

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

**Financial Report
With Supplemental Information**

June 30, 2019

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 - 40

REQUIRED SUPPLEMENTAL INFORMATION

Budgetary comparison schedule - general fund	41
Gasb 68- Supplementary information	42 - 46

OTHER SUPPLEMENTAL INFORMATION

Special Revenue Funds:	
Combining statement of revenues, expenditures, and changes in fund balance	47

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
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, 2019, 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, 2019, 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 25, 2019, 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 25, 2019

**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, 2019, and have issued our report thereon dated October 25, 2019. 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 25, 2019

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2019

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, 2019. 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, 2019. The Academy's financial position remains strong at June 30, 2019. Change in net Position for fiscal year ended June 30, 2019 was \$146,369.

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

- **Finalists- Charter School Administrator of the Year 2019**
- **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**

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2019

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

District Wide Financial Statements

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

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
MANAGEMENT’S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2019

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

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

Fund Financial Statements

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

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

As discussed above, the Statement of Net Assets provides information of the Academy as a whole. Table 1 provides a summary of the School District’s net assets as of June 30, 2019:

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

	<u>Governmental Activities</u>
Assets	
Current and other assets	3,550,719
Capital assets - net of accumulated depreciation	<u>610,912</u>
Total assets	4,161,632

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2019

Deferred Outflows of Resources	
Related to other post employment	239,278
Related to pensions	1,926,685
Total Deferred Outflows of Resources	2,215,963
 Liabilities	
Current liabilities and accrued expenses	93,380
Net other postemployment benefit liability	1,502,194
Net Pension Liability	5,622,264
Total liabilities	7,217,838
 Deferred Inflows of Resources	
Related to other postemployment benefit	344,324
Related to pensions	445,359
Related to state aid for pensions	209,475
Total Deferred Inflows of Resources	999,158
 Net Position	
Invested in capital assets, net of related Debt	610,912
Unrestricted	(2,450,313)
Total Net Position	(1,839,401)

Net position at year-end was \$(1,839,401). The School District's investment in capital assets, net of accumulated depreciation, was \$610,912. The \$(1,839,401) in unrestricted net assets represent the cumulative operating results for the year ended June 30, 2019, primarily due to the adoption of GASB 75 and a (2,140,429) restatement of net position as of July 1, 2017.

Table 2 - Summary of the Statement of Activities

Revenues	
Program revenue	
Grants and categoricals	\$ 278,505
General revenues	
State foundation allowance	3,685,452
Interest and Investment Earnings	33,888
Other Funds	18,206
Total revenues	4,016,051
 Function/Program Expenses	
Instruction	2,036,189
Support Services	1,454,328
Food Services	245,659
Community Service	3,187
Depreciation	130,319
Total Expenses	3,869,682
Increase in Net Assets	\$ 146,369

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2019

The Academy experienced an increase in net assets of \$146,369

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 through upgrading and expanding its facilities and programs. The Academy's forty year history of educational excellence, commitment to investing in children (our future), and pioneering spirit, evidenced as one of the first schools chartered by the Detroit Public Schools and the second DPS charter to be authorized by Grand Valley State University. GVSU, whose track record of professional development, fiscal incentives, including stipends for the school and teachers pursuing graduate education, will keep MLK poised towards a secure financial future. Collaborative teacher recruitment efforts with Eastern Michigan University, Wayne State University, Michigan State University, and The University of Michigan provide highly qualified teaching staff to continue our standard of academic excellence. 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, 2019**

	Governmental activities
ASSETS:	
Cash and cash equivalents	\$ 2,837,055
Receivables:	
Intergovernmental receivable	713,140
Inventories	-
Prepaid expenses	525
Capital assets not being depreciated	-
Capital assets, net of accumulated depreciation	610,912
TOTAL ASSETS	4,161,632
 DEFERRED OUTFLOWS OF RESOURCES:	
Related to other postemployment benefit	289,278
Related to pensions	1,926,685
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,215,963
 LIABILITIES:	
Accounts payable and other accrued expenses	93,380
Net other postemployment benefit liability	1,502,194
Net pension liability	5,622,264
TOTAL LIABILITIES	7,217,838
 DEFERRED INFLOWS OF RESOURCES:	
Related to other postemployment benefit	344,324
Related to pensions	445,359
Related to state aid funding for pensions	209,475
TOTAL DEFERRED INFLOWS OF RESOURCES	999,158
 NET POSITION:	
Net investment in capital assets	610,912
Unrestricted	(2,450,313)
TOTAL NET POSITION	\$ (1,839,401)

