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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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February 4, 2010

Board of Directors
Martin Luther King Montessori School, Inc.
6001 South Anthony Blvd.
Fort Wayne, IN 46816

We have reviewed the audit report prepared by Leonard J. Andorfer & Co., LLP, Independent Public Accountants, for the period August 1, 2007 to July 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Martin Luther King Montessori School, Inc., as of July 31, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. The management letter contains seven comments.

STATE BOARD OF ACCOUNTS

MARTIN LUTHER KING MONTESSORI SCHOOL, INC.

FORT WAYNE, INDIANA

Financial Statements
as of July 31, 2008

CONTENTS

LEONARD J. ANDORFER & CO., LLP
Certified Public Accountants

Park Lake Medical Building
2410 Lake Avenue - P. O. Box 5486 - Fort Wayne, Indiana 46895-5486
260-423-9405

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Martin Luther King Montessori School, Inc.
Fort Wayne, Indiana

We have audited the accompanying statements of financial position of Martin Luther King Montessori School, Inc. (a nonprofit organization) as of July 31, 2008 and 2007, and the related statements of activities and net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Martin Luther King Montessori School, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from Martin Luther King Montessori School, Inc.'s July 31, 2007 financial statements and, in our report dated February 12, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Martin Luther King Montessori School, Inc. as of July 31, 2008 and 2007, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Leonard J. Andorfer & Co., LLP

LEONARD J. ANDORFER & CO., LLP
Certified Public Accountants

December 17, 2008

MARTIN LUTHER KING MONTESSORI SCHOOL, INC.

Statements of Financial Position

	July 31 2008	July 31 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	$ 1,051,045	$ 967,384
Grants and accounts receivable (net)	106,576	53,909
Prepaid expenses	12,060	19,280
Total Current Assets	1,169,681	1,040,573
PROPERTY AND EQUIPMENT		
Property and equipment	324,555	418,178
Less: Accumulated depreciation	233,355	305,553
Total Property and Equipment (net)	91,200	112,625
OTHER ASSETS		
Equipment deposits	-	35,986
Lease deposits	5,684	5,684
Utility deposits	-	1,923
Present value of future trust interest	829,351	904,073
Total Other Assets	835,035	947,666
TOTAL ASSETS	$ 2,095,916	$ 2,100,864

(Continued)

The Notes to Financial Statements
are an integral part of the statements.

MARTIN LUTHER KING MONTESSORI SCHOOL, INC.

Statements of Financial Position (Continued)

	July 31 2008	July 31 2007
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 5,475	$ 21,662
Accrued expenses	38,675	25,327
Total Current Liabilities	44,150	46,989
NET ASSETS		
Unrestricted	1,121,079	1,107,271
Temporarily restricted	101,336	42,531
Permanently restricted	829,351	904,073
Total Net Assets	2,051,766	2,053,875
TOTAL LIABILITIES AND NET ASSETS	$ 2,095,916	$ 2,100,864

The Notes to Financial Statements
are an integral part of the statements.

MARTIN LUTHER KING MONTESSORI SCHOOL, INC.

