

**EL-HAJJ MALIK
EL-SHABAZZ ACADEMY**

**Financial Report
with Supplemental Information
and Single Audit Report
June 30, 2013**

EL-HAJJ MALIK EL-SHABAZZ ACADEMY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
El-Hajj Malik El-Shabazz Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of El-Hajj Malik El-Shabazz Academy as of and for the year ended June 30, 2013, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of El-Hajj Malik El-Shabazz Academy's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of El-Hajj Malik El-Shabazz Academy as of June 30, 2013 and the respective changes in financial position, where applicable, thereof for the year ended, in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors of
El-Hajj Malik El-Shabazz Academy

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2013 on our consideration of El-Hajj Malik El-Shabazz Academy's internal control structure and our tests of its compliance with certain provision of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Wilkinson & Associate PC

October 7, 2013

Wilkerson & Associate, P.C.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
El-Hajj Malik El-Shabazz Academy

We have audited the financial statements of El-Hajj Malik El-Shabazz Academy as of and for the year ended June 30, 2013, and have issued our report thereon dated October 7, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

El-Hajj Malik El-Shabazz Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered El-Hajj Malik El-Shabazz 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 El-Hajj Malik El-Shabazz Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of El-Hajj Malik El-Shabazz Academy's internal control over financial reporting.

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

To the Board of Directors of
El-Hajj Malik El-Shabazz Academy

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether El-Hajj Malik El-Shabazz 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 & Associates PC

October 7, 2013

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of El Hajj Malik El Shabazz Academy’s (Academy) annual financial report presents our discussion and analysis of the public school Academy’s financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section. In the future, comparative analysis will be provided when prior year information becomes available.

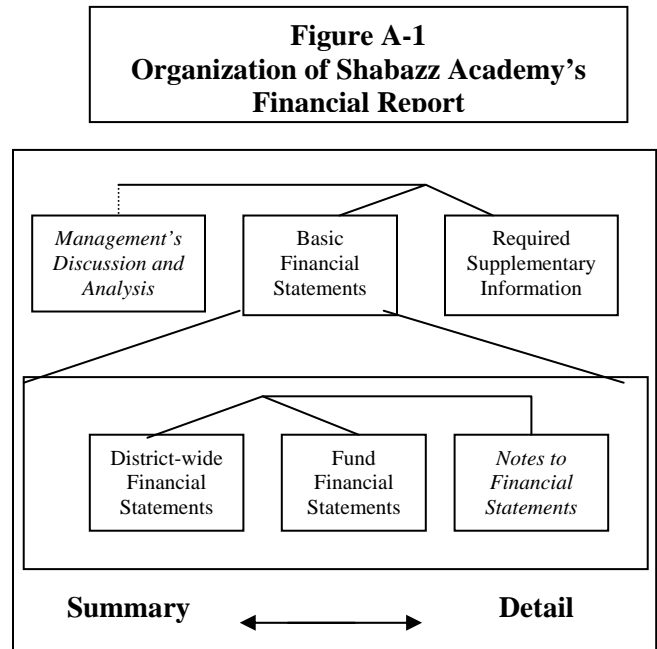
Financial Highlights

- The Academy revenues exceeded expenditures in the amount of \$112,203. The school has increased its fund balance from \$396,548 to \$508,751. This reflects improved management tools relative to monitoring the day-to-day operating expenses in a conservative manner by school administrators and the Board of Directors. After the increase in the fund balance, the level of the fund balance is considered to be adequate and within industrial standards.
- The academy currently has no threatening or pending litigation.
- The Academy retired \$63,394 in debt during the year.
- The Academy invested \$63,214 in capital assets during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy’s operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the Academy acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy’s budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-2 summarized the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A – 2 Major Features of the Academy-Wide and Fund Financial Statements

	Fund Financial Statements		
	Academy-wide statements	Governmental funds	Fiduciary funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary	Instances in which the academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

- Over time, increases or decreases in the Academy's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, one must consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, in addition to the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities – The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds – not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

- Some fund designations are required by State law.
- The Academy establishes other funds to control and manage money for particular purposes and to show that it is properly using certain revenues (ex: school lunch).