**MARTIN LUTHER KING, JR., EDUCATION CENTER ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

<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	\$ 2,036,189	\$ -	\$ 91,241	\$ (1,944,948)
Support services	1,454,328	-	-	(1,454,328)
Food services	245,659	-	187,264	(58,395)
Community services	3,187	-	-	(3,187)
Interest on long-term debt	-	-	-	-
Unallocated depreciation	<u>130,319</u>	<u>-</u>	<u>-</u>	<u>(130,319)</u>
 Total governmental activities	 <u>\$3,869,682</u>	 <u>\$ -</u>	 <u>\$ 278,505</u>	 <u>(3,591,177)</u>
 General revenues:				
State sources				3,685,452
Investment earnings				33,888
Other				<u>18,206</u>
Total general revenues				<u>3,737,546</u>
CHANGE IN NET POSITION				146,369
NET POSITION , beginning of year				<u>(1,985,770)</u>
NET POSITION , end of year				<u>\$ (1,839,401)</u>

**MARTIN LUTHER KING, JR., EDUCATION CENTER ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	General Fund	Total nonmajor funds	Total governmental funds
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 2,837,055	\$ -	\$ 2,837,055
Receivables:			
Intergovernmental receivable	713,140	-	713,140
Prepaid expenses	525	-	525
	\$ 3,550,720	\$ -	\$ 3,550,720
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable and other accrued expenses	\$ 93,380	\$ -	\$ 93,380
	93,380	-	93,380
FUND BALANCES:			
FUND BALANCES:			
Nonspendable:			
Inventories	\$ -	\$ -	\$ -
Prepaid expenditures	525	-	525
Restricted for:			
Food service	-	-	-
Unassigned	3,456,815	-	3,456,815
	3,457,340	-	3,457,340
TOTAL FUND BALANCES	3,457,340	-	3,457,340
TOTAL LIABILITIES			
AND FUND BALANCES	\$ 3,550,720	\$ -	\$ 3,550,720

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

Total Fund Balances - Governmental Funds \$ 3,457,340

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

Deferred outflow of resources - related to pensions	1,926,685
Deferred outflow of resources - related to other postemployment benefits	289,278
Deferred inflows of resources - related to other postemployment benefits	(344,324)
Deferred inflows of resources - related to pensions	(445,359)
Deferred inflows of resources - related to state pension funding	(209,475)

Long Term Liabilities are not due and payable in the current period and, therefore are not reported as liabilities in the funds:

Net other postemployment benefit liability	(1,502,194)
Net Pension Liability	(5,622,264)

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

Cost of capital assets	\$ 2,200,869	
Accumulated depreciation	(1,589,957)	610,912

Total net position - Governmental Activities \$ (1,839,401)

MARTIN LUTHER KING, JR., EDUCATION CENTER ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019

	<u>General Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
REVENUES:			
Local sources	52,094	-	52,094
State sources	3,701,615	-	3,701,615
Federal sources	<u>91,241</u>	<u>187,264</u>	<u>278,505</u>
Total revenues	<u>3,844,950</u>	<u>187,264</u>	<u>4,032,214</u>
EXPENDITURES:			
Current:			
Instruction	1,884,512	-	1,884,512
Supporting services	1,361,187	-	1,361,187
Food service activities	-	240,783	240,783
Community service activities	2,836	-	2,836
Other	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>3,248,535</u>	<u>240,783</u>	<u>3,489,318</u>
EXCESS (DEFICIENCY) OF REVENUES OVER			
(UNDER) EXPENDITURES			
	<u>596,415</u>	<u>(53,519)</u>	<u>542,896</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	31,137	31,137
Transfers out	<u>(31,137)</u>	<u>-</u>	<u>(31,137)</u>
Total other financing sources (uses)	<u>(31,137)</u>	<u>31,137</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	565,278	(22,382)	542,896
FUND BALANCES:			
Beginning of year	<u>2,892,062</u>	<u>22,382</u>	<u>2,914,444</u>
End of year	<u>\$ 3,457,340</u>	<u>\$ -</u>	<u>\$ 3,457,340</u>

**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, 2019**

Net change in fund balances total governmental funds	\$	542,896
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		(130,319)
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 governmental funds.		
Other postemployment benefits related items		43,779
Pension related items		(293,823)
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.		
Change in state aid funding for pension		<u>(16,164)</u>
Change in net position of governmental activities	\$	<u><u>146,369</u></u>

MARTIN LUTHER KING, JR EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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 a seven-year contract with Grand Valley State University, to charter a public-school academy, on July 1, 2018, effective July 1, 2018 through June 30, 2025. The total administrative fee paid through June 30, 2019 to the Grand Valley State University was approximately \$93,236.76. 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. Grand Valley State University 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 will pay Grand Valley State University 3 percent of State aid as an administrative fee.