Statements of Activities and Net Assets

For The Year Ended July 31, 2008
(With Comparative Totals for the Year Ended July 31, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	July 31 2008 Total	July 31 2007 Total
REVENUES, GAINS, AND OTHER SUPPORT					
Public Support					
Contributions	$ 221,219	$ 104,000	$	$ 325,219	$ 233,144
Tuition and program fees	81,749			81,749	139,244
Gifts-in-kind	15,420			15,420	-
Other fundraisers	13,898			13,898	16,492
Value of future trust interest				-	848,132
Change in value - future trust interest			(74,722)	(74,722)	55,941
Total Public Support	332,286	104,000	(74,722)	361,564	1,292,953
Fees and Grants From Governmental Agencies	504,379			504,379	476,004
Miscellaneous Income					
Interest and dividends earned	36,419			36,419	10,925
Loss on sale of assets	(37,930)			(37,930)	(22,984)
Rental income	4,000			4,000	12,176
Other income	1,328			1,328	912
Total Miscellaneous Income	3,817	0	0	3,817	1,029
Net Assets Released from Restrictions	45,195	(45,195)		-	-
Total Revenues, Gains, Other Support and Net Assets Released from Restrictions	885,677	58,805	(74,722)	869,760	1,769,986
EXPENSES					
Program services	680,386			680,386	874,298
Management and general	185,952			185,952	267,315
Fund raising	5,531			5,531	14,264
Total Expenses	871,869	0	0	871,869	1,155,877
CHANGE IN NET ASSETS	13,808	58,805	(74,722)	(2,109)	614,109
NET ASSETS - AUGUST 1	1,107,271	42,531	904,073	2,053,875	1,439,766
NET ASSETS - JULY 31	$ 1,121,079	$ 101,336	$ 829,351	$ 2,051,766	$ 2,053,875

The Notes to Financial Statements
are an integral part of the statements.

MARTIN LUTHER KING MONTESSORI SCHOOL, INC.

Statements of Functional Expenses

For the Year Ended July 31, 2008
(With Comparative Totals for the Year Ended July 31, 2007)

	Program Services	Management and General	Fund Raising	For the Year Ended July 31 2008	For the Year Ended July 31 2007
EXPENSES					
Salaries	$ 324,924	$ 108,445	$ 4,992	$ 438,361	$ 558,492
Benefits/taxes	57,855	9,178		67,033	119,140
Bad debt expense	6,454	312		6,766	5,325
Professional fees	74,974	34,975		109,949	146,850
Supplies, printing, etc.	83,359	11,764	339	95,462	100,222
Insurance	13,168			13,168	18,416
Travel	37,240	687		37,927	34,317
Telephone		3,451		3,451	2,112
Occupancy	63,942	6,123	200	70,265	63,053
Interest expense				-	23,655
Other expenses	4,928	5,158		10,086	28,733
	666,844	180,093	5,531	852,468	1,100,315
Depreciation	13,542	5,859		19,401	55,562
TOTAL EXPENSES	$ 680,386	$ 185,952	$ 5,531	$ 871,869	$ 1,155,877

The Notes to Financial Statements
are an integral part of the statements.

MARTIN LUTHER KING MONTESSORI SCHOOL, INC.

Statements of Functional Expenses

For the Year Ended July 31, 2007

	Program Services	Management and General	Fund Raising	Total
EXPENSES				
Salaries	$ 411,542	$ 140,590	$ 6,360	$ 558,492
Benefits/taxes	84,262	34,878		119,140
Bad debt expense	3,121	2,204		5,325
Professional fees	90,362	56,488		146,850
Supplies, printing, etc.	87,379	4,939	7,904	100,222
Insurance	18,416			18,416
Travel	33,832	485		34,317
Telephone		2,112		2,112
Occupancy	54,226	8,827		63,053
Interest expense	20,658	2,997		23,655
Other expenses	22,717	6,016		28,733
	826,515	259,536	14,264	1,100,315
Depreciation	47,783	7,779		55,562
TOTAL EXPENSES	$ 874,298	$ 267,315	$ 14,264	$ 1,155,877

The Notes to Financial Statements
are an integral part of the statements.

MARTIN LUTHER KING MONTESSORI SCHOOL, INC.

Statements of Cash Flows

	For the Year Ended July 31 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from public support and revenues	$ 927,235	$ 985,330
Investment income	36,419	10,925
Rental income	4,000	12,176
Cash paid to suppliers and employees	(848,087)	(1,193,343)
Interest paid	-	(23,655)
Net Cash Provided By (Used For) Operating Activities	119,567	(208,567)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(70,827)	(24,747)
Proceeds from sale of property and equipment	34,921	1,504,000
Net Cash Provided By (Used For) Investing Activities	(35,906)	1,479,253
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of line of credit	-	(14,900)
Repayment of long term debt	-	(349,237)
Net Cash Used For Financing Activities	0	(364,137)
NET INCREASE IN CASH AND CASH EQUIVALENTS	83,661	906,549
CASH AND CASH EQUIVALENTS - AUGUST 1	967,384	60,835
CASH AND CASH EQUIVALENTS - JULY 31	$ 1,051,045	$ 967,384

(Continued)

The Notes to Financial Statements
are an integral part of the statements.

