

ISLAND CITY ACADEMY

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

YEAR ENDED JUNE 30, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Island City Academy

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Island City Academy, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Island City Academy's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Island City Academy, as of June 30, 2022, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Island City Academy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Island City Academy's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Island City Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Island City Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Island City Academy's basic financial statements. The accompanying additional supplementary information, as identified in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2022 on our consideration of Island City Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Island City Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Island City Academy's internal control over financial reporting and compliance.

Maney Costeiran PC

October 21, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Island City Academy's (the Academy) annual financial report presents our discussion and analysis of the Academy's financial performance during the fiscal year that ended on June 30, 2022.

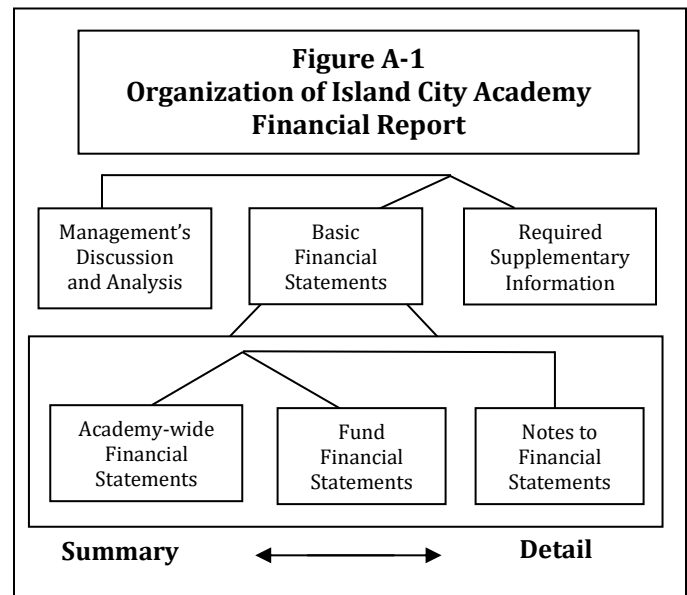
FINANCIAL HIGHLIGHTS

- Total net position increased by \$423,539.
- Overall revenues were \$2,433,080.
- The total cost of instruction programs increased approximately \$26,269.
- Total revenues increased approximately \$247,700, while total expenses decreased approximately \$55,000.
- Enrollment increased by 4 students from the prior year.
- The Academy reduced its outstanding long-term obligations by \$372,231.

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.



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 this annual report are arranged and related to one another.

Figure A-2 Major Features of Academy-wide and Fund Financial Statements		
	Academy-wide Statements	Fund Financial Statements
		Governmental Funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary, such as special education and building maintenance
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures, and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Types 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 sooner thereafter, no capital assets or long-term liabilities included
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

Figure A-2 summarizes 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.

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 - is one way to measure the Academy's financial health or *position*.

- Over time, increases or decreases in the Academy's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional nonfinancial factors such as changes in the Academy's revenue streams and the condition of school buildings and other facilities. Currently the Academy is near capacity student enrollment and any variation from that may reflect negatively on the overall financial health of the Academy.

In the Academy-wide financial statements, the Academy's activities:

- Governmental activities - Most of the Academy's basic services are included here, such as regular and special education, administration and operations and maintenance. State formula 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 most 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 funds are required by State law and by loan covenants.
- The Academy established other funds to control and manage money for particular purposes (like repaying debt, and its capital projects fund) or to show that it is properly using certain revenues (like food service).

The Academy has one kind of fund:

- Governmental funds - 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 you determine 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, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Net position - The Academy's *combined* net position was higher on June 30, 2022, than it was the year before - increasing by \$423,539.

The Academy's financial position is the product of many factors.

Table A-3		
Island City's Net Position		
	2022	2021
Current and other assets	\$ 1,073,420	\$ 1,086,224
Capital assets	1,393,794	1,360,146
Total assets	2,467,214	2,446,370
Other liabilities	246,776	277,240
Noncurrent liabilities	633,341	1,005,572
Total liabilities	880,117	1,282,812
Net position		
Net investment in capital assets	760,453	354,574
Restricted for debt service	16,368	264,034
Restricted for (special revenue) food service	41,440	76
Unrestricted	768,836	544,874
Total net position	\$ 1,587,097	\$ 1,163,558

Table A-4		
Changes in Island City's Net Position		
	2022	2021
Revenues		
Charges for services	\$ 89,590	\$ 53,322
Operating grants and contributions	468,781	356,319
General revenues		
State sources - unrestricted	1,787,845	1,683,140
Intermediate sources	82,949	47,223
Local sources	3,125	43,891
Other	790	1,533
Total revenues	2,433,080	2,185,428
Expenses		
Instruction	1,051,253	1,024,984
Support services	645,556	710,415
Community services	98,984	94,567
Food services	104,587	94,701
Interest on long-term debt	46,574	77,730
Unallocated depreciation	62,587	62,018
Total expenses	2,009,541	2,064,415
Change in net position	\$ 423,539	\$ 121,013

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

The financial performance of the Academy as a whole is reflected in its governmental funds as well. As the Academy completed the year, its governmental funds reported *combined* fund balances of \$846,546, which is \$2,938 higher than last year's ending fund balances of \$843,608.