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, 2019

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, 2019

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, 2019

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, 2019

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, 2019

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, 2019

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 \$741,231 (net of depreciation of \$610,913) 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, 2019

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, 2019. 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, 2019. 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, 2019

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 \$2,837,055.

The deposits of the Academy were reflected in the accounts of the financial institution at \$2,837,055 of which \$500,000 is covered by federal depository insurance.

MARTIN LUTHER KING, JR EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2018	Additions	Disposals and Adjustments	Balance June 30, 2019
Assets being depreciated:				
Building	\$ 910,000	\$ -		\$ 910,000
Leasehold improvements	741,092	-	-	741,092
Furniture and equipment	549,777	-	-	549,777
Subtotal	2,200,869	-	-	2,200,869
Less: accumulated depreciation	1,459,637	130,319		1,589,956
Net capital assets	<u>\$ 741,232</u>	<u>\$ (130,319)</u>	<u>\$ -</u>	<u>\$ 610,913</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.

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

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) 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 www.michigan.gov/ors schools.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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

Benefits Provided - Overall

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the 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	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefits Provided - Pension

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.

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

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Benefits Provided - Pension (Concluded)

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

Pension Reform 2010

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

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.

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

Option 1 - Members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

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

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2012 (Concluded)

Option 2 - Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 - Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 - Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

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 for Basic Plan members and Pension Plus members (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.

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

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation 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 containing 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 is 6%. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Benefits Provided - Other Postemployment Benefit (OPEB)

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, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, 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.

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.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)
Retiree Healthcare Reform of 2012 (Concluded)

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.

Regular Retirement (no reduction factor for age)

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

Annual Amount - The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7% for pension and 0% - 3% for other postemployment benefits. 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 Postemployment 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.

For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of September 30, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Employer Contributions (Concluded)

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:

	Pension	Other postemployment benefit
October 1, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%
October 1, 2018 - September 30, 2019	13.39% - 19.59%	7.57% - 7.93%

The Academy's pension contributions for the year ended June 30, 2019 were equal to the required contribution total. Pension contributions were approximately \$511,000, with \$506,000 specifically for the Defined Benefit Plan.

The Academy's OPEB contributions for the year ended June 30, 2019 were equal to the required contribution total. OPEB benefits were approximately \$141,000, all of which was specifically for the Defined Benefit Plan.

These amounts, for both pension and OPEB benefit, include contributions funded from State Revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (100% for pension and 0% for OPEB).

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6 - RETIREMENT 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, 2019, the Academy reported a liability of \$5,622,264 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The Academy'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, 2018 and 2017, the Academy's proportion was 0.01870% and 0.01878%.

<u>MPERS (Plan) Non-university employers:</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Total pension liability	\$ 79,863,694,444	\$ 72,407,218,688
Plan fiduciary net position	\$ 49,801,889,205	\$ 46,492,967,573
Net pension liability	\$ 30,061,805,239	\$ 25,914,251,115
Proportionate share	0.01870%	0.01878%
Net Pension liability for the District	\$ 5,622,264	\$ 4,867,935

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

For the year ended June 30, 2019, the Academy recognized pension expense of approximately \$800,000.

At June 30, 2019, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of resources</u>	<u>Deferred (Inflows) of resources</u>
Change in assumptions	\$ 1,302,112	\$ -
Net difference between projected and actual earnings on pension plan investments	-	(384,420)
Differences between expected and actual experience	26,088	(40,856)
Changes in proportion and difference between employer contributions and proportionate share of contributions	123,946	(20,083)
Reporting Unit's contributions subsequent to the measurement date	474,539	-
	<u>\$ 1,926,685</u>	<u>\$ (445,359)</u>

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 - 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 (Concluded)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Concluded)

\$474,539, reported as deferred outflows of resources related to pensions resulting from Academy employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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>
2019	\$ 447,859
2020	300,171
2021	185,664
2022	73,093

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB Liabilities

At June 30, 2019, the Academy reported a liability of \$1,502,194 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2017 and rolled-forward using generally accepted actuarial procedures. The Academy's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2018 and 2017, the Academy's proportion was 0.01890% and 0.01897%.