MARTIN LUTHER KING MONTESSORI SCHOOL, INC.

Statements of Cash Flows (Continued)

	For the Year Ended July 31 2008	2007
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Change in net assets	($ 2,109)	$ 614,109
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation	19,401	55,562
Loss on sale of assets	37,930	22,984
Value of future trust interest	-	(848,132)
Change in value - future trust interest	74,722	(55,941)
Change in operating assets and liabilities		
Decrease (Increase) in		
Grants and accounts receivable	(52,667)	162,158
Prepaid expenses	7,220	2,133
Deposits	37,909	(42,623)
Increase (Decrease) in		
Accounts payable	(16,187)	(97,471)
Accrued expenses	13,348	(21,346)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 119,567	($ 208,567)

The Notes to Financial Statements
are an integral part of the statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Nature of Activities

Martin Luther King Montessori School, Inc. (MLK) is a non-profit entity organized to provide educational and nutritional services to the children in the Fort Wayne, Indiana area. The organization receives grants and contributions from corporations and individuals as well as funding from the federal government. Approximately 35% of the organization's public support was provided from one foundation.

NOTE 2 - Summary of Significant Accounting Policies

Basis of presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Martin Luther King Montessori School, Inc. and changes therein are classified and reported as follows:

> **Unrestricted Net Assets** - Net assets that are not subject to donor-imposed stipulations.
>
> **Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of MLK and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in net unrestricted assets if the restriction expires or is met in the reporting period in which the support is recognized.
>
> **Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes.

Estimates - The presentation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Promise to give - Contributions are recognized when the donor makes a promise to give to the organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Cash equivalents - For purposes of the statements of cash flows, the organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Property and depreciation - Property and equipment are recorded at cost, or if donated, at the approximate fair value at the date of donation. Depreciation is recorded on the straight-line and the accelerated basis over the estimated useful lives of the assets. Disposals are removed from the accounts at their original cost when identification is possible.

Expenditures for maintenance and repairs are charged to expense as incurred, while additions and betterments are capitalized. The cost and accumulated depreciation of property sold or otherwise disposed of are removed from the accounts, and any gain or loss is credited or charged to income.

Paid time off - Employees of MLK are entitled to paid time off to accommodate vacation, sick and personal days depending on job classification, length of service and other factors. As detailed records are available for each employee and as the amounts would be paid upon termination, MLK records an appropriate accrual.

Contributed goods and services - The value of contributed goods is reflected on the books and records of MLK at the value assigned by the donor. A substantial number of unpaid volunteers have made significant contributions of their time. Except for those volunteers performing professional services, the value of this contributed time is not reflected in these statements.

Functional allocation of expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications - Certain amounts from the fiscal year ended July 31, 2007 have been reclassified to conform with the July 31, 2008 presentation.

Income taxes – Martin Luther King Montessori School, Inc. is a nonprofit organization and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the 50% charitable contributions limitation. However, rental income not directly related to the organization's tax-exempt purpose is subject to taxation as unrelated business income. Income taxes for such unrelated business income totaled $251 and $1,017 for the fiscal years ending July 31, 2008 and 2007, respectively.

Advertising costs – Advertising and promotional programs are charged to expense during the period in which they are incurred.

Grants and accounts receivable – Grants and accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The organization provides for losses on receivables using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances which may affect the ability to collect payment. Receivables are considered impaired if full principal payments are not received in accordance with the agreed upon terms.