Academy has the following two fund categories:

- Governmental fund – Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps in determining whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, additional information with the governmental funds statement that explains the relationship (or differences) between them is provided.
- Fiduciary funds – The Academy is the fiduciary agent for assets that belong to others maintained in the student activities funds. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and are used by those to whom the assets belong. We exclude these activities from the academy-wide financial statements because the Academy cannot use these assets to finance its operations.

Financial analysis of the Academy as a whole

Net position (deficit) - the Academy's combined net position of \$1,120,167 showed an increase from the prior year \$925,719 which is primarily due to controlling excess spending in payroll area of the Academy.

See Figure A- 3.

Actual revenues for the fiscal year increased by \$152,495 from the original budget figure. This change is primarily due to increased enrollment, which led to funding increases from state school aide during the reporting period.

The total actual expenditures increased by \$136,197 from the original budget. This is a direct reflection of increased payroll expenses and building maintenance expenses for the school year. The payroll expenses were to accommodate the increases in student enrollment. The increase in maintenance expenses related directly to a major boiler repair that closed the school for a period of time.

The Academy's stable financial position is a result of many factors. A primary factor is the continued monitoring of costs by school administrators and the Board of Directors. It should be noted that Academy's Board recommended reporting changes that were implemented during the current fiscal year. These reporting changes were conveyed to the State of Michigan and Central Michigan University relative to the school's financial performance in the prior year.

Academy governmental activities

Figure A - 3		
Shabazz Academy's Net Position		
	2012	2013
Current assets	\$ 775,694	\$ 892,659
Capital assets, net	849,225	868,077
Total assets	\$1,624,919	\$1,760,736
Current liabilities	436,146	383,908
Long-term liabilities	263,053	256,660
Total liabilities	699,192	640,568
Net position (deficit):		
Invested in capital assets, net of related debt	529,171	611,416
Unrestricted	396,548	508,751
Total net position (deficit)	\$ 925,719	\$ 1,120,167

Figure A-4		
Changes in Shabazz Academy's Net Position		
	2012	2013
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 522,868	\$ 577,432
Charges for service - food service	1,605	-
General revenues:		
State aid - unrestricted	2,860,309	3,048,897
Investment	-	-
Other	31,740	32,551
Total general revenues	2,892,049	3,081,448
Total revenues	3,416,522	3,658,880
Expenses:		
Instruction	1,907,624	1,772,738
Support services	1,388,976	1,269,034
Community services	-	-
Food services	314,738	344,211
Interst on long-term debt	21,327	15,235
Unallocated depreciation	106,585	63,214
Total expenses	3,739,250	3,464,432
Change in net Position	\$ (322,728)	\$ 194,448

Financial analysis of the Academy's funds

The financial operation of the Academy is considered stable and its financial performance has improved significantly from the previous year. The fund balance showed an increase from the prior year because more attention was given to payroll related expenditures and new monthly reporting requirements were instituted. These requirements used a full accrual accounting method that better detailed the Academy's financial position. Reports provided on a monthly basis gave the Administration and the Board of Directors up-to-date financial information, which ultimately led to timely amendments to the budget and/or needed adjustments to the school's spending patterns.

The Academy's improved financial performance is a reflection of school administration and the Board's careful matching of grant funds to funding sources and having procedures in place that closely monitored those costs on a continued basis. This is also reflective in an improved cash position and better controls on general and administrative expenditures.

Capital asset and debt administration

Capital assets

By the end of the fiscal year, June 30, 2013, the Academy had invested \$868,077 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decline of (\$18,852) from the beginning of the year. Total depreciation expense for the year was \$63,214. More detailed information about capital assets can be found in Note 5 to the financial statements.