<u>MPERS (Plan) Non-university employers:</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Total OPEB liability	\$ 13,932,170,264	\$ 13,920,945,991
Plan fiduciary net position	\$ 2,983,218,473	\$ 5,065,474,948
Net OPEB liability	\$ 10,948,951,791	\$ 8,855,471,043
Proportionate share	0.01890%	0.01897%
Net OPEB liability for the District	\$ 1,502,194	\$ 1,680,116

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Concluded)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Concluded)

For the year ended June 30, 2019, the Academy recognized OPEB expense of \$98,000.

At June 30, 2019, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of resources	Deferred (Inflows) of resources
Change in assumptions	\$ 159,083	\$ -
Net difference between projected and actual earnings on pension plan investments	-	(57,733)
Differences between expected and actual experience	-	(279,597)
Changes in proportion and difference between employer contributions and proportionate share of contributions	2,956	(6,994)
Reporting Unit's contributions subsequent to the measurement date	127,239	-
	<u>\$ 289,278</u>	<u>\$ (344,324)</u>

\$127,239, reported as deferred outflows of resources related to OPEB resulting from Academy employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

<u>Year ended September 30,</u>	<u>Amount</u>
2019	\$ (44,689)
2020	(44,689)
2021	(44,689)
2022	(33,354)
2023	(14,864)

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions

Investment rate of return for pension - 7.05% 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).

Investment rate of return for OPEB - 7.15% a year, compounded annually net of investment and administrative expenses.

Salary increases - The rate of pay increase used for individual members is 2.75%.

Inflation - 3.0%.

Mortality assumptions:

Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Active: RP-2014 Male and Female Employee Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Disabled Retirees: RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2017. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liability beginning with the September 30, 2017 valuation.

The long-term expected rate of return on pension and other postemployment benefit plan investments - The pension rate was 7.05% (7% Pension Plus Plan), and the other postemployment benefit rate was 7.15%, net of investment and administrative expenses was determined using a building block 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.

Cost of living pension adjustments - 3.0% annual non-compounded for MIP members.

Healthcare cost trend rate for other postemployment benefit - 7.5% for year one and graded to 3.0% in year twelve.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)
Actuarial Assumptions (Continued)

Additional assumptions for other postemployment benefit only - applies to individuals hired before September 4, 2012:

Opt Out Assumption - 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.

Survivor Coverage - 80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death.

Coverage Election at Retirement - 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

The target asset allocation at September 30, 2018 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%	5.70%
Private Equity Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	0.50%
Real Estate and Infrastructure Pools	10.00%	3.90%
Absolute Return Pools	15.50%	5.20%
Short Term Investment Pools	2.00%	0.00%
	<u>100.00%</u>	

* Long term rate of return are net of administrative expenses and 2.3% inflation.

Pension discount rate - A single discount rate of 7.05% was used to measure the total pension liability (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.05% (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 Plan). The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. 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 plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (Concluded)

OPEB discount rate - A single discount rate of 7.15% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.15%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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 a single discount rate of 7.05% (7.00% for the Pension Plus Plan and 6.00% for the Pension Plus 2 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:

	Pension		
	1% Decrease	Discount rate	1% Increase
Reporting Unit's proportionate share of the net pension liability	\$ 7,381,598	\$ 5,622,264	\$ 4,160,543

Sensitivity of the net OPEB liability to changes in the discount rate - The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using a single discount rate of 7.15%, as well as what the Reporting Unit's proportionate share of the net OPEB 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:

	Other postemployment benefit		
	1% Decrease	Discount rate	1% Increase
Reporting Unit's proportionate share of the net OPEB liability	\$ 1,803,354	\$ 1,502,194	\$ 1,248,883

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (Concluded)

Sensitivity to the net OPEB liability to changes in the healthcare cost trend rates - The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.0%), as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other postemployment benefit		
	1% Decrease	Healthcare cost trend rates	1% Increase
Reporting Unit's proportionate share of the net OPEB liability	<u>\$ 1,235,538</u>	<u>\$ 1,502,194</u>	<u>\$ 1,808,103</u>

Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2018 Comprehensive Annual Financial Report.