NOTE 3 - Grants and Accounts Receivable

The grants and accounts receivable are detailed as follows:

	July 31 2008	July 31 2007
Tuition and Fees	$ 2,661	$ 7,202
CACFP Grant Nutrition	5,315	4,207
Foellinger Foundation	98,600	42,500
	106,576	53,909
Less: Allowance for uncollectible accounts	-	-
	$ 106,576	$ 53,909

NOTE 4 - Property and Equipment

A summary of the property and equipment is as follows:

	July 31 2008	July 31 2007
Building	$ -	$ 52,105
Office equipment	35,363	65,841
Classroom equipment	43,728	58,988
Playground equipment	58,288	30,205
Transportation	178,490	205,589
Public relations equipment	8,686	5,450
	324,555	418,178
Less: Accumulated depreciation	233,355	305,553
	$ 91,200	$ 112,625

NOTE 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available as follows:

	July 31 2008	July 31 2007
Future operations	$ 101,336	$ 42,531

NOTE 6 - Off Balance Sheet Risk

MLK maintains cash balances at different banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. The organization has not experienced any loss on such accounts. The uninsured balance was $650,935 and $567,334 for the years ended July 31, 2008 and 2007, respectively.

NOTE 7 - Leasing Activity

Rental income was derived from renting school busses to various organizations within the community on a need only basis for student transportation. During the year ending July 31, 2007, income was also received for renting a computer lab to an unrelated non-profit organization. The rental income was recognized as payments were received. Rent revenue was $4,000 and $12,176 for the years ended July 31, 2008 and 2007, respectively.

NOTE 8 – Management Agreement

On August 1, 2007 MLK entered into a Management Agreement with the Young Men's Christian Association of Greater Fort Wayne, Inc. (YMCA), an unrelated non-profit organization. The YMCA will provide certain management services to MLK. MLK will provide early childhood education programs with the Montessori curriculum to augment the programs offered by the YMCA. In consideration for this agreement, MLK has agreed to pay the YMCA $5,000 per month. Management fees amounted to $60,000 for the fiscal year ended July 31, 2008 and were included in professional fees in the Statements of Functional Expenses. The Management Agreement terminates July 31, 2009.

NOTE 9 – Present Value of Future Trust Interests

MLK is a beneficiary of one charitable remainder trust and one QTIP trust, administered by an outside party, under which the trusts' income is distributed to an unrelated beneficiary. On termination of the trusts, a percentage of the trusts' assets are to be distributed to MLK to fund an Endowment Scholarship. During 2007 MLK received updated information regarding the value of these trusts and recorded the fair market value of the trust assets and the current year change in value as revenue and permanently restricted net assets.

In fiscal year ending July 31, 2008 MLK became aware that the beneficiary of the trusts has passed. The organization has been in contact with the trustee but has not yet been informed of a distribution date. The change in value-future trust interest was ($74,722) for the year ended July 31, 2008.

NOTE 10 – Permanently Restricted Net Assets

Permanently restricted net assets represent the organization's interest in the charitable remainder trust and QTIP trust.

	July 31 2008	July 31 2007
Future trust interest	$ 829,351	$ 904,073

NOTE 11 – Operating Lease

On August 1, 2007 MLK entered into an operating lease with East Allen County Schools (EACS) for the rental of office and classroom space for operations. The terms of the agreement are for a period of 36 months expiring July 31, 2010. By mutual agreement between the parties, the lease can be revoked upon 90 days written notice. The agreement required a deposit of one month's rent and payment of $5,684 per month.

NOTE 12 – Subsequent Events

In November 2008, MLK received notice from EACS that the operating lease would be terminated effective June 2009. MLK is in negotiations for the purchase of land and a building for operations. The purchase is expected to be funded by cash on hand and long term financing.