The Academy's capital assets are as follows:

	Cost	Accumulated Depreciation	Net Book Value
Technology	\$ 215,607	\$ 188,680	\$ 26,927
Furniture and fixtures	257,882	104,657	153,225
Buses	330,475	330,474	1
Land	-	-	-
Building	961,387	273,463	687,924
Total	<u>\$ 1,765,351</u>	<u>\$ 897,274</u>	<u>\$ 868,077</u>

Long-term debt

The Academy borrowed \$760,000 during the 2001 school year to purchase its current facility. The Academy increased its long-term debt obligation to \$947,818 for the purchase of three school busses in December of 2007. These busses were an upgrade to ensure the safety of the students traveling to and from the Academy. The Academy has a long-term debt balance of \$256,660 as of June 30, 2013. All payments have been made in accordance with the loan agreements.

Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future. Additionally, a substantial decline in the student enrollment for the fiscal year of 2013-14 appears evident. Newly instituted procedures related to budgeting and spending will mitigate any financial instability that may occur with this enrollment decline.

The 2013-2014 foundation allowance (state aid funding) from the State of Michigan is on stable yet declining ground. The legislature passed a state budget with a per pupil allowance of \$7,110 (or the approximate amount from the previous fiscal year). The State's financial situation appears to be improving; however it appears that future state aide will continue to decline or remain at its current level for the foreseeable future. The Academy continues to be considered in a stable position with fund balance levels that can withstand the economic challenges that face the Academy.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. Questions about this report or requests for additional information should be directed to the Academy's administrative office at 1028 W. Barnes Avenue, Lansing, Michigan, 48910. Phone (517) 267-8474.

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 220,112
Other receivables	
State aid	627,045
Federal	45,502
Capital assets, net of accumulated depreciation	<u>868,076</u>
Total assets	1,760,735
Deferred Outflows of Resources	
Liabilities	
Accounts payable	84,754
Accrued payroll and benefits	225,476
Note Payable	47,660
Other accrued liabilities	26,018
Long-term liabilities:	
Long-term liabilities, due within one year	35,800
Long-term liabilities, due after one year	<u>220,860</u>
Total liabilities	640,568
Deferred Inflows of Resources	
	-
Net Position	
Invested in capital assets, net of related debt	611,416
Unrestricted	<u>508,751</u>
Total net position	<u><u>\$ 1,120,167</u></u>

See accompanying notes to financial statements

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental</u> <u>Activities</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Net (Expenses)</u> <u>Revenues and</u> <u>Changes in</u> <u>Net Position</u>
Governmental Activities				
Instruction	\$ 1,772,738	\$ -	279,973	\$ (1,492,765)
Supporting services				
Instructional staff services	90,600	-	-	(90,600)
Pupil support services	112,260	-	-	(112,260)
General administration services	307,719	-	-	(307,719)
School administration services	96,812	-	-	(96,812)
Business services	80,360	-	-	(80,360)
Operations and maintenance	206,495	-	-	(206,495)
Pupil transportation	374,788	-	-	(374,788)
Food services	344,211	-	297,459	(46,752)
Depreciation (unallocated)	63,214	-	-	(63,214)
Other - loan interest payments	15,235	-	-	(15,235)
	<u>\$ 3,464,432</u>	<u>\$ -</u>	<u>\$ 577,432</u>	
				(2,887,000)
				General revenues
				State aid - formula grants
				Other revenue
				<u>3,048,897</u>
				<u>32,551</u>
				<u>3,081,448</u>
				Change in Net Position
				194,448
				Net Position - Beginning of year
				<u>925,719</u>
				Net Position - End of year
				<u>\$ 1,120,167</u>

See accompanying notes to financial statements

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	ASSETS		
	General Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 220,112	\$ -	\$ 220,112
Due from other governmental units	627,045	45,502	672,547
Due from other funds	<u>23</u>	<u>-</u>	<u>23</u>
Total assets	<u><u>\$ 847,180</u></u>	<u><u>\$ 45,502</u></u>	<u><u>\$ 892,682</u></u>

LIABILITIES AND FUND BALANCES

Liabilities			
Accounts payable	39,275	45,479	84,754
Notes payable	47,660	-	47,660
Accrued payroll and benefits	225,476	-	225,476
Due to other funds	-	23	23
Other accrued expenses	<u>26,018</u>	<u>-</u>	<u>26,018</u>
Total liabilities	338,429	45,502	383,931
Fund Balances			
Unrestricted fund balance:			
Unassigned fund balance	<u>508,751</u>	<u>-</u>	<u>508,751</u>
Total fund balances	<u>508,751</u>	<u>-</u>	<u>508,751</u>
Total liabilities and fund balances	<u><u>\$ 847,180</u></u>	<u><u>\$ 45,502</u></u>	<u><u>\$ 892,682</u></u>