Payable to the pension and OPEB plan - At year end the School District is current on all required pension and other postemployment benefit 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 from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 - NEW ACCOUNTING STANDARD

For the year ended June 30, 2019, the District implemented the following new pronouncement: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Summary:

GASB Statement No. 75 requires governments that participate in defined benefit Other Postemployment Benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

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, 2018 through August 1, 2019 is \$268,141, 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, 2019 was \$268,141.

NOTE 9 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 10, 2019 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 SUPPLEMENTARY INFORMATION

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Over/(Under)
	Original	Final		Final to Actual
Revenues				
Local revenues	\$ 20,000	\$ 30,000	\$ 52,094	\$ 22,094
State program revenues	3,711,143	3,698,344	3,701,616	3,272
Federal program revenues	429,738	419,500	278,505	(140,995)
Total revenues	4,160,881	4,147,844	4,032,215	(115,630)
Expenditures				
Current				
Instruction	2,321,500	2,019,347	1,803,406	(215,941)
Added Needs	-	169,981	81,106	(88,875)
Supporting services				
Pupil	183,906	150,148	139,422	(10,726)
Instructional support	134,122	134,622	21,593	(113,029)
General administration	119,500	89,286	110,894	21,608
School administration	228,290	276,696	279,466	2,770
Business services	216,343	233,271	231,840	(1,431)
Operations and maintenance	518,175	518,075	535,603	17,527
Transportation	3,275	5,500	6,026	526
Central Support Services	35,546	35,546	36,344	798
Community services	2,700	2,700	2,700	-
Total expenditures	3,763,357	3,635,172	3,248,400	(386,772)
Excess (Deficiency) of Revenues Over Expenditures	397,524	512,673	783,815	271,142
Other Financing Sources (Uses)				
Prior period adjustment	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net Change in Fund Balance	397,524	512,673	783,815	271,142
Fund Balance - Beginning of year	3,192,754	3,192,754	3,192,754	-
Fund Balance - End of year	\$ 3,590,278	\$ 3,705,427	\$ 3,976,569	\$ 271,142

See accompanying notes to financial statements

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.01870%	0.01878%	0.01872%	0.01785%	0.01665%
Reporting unit's proportionate share of net pension liability	5,622,264	4,867,935	\$ 4,671,118	\$ 4,360,588	\$ 3,709,448
Reporting unit's covered-employee payroll	\$ 1,652,244	\$ 1,571,252	\$ 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	340.28%	309.81%	282.16%	300.68%	258.96%
Plan fiduciary net position as a percentage of total pension liability	62.36%	64.21%	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 PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED JUNE 30)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 505,727	\$ 504,661	\$ 390,021	\$ 434,926	\$ 362,324
Contributions in relation to statutorily required contributions	<u>505,727</u>	<u>504,661</u>	<u>390,021</u>	<u>434,926</u>	<u>362,324</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 1,577,586	\$ 1,622,091	\$ 1,546,946	\$ 1,686,253	\$ 1,428,577
Contributions as a percentage of covered-employee payroll	32.06%	31.11%	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 PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)**

	2018	2017
Reporting unit's proportion of net OPEB liability (%)	0.01890%	0.01897%
Reporting unit's proportionate share of net OPEB liability	\$ 1,502,194	\$ 1,680,116
Reporting unit's covered-employee payroll	\$ 1,652,244	\$ 1,571,252
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	90.92%	106.93%
Plan fiduciary net position as a percentage of total OPEB liability	42.95%	36.39%

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 OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED JUNE 30)**

	<u>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 141,361	\$ 144,676
Contributions in relation to statutorily required contributions	<u>141,361</u>	<u>144,676</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 1,577,586	\$ 1,622,091
Contributions as a percentage of covered-employee payroll	8.96%	8.92%

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

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

Pension Information

Benefit changes - there were no changes of benefit terms in 2018.

Changes of assumptions - the assumption changes for 2018 were:

Wage inflation rate decreased to 2.75% from 3.50%.

Discount rate for MIP and Basic plans decreased to 7.05% from 7.50%.

Projected salary increases decreased to 2.75%-11.55%, including wage inflation at 2.75% from 3.50-12.30%, including wage inflation of 3.50%.

