,583,456

Increase in Net Assets	<u><u>\$ 313,860</u></u>
-------------------------------	--------------------------

The Academy experienced an increase in net assets of \$313,860

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2017

General Fund Budget Highlights

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

Economic Factors That Will Affect The Future

The Academy's history of sound fiscal management ensures its ability to maintain the competitive edge needed for survival in today's unstable educational market. The Academy continues an aggressive approach to providing quality education for Detroit's children by upgrading and expanding its facilities and programs. The Academy's history of educational excellence (30 years as an educational institution), pioneering spirit (one of the first schools chartered by the Detroit Public Schools), collaborative efforts (which institutions such as Wayne State University, Michigan State University, and The University of Michigan), 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, 2017

	Governmental activities
ASSETS:	
Cash and cash equivalents	\$ 2,024,260
Receivables:	
Accounts receivable	-
Intergovernmental receivable	726,326
Inventories	-
Prepaid expenses	22,922
Capital assets not being depreciated	-
Capital assets, net of accumulated depreciation	837,748
TOTAL ASSETS	3,611,256
DEFERRED OUTFLOWS OF RESOURCES:	
Related to pensions	895,004
TOTAL DEFERRED OUTFLOWS OF RESOURCES	895,004
LIABILITIES:	
Accounts payable and other accrued expenses	122,846
Net pension liability	4,671,118
TOTAL LIABILITIES	4,793,964
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	11,071
State aid funding for pension	149,970
TOTAL DEFERRED INFLOWS OF RESOURCES	161,041
NET POSITION:	
Net investment in capital assets	837,748
Unrestricted	(1,286,493)
TOTAL NET POSITION	\$ (448,745)

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

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net position</u>
Governmental activities:				
Instruction	\$ 2,048,702	\$ -	\$ 223,558	\$ (1,825,144)
Support services	1,239,111	-	-	(1,239,111)
Food services	194,251	-	173,748	(20,503)
Community services	4,699	-	-	(4,699)
Interest on long-term debt	-	-	-	-
Unallocated depreciation	127,502	-	-	(127,502)
Total governmental activities	<u>\$ 3,614,264</u>	<u>\$ -</u>	<u>\$ 397,306</u>	<u>(3,216,958)</u>
General revenues:				
State sources				3,502,382
Investment earnings				24,022
Intermediate sources				-
Other				4,414
Total general revenues				<u>3,530,818</u>
CHANGE IN NET POSITION				313,860
NET POSITION, beginning of year				<u>(762,605)</u>
NET POSITION, end of year				<u>\$ (448,745)</u>

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

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General Fund	Total nonmajor funds	Total governmental funds
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 1,906,408	\$ 117,852	\$ 2,024,260
Intergovernmental receivable	726,326	-	726,326
Prepaid expenses	22,922	-	22,922
TOTAL ASSETS	\$ 2,655,656	\$ 117,852	\$ 2,773,508
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable and other accrued expenses	\$ 122,846	\$ -	\$ 122,846
TOTAL LIABILITIES	122,846	-	122,846
FUND BALANCES			
FUND BALANCES:			
Nonspendable:			
Inventories	\$ -	\$ -	\$ -
Prepaid expenditures	22,922	-	22,922
Restricted for:			
Food service	-	117,852	117,852
Unassigned	2,509,888	-	2,509,888
TOTAL FUND BALANCES	2,532,810	117,852	2,650,662
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,655,656	\$ 117,852	\$ 2,773,508
Total governmental fund balances			

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

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Total Fund Balances - Governmental Funds \$ 2,650,662

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

Deferred outflow of resources - related to pensions	895,004
Deferred inflows of resources - related to pensions	(11,071)
Deferred inflows of resources - related to state pension funding	(149,970)

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	(4,671,118)
-----------------------	-------------

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	<u>(1,329,320)</u>	<u>837,748</u>

Total net position - Governmental Activities \$ (448,745)

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General Fund	Total nonmajor funds	Total governmental funds
REVENUES:			
Local sources:			
Other	\$ -	\$ -	\$ -
Total local sources	28,436	-	28,436
State sources	3,502,382	-	3,502,382
Federal sources	223,558	173,748	397,306
Incoming transfers and other	-	-	-
Total revenues	3,754,376	173,748	3,928,124
EXPENDITURES:			
Current:			
Instruction	1,935,971	-	1,935,971
Supporting services	1,188,804	-	1,188,804
Food service activities	-	191,617	191,617
Community service activities	4,510	-	4,510
Total expenditures	3,129,285	191,617	3,320,902
EXPENDITURES (Concluded):			
Debt service:			
Principal repayment	\$ -	\$ -	\$ -
Interest	-	-	-
Bond issuance costs	-	-	-
Other	-	-	-
Total expenditures	3,129,285	191,617	3,320,902
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			
	625,091	(17,869)	607,222
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
NET CHANGE IN FUND BALANCES			
	625,091	(17,869)	607,222
FUND BALANCES:			
Beginning of year	1,907,719	135,721	2,043,440
End of year	\$ 2,532,810	\$ 117,852	\$ 2,650,662

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

**MARTIN LUTHER KING, JR. EDUCATION 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, 2017**

Net change in fund balances total governmental funds	\$	607,222
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 disposal		-
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		(135,052)
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		(30,808)
Change in net position of governmental activities	\$	<u>313,860</u>

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 \$99,753.51.