See accompanying notes to financial statements

**EL-HAJJ MALIK EL-SHABAZZ ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balances - Governmental Funds \$ 508,751

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

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

Cost of capital assets	\$ 1,760,735	
Accumulated depreciation	(892,659)	868,076

Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:

Notes Payable		(256,660)
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Total Net Position - Governmental Activities \$ 1,120,167

See accompanying notes to financial statements

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Local sources	\$ 32,551	\$ -	\$ 32,551
State sources	3,048,897	8,494	3,057,391
Federal sources	279,973	288,965	568,938
Other financing sources	<u>-</u>	<u>46,752</u>	<u>46,752</u>
Total revenues	3,361,421	344,211	3,705,632
Expenditures			
Current			
Instructional services	1,802,656	-	1,802,656
Supporting service	1,278,103	-	1,278,103
Food services	-	344,211	344,211
Facilities acquisition	43,078	-	43,078
Long-term loan principal and interest payment	<u>78,629</u>	<u>-</u>	<u>78,629</u>
Total expenditures	<u>3,202,466</u>	<u>344,211</u>	<u>3,546,677</u>
Excess (Deficiency) of Revenues Over Expenditures	158,955	-	158,955
Other Financing Sources (Uses)			
Operating transfers - in	(46,752)	-	(46,752)
Operating transfers - out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(46,752)</u>	<u>-</u>	<u>(46,752)</u>
Net Change in Fund Balances	112,203	-	112,203
Fund Balances - Beginning of year	<u>396,548</u>	<u>-</u>	<u>396,548</u>
Fund Balances - End of year	<u>\$ 508,751</u>	<u>\$ -</u>	<u>\$ 508,751</u>

See accompanying notes to financial statements

**EL-HAJJ MALIK EL-SHABAZZ ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Total Net Change in Fund Balances - Governmental Funds \$ 112,203

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period:

Depreciation expense	(63,214)	
Capital outlays (furniture and equipment)	<u>82,065</u>	18,851

Repayment of principal on long-term debt are expenditures in the governmental funds, but not in the statement of activities where they are reductions of liabilities.

Repayment of long-term debt		<u>63,394</u>
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Change in Net Position of Governmental Activities \$ 194,448

See accompanying notes to financial statements

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of El-Hajj Malik El-Shabazz 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

El-Hajj Malik El-Shabazz Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

The Academy entered into an agreement with Central Michigan University to charter a public school academy, expiring in 2013. 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. The Central Michigan University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy’s compliance with the contract and all applicable laws. The Academy pays the Central Michigan University Board of Trustees 3 percent of State Aid as administrative fees. The total administrative fee paid through El-Hajj Malik El-Shabazz Academy to the Central Michigan University Board of Trustees was approximately \$74,527.

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.

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

B. District-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational and capital requirements of a particular function. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, although the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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

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. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 taxes and 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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

Fund Based Statements (Continued)

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.

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

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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

Fund Based Statements (Continued)

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 Special Revenue 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.

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.

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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

Deposits, Cash Equivalents, and Investments (Continued)

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 School District 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. Pooled investment income from the General Fund and various Debt Service Funds is allocated to each fund based upon the balance of the principal invested.

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 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.

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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

Capital Assets (Continued)

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

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 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. As of June 30, 2013, deferred revenue consists of grant and categorical aid payments for services prior to meeting spending restrictions.

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.

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.

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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

Comparative Data

Comparative data is not included in the School District'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 \$868,076 (net of depreciation of \$897,275), 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.

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 Fund.
2. The budgets must be balanced.
3. The budgets must be amended when necessary.

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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

Budgetary Data (Continued)

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 Fund (Food Services) budgets by function for the fiscal year ended June 30, 2013. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. No encumbrances were outstanding in the General Fund and Special Revenue Funds at June 30, 2013. During the current year, the budget was amended in a legally permissible manner.