Mortality assumptions were updated to the RP-2014 Male and Female Healthy Annuitant table from the RP-2000 Combined Healthy Life Mortality table.

OPEB Information

Benefit changes - there were no changes of benefit terms in 2018.

Changes of assumptions - the assumption changes for 2018 were:

Wage inflation rate decreased to 2.75% from 3.50%.

Discount rate decreased to 7.15% from 7.50%.

Projected salary increases decreased to 2.75%-11.55%, including wage inflation at 2.75% from 3.50-12.30%, including wage inflation of 3.50%.

Healthcare cost trend rate decreased to 7.50% Year 1 graded to 3.00% Year 12 from 7.50% Year 1 graded to 3.50% Year 12.

Mortality assumptions were updated to the RP-2014 Male and Female Healthy Annuitant table from the RP-2000 Combined Healthy Life Mortality table.

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, 2019**

		Food Services
Revenues		
Local sources	\$	-
State sources		-
Federal sources		187,264
		187,264
Total revenues		187,264
Expenditures		
Food Services		240,783
		240,783
Total expenditures		240,783
Excess (Deficiency) of Revenues Over Expenditures		(53,519)
Net Change in Fund Balances		(53,519)
Prior period adjustment		-
Fund Balances - Beginning of Year		22,382
Fund Balances - End of Year	\$	(31,137)

See accompanying notes to financial statements

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

JUNE 30, 2019

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 of
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, 2019. 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 25, 2019

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 25, 2019

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, 2019 and have issued our report thereon dated October 25, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 1, 2019, 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 25, 2019 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 25, 2019

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, 2019.

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 25, 2019

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 25, 2019

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

Martin Luther King, Jr. Education Center Academy
October 25, 2019

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

October 25, 2019

GASB Statement No. 87 – Leases

This statement is effective for the first time in the School District's June 30, 2021 financial statements. The statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources based on payment provisions of the lease. The statement was issued to improve accounting and financial reporting for leases by governments. The statement establishes a single model for lease accounting for both lessees and lessors based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The School District will have to identify and analyze all significant lease contracts to determine the lease asset and lease liability or deferred inflow or outflow of resources that will be required to be recognized upon implementation of the standard.

Lessee Accounting under GASB 87

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the maximum lease term per the lease contract is 12 months or less, or it transfers ownership of the underlying asset. The lease liability is measured at the present value of lease payments expected to be made during the lease term (less any lease incentives). The right-to use asset is measured at the amount of initial measurement of the lease liability, plus any payments made to the lessor at or before commencement of the lease term and certain direct costs incurred to place the leased asset in service. The lessee should reduce the lease liability as payments are made and recognize an outflow of resources (i.e., expense) for interest on the liability. The lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

**MARTIN LUTHER KING, JR. EDUCATION CENTER ACADEMY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	<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	\$ 20,000	\$ 30,000	\$ 52,094	\$ 22,094
State program revenues	3,711,143	3,698,344	3,701,616	3,272
Federal program revenues	429,738	419,500	91,241	(328,259)
Total revenues	4,160,881	4,147,844	3,844,951	(302,894)
Expenditures				
Current				
Instruction	2,321,500	2,019,347	1,803,406	(215,941)
Added Needs	-	169,981	81,106	(88,875)
Supporting services				
Pupil	183,906	150,148	139,422	(10,726)
Instructional support	134,122	134,622	21,593	(113,029)
General administration	119,500	89,286	110,894	21,608
School administration	228,290	276,696	279,466	2,770
Business services	216,343	233,271	231,840	(1,431)
Operations and maintenance	518,175	518,075	535,603	17,527
Transportation	3,275	5,500	6,026	526
Central Support Services	35,546	35,546	36,344	798
Community services	2,700	2,700	2,836	136
Total expenditures	3,763,357	3,635,172	3,248,536	(386,636)
Excess (Deficiency) of Revenues Over Expenditures	397,524	512,673	596,415	83,742
Other Financing Sources (Uses)				
Operating Transfer Out	-	-	(31,137)	(31,137)
Total other financing sources (uses)	-	-	(31,137)	(31,137)
Net Change in Fund Balance	397,524	512,673	565,278	52,605
Fund Balance - Beginning of year	2,774,842	2,892,062	2,892,062	-
Fund Balance - End of year	\$ 3,172,366	\$ 3,404,735	\$ 3,457,340	\$ 52,605

See accompanying notes to financial statements