LEONARD J. ANDORFER & CO., LLP
Certified Public Accountants

Park Lake Medical Building
2410 Lake Avenue - P. O. Box 5486 - Fort Wayne, Indiana 46895-5486
260-423-9405

December 17, 2008

Board of Directors
Martin Luther King Montessori School, Inc.
4615 Werling Drive
Fort Wayne, Indiana 46806

Dear Board Members:

In planning and performing our audit of the financial statements of Martin Luther King Montessori School, Inc. (MLK) for the year ended July 31, 2008, we considered the organization's internal control structure in order to determine the extent of our auditing procedures for the purpose of expressing an opinion on the financial statements. Our audit was not designed to provide assurance on the internal control structure; however, we noted certain matters involving the internal control structure and its operation, and we are submitting our recommendations which are designed to improve operational efficiencies. A list of our comments follows:

Establish and implement accounting policies and procedures

As a result of our audit, we found that accounting policies and procedures are informal and few if any controls exist at the operational level. Furthermore, sustained turnover in the accounting department and changes at the executive director position have led to a lack of organization and understanding of accounting procedures. We found an overall lack of management review of accounting data.

We strongly suggest that MLK implement written accounting procedures and organization wide controls. A flow chart may serve to detail responsibilities from the staff level through management review and ultimate approval by the board of directors. Management services provided by the YMCA may serve to provide a blue print for the proper design and implementation of improved accounting procedures.

It was noted during the audit that management did not have access to Wells Fargo Commercial Checking account statements. A review of all asset accounts should be considered to insure management has proper title and access to relevant data.

Policy for in-kind contributions and contributed services

The organization currently has only a verbal understanding for recording in-kind contributions of goods and contributed services. To define this area better and establish consistency, we suggest that MLK formalize a written policy for recognizing in-kind contributions of goods and services. The policy should specify a minimum dollar amount to be recorded and the method used to determine the fair market value of donated services or assets. This policy would be most beneficial in that it will allow for easier and more consistent accounting treatment for contributed goods and services.

Employee Protection (Whistleblower policy)

While employees will hopefully feel comfortable raising concerns directly with their supervisors, many employees are reluctant to raise concerns with line management for fear of retaliation, especially where their concerns pertain to unethical or illegal conduct of their peers. Therefore, MLK should provide several options for employees to raise concerns, including the option of raising a concern anonymously. We suggest that MLK draft an Employee Protection (Whistleblower) Policy and distribute it to each employee. A signed and dated copy of the policy should be retained by management.

IT security and backup

The organization does not have well defined, written procedures for information technology security and data backup. We suggest that management develop procedures that include, but are not limited to, the following matters:

- Location of, and access to, off-site storage for data backup.
- A listing of all data files that would have to be obtained from the off-site storage location.
- Address the need for the implementation and maintenance of computer systems passwords.
- Responsibilities of various personnel in an emergency to include a priority of critical applications and reporting requirements during the emergency period.

Beneficial interest in trusts

In the current year, MLK became aware of the death of Darlene B. Currie, the beneficiary of one charitable remainder trust and one QTIP trust. MLK has a beneficial interest in these trusts. On termination of the trusts, a percentage of the trusts' assets revert to MLK. We have been unable to obtain the agreement dated the 20th day of February, 1985, referred to in the trust documents. We believe the document specifies how the "Deborah Anne Currie Scholarship Fund," funded by these trusts, must be administered. We recommend that the board obtain that agreement.

Furthermore, we recommend that MLK obtain counsel from an attorney licensed to practice law in the state of Florida, where the trusts documents were filed. We believe this is necessary to protect and secure MLK's interests in the intended distribution of the trusts funds.

Paid time off

MLK's Employee Handbook states "PTO hours do not carry over from one fiscal year to another." We noted that, contrary to policy, PTO hours have been carried over. If the organization desires to allow the carry over of PTO, we recommend the board change the policy to allow the appropriate number of hours per year carry over PTO. We also noted two instances of PTO paid before earned. Management should account for time earned and used, regularly communicate this information to employees, and have a policy in place to deal with special circumstances.

Other issues

Per the Internal Revenue Service code, any organization which made payments to an unincorporated entity in a calendar year equal to or greater than $600 for services provided must issue Form 1099 MISC to the recipient for said calendar year by January 31st of the following year. We noted instances where invoices were presented to MLK for payment of services rendered. Management needs to insure tracking of payments made to individuals required to receive Form 1099 at year end.