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

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 - CASH 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, banker's 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'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 \$220,112.

The deposits of the Academy were reflected in the accounts of the financial institution at \$272,895, of which \$250,000 is covered by federal depository insurance.

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2013</u>
Assets being depreciated:				
Building and improvements	\$ 918,309	\$ 43,078	\$ -	\$ 961,387
Furniture and equipment	248,813	9,069	-	257,882
Buses	330,475	-	-	330,475
Technology	<u>185,689</u>	<u>29,918</u>	<u>-</u>	<u>215,607</u>
Subtotal	1,683,286	82,065	-	1,765,351
Accumulated depreciation:				
Building and improvements	250,816	22,648	-	273,464
Furniture and equipment	91,763	12,894	-	104,657
Buses	329,021	1,453	-	330,474
Technology	<u>162,461</u>	<u>26,219</u>	<u>-</u>	<u>188,680</u>
Subtotal	834,061	63,214	-	897,275
Net capital assets being depreciated	<u>849,225</u>	<u>18,851</u>	<u>-</u>	<u>868,076</u>
Net capital assets	<u>\$ 849,225</u>	<u>\$ 18,851</u>	<u>\$ -</u>	<u>\$ 868,076</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 - PENSION PLAN

Plan Description

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

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5 - PENSION PLAN (Continued)

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

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

Benefits vest after 10 years of service.

There is no mandatory retirement age.

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

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

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

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

The Academy's current year covered payroll for all employees amounted to \$1,551,290.

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

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5 - PENSION PLAN (Continued)

Contributions Required and Made

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

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

The Academy is required to contribute at an actuarially determined rate. The required employer contribution rates for pensions for the fiscal year ended September 30, 2013 was 24.46% of covered payroll. Total contributions made for the year ended June 30, 2013 amounted to \$336,945. The contribution requirements of the Academy are established by the State of Michigan statutes and may be amended only by action of the State of Michigan Legislature.

Funding Statutes and Progress

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

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

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 - LONG-TERM DEBT

On March 1, 2013, the Academy refinanced the long-term debt note with new monthly installments of \$5,057, including interest at an annual rate of 4.06%. The note is due in full on November 30, 2013. The note will be refinanced for with a term of note less than ten years at maturity

Future minimum payments on the note as of June 30, 2013 are as follows:

2012 - 2013	\$ 309,272
Less amount representing interest	<u>(52,615)</u>
	<u><u>\$ 256,657</u></u>

NOTE 7 - CONTRACTED SERVICES

The Academy entered into an agreement with the Unique Food Management, Inc. to have hot lunches provided to them. The Academy pays the Unique Food Management, Inc. \$2.16 per lunch, \$1.24 per breakfast, \$0.68 per snack. Total expense under this agreement amounted to \$248,135 for the year ended June 30, 2013.

NOTE 8 - SUBSEQUENT EVENT

On August 20, 2013, the Academy borrowed \$250,000 on a State Aid Participation Note from the Michigan Finance Authority. The note is payable at an annual interest rate of 2.800% and is due on August 20, 2014.

REQUIRED SUPPLEMENTAL INFORMATION

**EL-HAJJ MALIK EL-SHABAZZ ACADEMY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
Revenues				
Local revenues	\$ 61,000	\$ 42,010	\$ 32,551	\$ (9,459)
State program revenues	2,872,947	3,012,893	3,048,897	36,004
Federal program revenues	257,615	289,154	279,973	(9,181)
	<u>3,191,562</u>	<u>3,344,057</u>	<u>3,361,421</u>	<u>17,364</u>
Expenditures				
Current				
Instructional services	1,811,774	1,844,008	1,802,656	(41,352)
Supporting services	1,246,568	1,334,522	1,278,103	(56,419)
Loan principal and interest payment	94,815	89,824	78,629	(11,195)
Facilities Acquisition	23,000	44,000	43,078	(922)
	<u>3,176,157</u>	<u>3,312,354</u>	<u>3,202,466</u>	<u>(109,888)</u>
Excess (Deficiency) of Revenues Over Expenditures				
	15,405	31,703	158,955	(127,252)
Other Financing Sources (Uses)				
Operating transfers - out	(15,000)	(30,000)	(46,752)	16,752
	<u>(15,000)</u>	<u>(30,000)</u>	<u>(46,752)</u>	<u>16,752</u>
Net Change in Fund Balance				
	405	1,703	112,203	(110,500)
Fund Balance - Beginning of year				
	<u>396,548</u>	<u>396,548</u>	<u>396,548</u>	<u>-</u>
Fund Balance - End of year				
	<u>\$ 396,953</u>	<u>\$ 398,251</u>	<u>\$ 508,751</u>	<u>\$ (110,500)</u>