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, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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 \$837,748) 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, 2017

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, 2017. 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, 2017. 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, 2017

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 \$2,024,260.

The deposits of the Academy were reflected in the accounts of the financial institution at \$2,024,260 of which \$500,000 is covered by federal depository insurance.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2016	Additions	Disposals and Adjustments	Balance June 30, 2017
Assets being depreciated:				
Building	\$ 910,000	\$ -		\$ 910,000
Leasehold improvements	741,092	-	-	741,092
Furniture and equipment	515,974	-	-	515,974
Subtotal	2,167,066	-	-	2,167,066
Less: accumulated depreciation	1,201,815	127,502		1,329,317
Net capital assets	<u>\$ 965,251</u>	<u>\$ (127,502)</u>	<u>\$ -</u>	<u>\$ 837,749</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 \$2,495.30 for the year ended June 30, 2017.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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>.

The system is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management and Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

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:

<u>Plan name</u>	<u>Plan Type</u>	<u>Plan status</u>
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. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act

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%.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

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 (MPERS) who became a member of MPERS 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.

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, any age 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.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

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.

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

Employers 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. The unfunded (overfunded) actuarial accrued liability as of September 30, 2016 valuation will be amortized over a 20-year period for fiscal year 2016.

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:

October 1, 2015 - September 30, 2016	14.56% - 18.95%
October 1, 2016 - September 30, 2017	15.27% - 19.03%

The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately \$390,000. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (72.88% for pension and 27.12% for OPEB).

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017, the District reported a liability of \$4,671,118 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 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, 2016 and 2015, the District's proportion was .01872 and .01785 percent.

<u>MPERS (Plan) Non-university employers:</u>	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Total pension liability	\$ 67,917,445,078	\$ 66,312,041,902
Plan fiduciary net position	\$ 42,968,263,308	\$ 41,887,015,147
Net pension liability	\$ 24,949,181,770	\$ 24,425,026,755
Proportionate share	0.01872%	0.01785%
Net Pension liability for the District	\$ 4,671,118	\$ 4,360,588

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

For the year ended June 30, 2017, the District recognized pension expense of approximately \$525,000.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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

At June 30, 2017, 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	\$ 73,029	\$ -
Net difference between projected and actual earnings on pension plan investments	77,634	-
Differences between expected and actual experience	58,214	(11,071)
Changes in proportion and difference between employer contributions and proportionate share of contributions	301,607	-
Reporting Unit's contributions subsequent to the measurement date	384,520	-
	<u>\$ 895,004</u>	<u>\$ (11,071)</u>

\$384,520, 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, 2017.

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

<u>Year ended September 30,</u>	<u>Amount</u>
2017	\$ 132,837
2018	126,732
2019	193,817
2020	46,027

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 - 3.0%

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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

Mortality assumptions - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2025 using projection scale BB for men and women were used.

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2015. 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 asset allocation at September 30, 2016, and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment category</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return*</u>
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%
	<u>100.00%</u>	

*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 discount rate did not change from the prior measurement date. 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.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

**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	\$ 6,015,224	\$ 4,671,118	\$ 3,537,907

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 2016 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.

Other Information

Discount Rate - Assumed Rate of Return

On February 23, 2017, in accordance with PA 300 of 1980, as amended, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8% to 7.5% effective for the fiscal year 2016 valuation and following.

The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions and the net pension liability will increase as a result of lowering the assumed investment rate of return.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2017

Senate Bill 401 amends the Public School Employees Retirement Act (PA 300 of 1980, as amended).

The bill closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but contains a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan would equal 6%. Further, the bill provides, under certain conditions, that the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The bill includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

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.

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.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Concluded)

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 February 1, 2013.

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% to 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 September 30, 2016 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2017 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 \$147,000, \$168,000 and \$160,000.

NOTE 8 - OPERATING LEASE

The Academy entered into a five year lease with Legacy Educational Enterprises for premises located at 16841 Appoline, Detroit, Michigan. The total annual rent for the period September 1, 2016 through August 1, 2017 is \$282,389, payable in 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, 2017 was \$282,389.