We would like to take this opportunity to express our appreciation for the cooperation and courtesies extended to us during our examination. We would be pleased to discuss any of these recommendations with you at your convenience and provide any assistance you may wish in putting them into effect.

Respectfully submitted,

Leonard J. Andorfer & Co. LLP

LEONARD J. ANDORFER & CO., LLP
Certified Public Accountants

LEONARD J. ANDORFER & CO., LLP
Certified Public Accountants

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To the Board of Directors and
Bobbie Golani, Executive Director
Martin Luther King Montessori School, Inc.
4615 Werling Drive
Fort Wayne, IN 46806

In planning and performing our audit of the financial statements of Martin Luther King Montessori School, Inc. as of and for the year ended July 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Martin Luther King Montessori School, Inc.'s internal control over financial reporting (internal control) 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

The organization does not have many, if any, controls in place. The executive director has control over all aspects of the organization. There is no segregation of duties and no official approval process.

This communication is intended solely for the information and use of management, the board of directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Leonard J. Andorfer & Co. LLP

LEONARD J. ANDORFER & CO., LLP
Certified Public Accountants

December 17, 2008

LEONARD J. ANDORFER & CO., LLP
Certified Public Accountants

Park Lake Medical Building
2410 Lake Avenue - P. O. Box 5486 - Fort Wayne, Indiana 46895-5486
260-423-9405

December 17, 2008

To the Board of Directors
Martin Luther King Montessori School, Inc.
Fort Wayne, Indiana

We have audited the financial statements of Martin Luther King Montessori School, Inc. for the year ended July 31, 2008 and have issued our report thereon dated December 17, 2008. 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 July 31, 2008 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 generally accepted accounting principles of the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatements.

As part of our audit, we considered the internal control of Martin Luther King Montessori School, Inc. Such considerations were 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.

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 on September 4, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Martin Luther King Montessori School, Inc. are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended July 31, 2008. We noted no transactions entered into by the organization 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. The most sensitive estimates affecting the financial statements were:

> Property and equipment useful lives are determined by management to represent actual useful lives of the assets. Past experience has indicated that items are used well past IRS guidelines and in most cases, the assets are used longer than the useful lives assigned to them. We tested all additions for reasonableness within these guidelines.
>
> The value of contributed goods is recorded at the value assigned by the donor. Management has no real control over the values other than to reject an obviously exaggerated valuation. We tested some records of contributed goods to verify the correct accounting treatment given the established procedures. During the course of our audit we stressed the importance of having the value assigned by the donor and not by Martin Luther King Montessori School, Inc. personnel.

Difficulties Encountered in Performing the Audit

We encountered difficulties in performing and completing our audit. Specifically, turnover and staffing in the accounting position precluded timely presentation and availability of requested audit documents. Furthermore, the timed release of our audit report was significantly delayed due to the revocation of the operating lease by East Allen County Schools for space used by MLK for operations.

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. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

1. An entry made to accrue wages decreased net income by $22,118.

2. An entry made to adjust the sale of assets and building at 333 West Lewis Street. Depreciation expense for the year was also recorded. The effect of this entry was to decrease net income by $92,912.

3. An entry made to reclassify the payment of accounts receivable that was recorded as income in the prior year decreased net income in the current year by $38,958.

4. An entry made to adjust the fair market value of future trusts interest decreased net income by $74,722.

5. An entry made to reclassify deferred income to contributions increased net income in the current year by $20,417.

6. Entries were made to record grants receivable from the Foellinger Foundation that increased net income in the current year by $98,000.

Disagreements with Management

For purposes 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 statements 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 December 17, 2008.

Management Consultation 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 organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Martin Luther King Montessori School, Inc. and is not intended to be and should not be used by anyone other than these specific parties.

Very truly yours,

Leonard J. Andorfer & Co. LLP

LEONARD J. ANDORFER & CO., LLP
Certified Public Accountants