See accompanying notes to financial statements

OTHER SUPPLEMENTAL INFORMATION

**EL-HAJJ MALIK EL-SHABAZZ ACADEMY
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2013**

	Food Services
Revenues	
Local sources	\$ -
State sources	8,494
Federal sources	288,965
Other sources	46,752
Total revenues	344,211
Expenditures	
Food services	344,211
Total expenditures	344,211
Other Financing Sources	
Operating transfers	-
Excess of Revenues Over Expenditures and Other Financing Sources	
	-
Fund Balance - Beginning of year	-
Fund Balance - End of year	\$ -

See accompanying notes to financial statements

EL-HAJJ MALIK EL-SHABAZZ ACADEMY

SUPPLEMENTAL INFORMATION

SINGLE AUDIT REPORT

JUNE 30, 2013

SECTION A

**EL-HAJJ MALIK EL-SHABAZZ ACADEMY
SUPPLEMENTAL INFORMATION
SINGLE AUDIT REPORT**

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Wilkerson & Associate, P.C.

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
El-Hajj Malik El-Shabazz Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of El-Hajj Malik El-Shabazz Academy as of and for the year ended June 30, 2013, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of El-Hajj Malik El-Shabazz Academy's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of El-Hajj Malik El-Shabazz Academy as of June 30, 2013 and the respective changes in financial position, where applicable, thereof for the year ended, in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors of
El-Hajj Malik El-Shabazz Academy

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2013 on our consideration of El-Hajj Malik El-Shabazz Academy's internal control structure and our tests of its compliance with certain provision of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Wilkinson & Associate PC

October 7, 2013

Wilkerson & Associate, P.C.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
El-Hajj Malik El-Shabazz Academy

We have audited the financial statements of El-Hajj Malik El-Shabazz Academy as of and for the year ended June 30, 2013, and have issued our report thereon dated October 7, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

El-Hajj Malik El-Shabazz Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered El-Hajj Malik El-Shabazz 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 El-Hajj Malik El-Shabazz Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of El-Hajj Malik El-Shabazz Academy's internal control over financial reporting.

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

To the Board of Directors of
El-Hajj Malik El-Shabazz Academy

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether El-Hajj Malik El-Shabazz 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 & Associates PC

October 7, 2013

Wilkerson & Associate, P.C.

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
El-Hajj Malik El-Shabazz Academy

Compliance

We have audited El-Hajj Malik El-Shabazz Academy's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of El-Hajj Malik El-Shabazz Academy's major federal programs for the year ended June 30, 2013. El-Hajj Malik El-Shabazz Academy's federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questions costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of El-Hajj Malik El-Shabazz Academy's management. Our responsibility is to express an opinion on El-Hajj Malik El-Shabazz Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about El-Hajj Malik El-Shabazz Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of El-Hajj Malik El-Shabazz Academy's compliance with those requirements.