NOTE 9 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 24, 2017 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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variance Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
Revenues				
Local revenues	\$ 8,775	\$ 6,299	\$ 28,436	\$ 22,137
State program revenues	3,125,502	3,502,383	3,502,382	(1)
Federal program revenues	206,206	193,326	223,558	30,232
Total revenues	3,340,483	3,702,008	3,754,376	52,368
Expenditures				
Current				
Instruction	1,964,786	1,930,259	1,847,408	(82,851)
Added Needs	-	96,219	88,563	(7,656)
Supporting services				
Pupil	327,255	483,945	222,444	(261,501)
Instructional support	109,188	39,912	37,694	(2,218)
General administration	105,973	129,770	111,989	(17,780)
School administration	154,282	274,317	193,742	(80,575)
Business services	91,025	86,187	85,590	(598)
Operations and maintenance	470,899	373,548	497,287	123,739
Transportation	6,834	11,800	4,395	(7,405)
Central Support Services	35,826	31,179	35,663	4,484
Community services	4,500	5,500	4,510	(990)
Total expenditures	3,270,568	3,462,636	3,129,285	(333,351)
Excess (Deficiency) of Revenues Over Expenditures	69,915	239,372	625,091	385,719
Other Financing Sources (Uses)				
Prior period adjustment	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net Change in Fund Balance	69,915	239,372	625,091	385,719
Fund Balance - Beginning of year	2,043,440	2,043,440	2,043,440	-
Fund Balance - End of year	\$ 2,113,355	\$ 2,282,812	\$ 2,668,531	\$ 385,719

See accompanying notes to financial statements

REQUIRED SUPPLEMENTARY INFORMATION

**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)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.01872%	0.01785%	0.01665%
Reporting unit's proportionate share of net pension liability	\$ 4,671,118	\$ 4,360,588	\$ 3,709,448
Reporting unit's covered-employee payroll	\$ 1,655,467	\$ 1,450,230	\$ 1,432,460
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	282.16%	300.68%	258.96%
Plan fiduciary net position as a percentage of total pension liability	63.27%	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)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 390,021	\$ 434,926	\$ 362,324
Contributions in relation to statutorily required contributions	<u>390,021</u>	<u>434,926</u>	<u>362,324</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 1,546,946	\$ 1,686,253	\$ 1,428,577
Contributions as a percentage of covered-employee payroll	25.21%	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
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)**

Changes of benefits terms: There were no changes of benefit terms in 2016.

Changes of assumptions: There were no changes of benefit assumptions in 2016.

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, 2017**

	Food Services
Revenues	
Local sources	\$ -
State sources	-
Federal sources	173,747
	173,747
Total revenues	173,747
 Expenditures	
Food Services	191,617
	191,617
Total expenditures	191,617
 Excess (Deficiency) of Revenues Over Expenditures	(17,870)
 Net Change in Fund Balances	(17,870)
Prior period adjustment	-
 Fund Balances - Beginning of Year	135,721
 Fund Balances - End of Year	\$ 117,851

See accompanying notes to financial statements

MARTIN LUTHER KING, JR. EDUCATION
CENTER ACADEMY
REPORT TO THE BOARD OF DIRECTORS

JUNE 30, 2017

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, 2017. In addition to our audit report, we are providing the following required audit communication, recommendations, and informational items which impact the Academy:

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

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 24, 2017

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

To the Board of Directors
Martin Luther King, Jr. Education Center Academy
October 24, 2017

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, 2017 and have issued our report thereon dated October 24, 2017. 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 February 28, 2017, 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 material 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 24, 2017 regarding our consideration of the Academy’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

To the Board of Directors
Martin Luther King, Jr. Education Center Academy
October 24, 2017

We are also obligated to communicate certain matters related to our audit of 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 1 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, 2017.

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

To the Board of Directors
Martin Luther King, Jr. Education Center Academy
October 24, 2017

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statements disclosures are particularly sensitive because of their significance to financial statement 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 as of the date of the audit report.

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 consultant 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.

To the Board of Directors
Martin Luther King, Jr. Education Center Academy
October 24, 2017

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 an audit of financial statements performed in accordance with *Government Auditing Standards*.

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

Very truly yours,

Wilkerson & Associate PC

Larry D. Wilkerson, CPA

To the Board of Directors
Martin Luther King, Jr. Education Center Academy
October 24, 2017

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 to be placed on the Academy's internal control 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

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY

Cybersecurity and data backup best practices

The Academy's data is critically important. There are thousands of ways data can be compromised. It is vitally important that all employees and staff have proper knowledge on what is safe to click on and what is not. It is equally important that a proper data backup solution is in place in the event a Academy's information is targeted by malware or a fraudulent email attack. A School's vital information is always a moment away from being compromised. Encouraging and educating all staff to pay attention to what they click on and what they do is the first step in keeping information safe.

Having a proper data backup solution in place can mean the difference between a Academy's surviving a cyber-attack or losing valuable data and time. Every School should know the answer to two questions when looking at data backup solutions.

To the Board of Directors
Martin Luther King, Jr. Education Center Academy
October 24, 2017

1. Does your School understand the difference between a backup and disaster recovery?

Management often assumes that simply backing up files is “good enough”. Backing up files is something all Schools should do. However, it’s important to remember that restoring files and emails is one thing, but recovering and restoring all School’s data in the event of a disaster is another.

2. How long can my School survive a network outage?

Many Schools assume that they are properly backing up their network but often are those backups tested. Internally managed backups are more susceptible to lack of testing. Management often believes they have successful backups but in the moment of a disaster, they find out that their last successful backup was months ago. Test backups often to make sure files can be recovered when needed.

EARLY WARNING INDICATORS

Early Warning Legislation was enacted July 7, 2015 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 Education 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.