In our opinion, El-Hajj Malik El-Shabazz Academy complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013

To the Board of Directors of
El-Hajj Malik El-Shabazz Academy

Internal Control Over Compliance

Management of El-Hajj Malik El-Shabazz Academy is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered El-Hajj Malik El-Shabazz Academy's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular a-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of El-Hajj Malik El-Shabazz Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above

The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, Michigan Department of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wilkerson & Associate PC

October 7, 2013

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

PROGRAM /TITLE/PROJECT NUMBER SUBRECIPIENT NAME	CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	(MEMO ONLY) PRIOR YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE AT JULY 1, 2012	ADJUSTMENTS AND TRANSFERS	FEDERAL FUNDS/ PAYMENTS IN-KIND RECEIVED	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE AT JUNE 30, 2013
Clusters:								
Child Nutrition Cluster:								
U.S. Department of Agriculture - Passed through the Michigan Department of Education:								
Non-Cash Assistance (Commodities) -								
National School Lunch Program	10.555	\$ 12,765	\$ -	\$ -	\$ -	\$ 12,765	\$ 12,765	\$ -
Cash Assistance:								
National School Breakfast Program	10.553	93,579	6,179	6,179	-	82,523	93,579	17,235
National School Lunch Program	10.555	164,151	26,621	26,621	-	162,504	164,151	28,268
Child Care Food Program	10.558	18,470	-	-	-	18,470	18,470	-
ARRA - Equipment Assistance - Project No. 8249	10.579	-	-	(4,149)	4,149	-	-	-
Total Cash Assistance		<u>276,200</u>	<u>32,800</u>	<u>28,651</u>	<u>4,149</u>	<u>263,497</u>	<u>276,200</u>	<u>45,503</u>
Total Child Nutrition Cluster		288,965	32,800	28,651	4,149	276,262	288,965	45,503
Title I Cluster - U.S. Department of Education - Passed through the Michigan Department of Education - Title I, Part A:								
Project number 1011530 0111	84.010	268,006	46,000	46,000	-	244,003	268,006	70,003
Total Title I Cluster		<u>268,006</u>	<u>46,000</u>	<u>46,000</u>	<u>-</u>	<u>244,003</u>	<u>268,006</u>	<u>70,003</u>
Total Clusters		556,971	78,800	74,651	4,149	520,265	556,971	115,506
Other Federal Awards:								
U.S. Department of Education:								
Passed Through the Michigan Department of Education								
Title II Part A:								
Project number 100520 0111	84.367	7,300	9,000	9,000	-	9,000	7,300	7,300
Title III Part D:								
Project number 114295 1011	84.386	4,667	-	-	-	4,667	4,667	-
Total noncluster programs passed through Michigan Department of Education		<u>11,967</u>	<u>9,000</u>	<u>9,000</u>	<u>-</u>	<u>13,667</u>	<u>11,967</u>	<u>7,300</u>
TOTAL FEDERAL AWARDS		<u>\$ 568,938</u>	<u>\$ 87,800</u>	<u>\$ 83,651</u>	<u>\$ 4,149</u>	<u>\$ 533,932</u>	<u>\$ 568,938</u>	<u>\$ 122,806</u>

The accompanying notes are an integral part of this schedule.

EL-HAJJ MALIK EL-SHABAZZ ACADEMY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of El-Hajj Malik El-Shabazz Academy and is presented on the same basis of accounting as the general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

NOTE 2 - NONCASH ASSISTANCE

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

NOTE 3 - GRANT SECTION AUDITOR'S REPORT

Management has utilized the Grant Auditor's Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

**EL-HAJJ MALIK EL-SHABAZZ ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

* Material weakness(es) identified? Yes No

* Reportable condition(s) identified that are Not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

* Material weakness(es) identified? Yes No

* Reportable condition(s) identified that are Not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 501(a) of Circular A-133? Yes No

Identification of major program:

CFDA Number	Federal Program
10.553, 10.555, 10.558 84.010	Child Nutrition Cluster Title I, Part A

EL-HAJJ MALIK EL-SHABAZZ ACADEMY

REPORT TO THE BOARD OF DIRECTORS

JUNE 30, 2013

Wilkerson & Associate, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

645 GRISWOLD, SUITE 1812
DETROIT, MICHIGAN 48226
313-967-0134 FAX 313-967-0138

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

To the Board of Directors
El-Hajj Malik El-Shabazz Academy (DWPA)

We have recently completed our audit of the basic financial statements of El-Hajj Malik El-Shabazz Academy (the "Academy") as of and for the year ended June 30, 2013. In addition to our audit report, we are providing the following required audit communication, recommendations, and informational items which impact the Academy:

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Results of the Audit	2-5
Recommendations	6
Informational Items	6-7

We are grateful for the opportunity to be of service to El-Hajj Malik El-Shabazz Academy. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Wilkerson & Associate PC

October 7, 2013

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

To the Board of Directors
El-Hajj Malik El-Shabazz Academy
October 7, 2013

Results of the Audit

We have audited the financial statements of El-Hajj Malik El-Shabazz Academy (the “Academy”) as of and for the year ended June 30, 2013 and have issued our report thereon dated October 7, 2013. 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 13, 2013 our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all materials respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Academy. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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

Our audit of the Academy’s financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Academy’s compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated October 7, 2013 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
El-Hajj Malik El-Shabazz Academy
October 7, 2013

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

Planned Scope and Timing of the Audit

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

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Academy are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2013.

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

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

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

To the Board of Directors
El-Hajj Malik El-Shabazz Academy
October 7, 2013

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 7, 2013.

Management Consultants with Other Independent Accountants

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

To the Board of Directors
El-Hajj Malik El-Shabazz Academy
October 7, 2013

Other Audit Findings or Issues

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

Other Information in Documents Containing Audited Financial Statements

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

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

This information is intended solely for the use of the board of directors and management of El-Hajj Malik El-Shabazz Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Wilkerson & Associates PC

Larry D. Wilkerson, CPA

To the Board of Directors
El-Hajj Malik El-Shabazz Academy
October 7, 2013

Recommendations

EL-HAJJ MALIK EL-SHABAZZ ACADEMY RECOMMENDATIONS

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

Informational items

EL-HAJJ MALIK EL-SHABAZZ ACADEMY Informational Items

Budgeting Strategy Considerations for 2012-2013 and Beyond

Michigan's economy continues to show signs of improvement but the rate of improvement is slow. Even with the changes in tax structure, the State has shown an inability to generate substantial additional revenue. Over the last several years, Michigan academies have struggled with the reality that the State has not been able to significantly increase funding. Based on the State's current budgetary outlook, it is apparent that there will not be any additional funds for the foreseeable future. With no other revenue source to replace it, the School Aid Fund will not be equipped to maintain funding at the current level, creating a significant funding cliff.

In the next months, we encourage the Academy to craft its plan. Key to the plan is defining how the educational programs and services will need to be adapted or redefined to cope with the funding issues while meeting the educational needs of the students. These tasks are not easy, but in the end could become opportunities to redesign how services are provided and educational objectives are met. As the Academy looks to the future, careful planning will continue to be key. The use of budget modeling will increase in importance especially as it looks to assess the impact of the best practice funding approach and a continued focus of funding based on student achievement

To the Board of Directors
El-Hajj Malik El-Shabazz Academy
October 7, 2013

EL-HAJJ MALIK EL-SHABAZZ ACADEMY Informational Items

Expanded FDIC Insurance Coverage

The Federal Deposit Insurance Corporation (better known as FDIC) has temporarily increased the dollar amount of insurance provided to all depositors from \$100,000 to \$250,000. This expanded coverage is in effect through December 31, 2013. On January 1, 2014, the standard insurance amount will return to \$100,000 per depositor for all account categories except IRAs and certain retirement accounts, which will remain at \$250,000.

For more information visit: <http://www.fdic.gov/deposit/deposits/changes.html>

GASB STATEMENT NOS. 65

This new GASB statement is effective for periods beginning after December 15, 2012. It is closely related to GASB 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows, and Net Position, (effective now). Statement 65, deals with Items Previously Reported as Assets and Liabilities (effective 2014). It is relevant to the following types of transactions:

- **Certain resources received in a voluntary non exchange transaction before eligibility requirements are met (unspent state categorical aid).** Previously deferred revenue (a liability).....Under 65- liability.
- **Lending activities (Origination fees)**
- **Lending activities (Origination costs)**
- **Revenue not yet available (AR received outside 60 days)**
Previously- deferred revenue
Under 65- deferred inflow

We are suggesting that the Academy invest time in studying what effect these two GASB Statements 63 and 65 will have on financial reporting for the year ended June 30, 2014 and beyond.