The Academy's general fund had more revenues and other financing sources than expenditures and other financing uses by \$123,941. The debt service fund had more expenditures and other financing uses than revenues and other financing sources by \$262,388. The capital projects fund - building and site had more revenues and other financing sources than expenditures and other financing uses by \$100,021. The special revenue fund had more revenues and other financing sources than expenditures and other financing uses by \$41,364. Overall, the Academy had an increase in total fund balance.

General Fund Budgetary Highlights

Over the course of the year, the Academy revised the annual operating budget several times. These budget amendments are:

- Changes made in the first and fourth quarters to account for changes in assumptions since the original budget was adopted.

While the Academy's final budget for the general fund anticipated that revenues and other financing sources would exceed expenditures and other financing uses by \$611, the actual results show an increase in fund balance of \$123,941.

- Actual revenues and other financing sources were \$84,912 more than expected.
- The actual expenditures and other financing uses were \$40,557 less than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2022, the Academy had invested \$1,393,794 in a broad range of capital assets, including school building, computer and audiovisual equipment and other school furniture. This amount represents a net increase of \$33,648 from last year. (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was \$62,587.

Table A-5		
Island City's Capital Assets		
<i>(net of depreciation)</i>		
	2022	2021
Land	\$ 96,082	\$ 96,082
Buildings and improvements	1,179,456	1,188,278
Computer equipment	17,180	14,074
Land improvements	53,039	59,608
Furniture and fixtures	48,037	2,104
Total	\$ 1,393,794	\$ 1,360,146

Long-term Obligations

At year-end, the Academy had \$633,341 in certificates of participation outstanding, a reduction of \$372,231 from last year. (More detailed information about the Academy's long-term liabilities is presented in Note 5 to the financial statements.)

- The Academy continued to pay down its long-term obligations, retiring \$372,231.

FACTORS BEARING ON THE ACADEMY'S FUTURE

At the time these financial statements were prepared and audited, the Academy was aware of the following circumstances that could significantly affect its financial health in the future:

- The Academy has adopted a general fund budget for 2022/2023 where revenues are expected to exceed expenditures by \$69,110.
- The Academy received an ESSER II allocation of \$93,568, and an ESSER III allocation of \$210,140. The projected use of funds are to address learning loss, make sure the school can routinely operate in a clean & safe environment, and overcome the impacts of the COVID 19 pandemic.

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our parents, customers, investors, and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Administrator's Office, Island City Academy, 6421 Clinton Trail, Eaton Rapids, MI 48827. Phone (517) 663-0111.

BASIC FINANCIAL STATEMENTS

**ISLAND CITY ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2022**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 694,352
Receivables	
Intergovernmental	344,673
Prepays	34,395
Capital assets not being depreciated	96,082
Capital assets, net of accumulated depreciation	1,297,712
TOTAL ASSETS	2,467,214
LIABILITIES	
Accounts payable	28,146
Accrued interest	19,902
Accrued personnel and related items	134,967
Unearned revenue	63,761
Noncurrent liabilities	
Due within one year	150,810
Due in more than one year	482,531
TOTAL LIABILITIES	880,117
NET POSITION	
Net investment in capital assets	760,453
Restricted for debt service	16,368
Restricted for (special revenue - food service)	41,440
Unrestricted	768,836
TOTAL NET POSITION	\$ 1,587,097

See notes to financial statements.

**ISLAND CITY ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

Functions/Programs	Expenses	Program Revenue		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities				
Instruction	\$ 1,051,253	\$ -	\$ 282,276	\$ (768,977)
Support services	645,556	-	38,575	(606,981)
Community services	98,984	87,590	-	(11,394)
Food services	104,587	2,000	147,930	45,343
Interest on long-term debt	46,574	-	-	(46,574)
Unallocated depreciation	62,587	-	-	(62,587)
Total governmental activities	<u>\$ 2,009,541</u>	<u>\$ 89,590</u>	<u>\$ 468,781</u>	<u>(1,451,170)</u>
General revenues				
State source - unrestricted				1,787,845
Intermediate sources				82,949
Local sources				3,125
Investment earnings				<u>790</u>
Total general revenues				<u>1,874,709</u>
CHANGE IN NET POSITION				423,539
NET POSITION, beginning of year				<u>1,163,558</u>
NET POSITION, end of year				<u>\$ 1,587,097</u>

See notes to financial statements.

**ISLAND CITY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2022**

	General Fund	Debt Service	Capital Projects Fund Building and Site	Nonmajor Governmental (Special Revenue) Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 503,611	\$ -	\$ 106,721	\$ 84,020	\$ 694,352
Receivables					
Intergovernmental	343,313	-	-	1,360	344,673
Due from other funds	43,940	36,270	4,500	-	84,710
Prepays	34,395	-	-	-	34,395
	<u>\$ 925,259</u>	<u>\$ 36,270</u>	<u>\$ 111,221</u>	<u>\$ 85,380</u>	<u>\$ 1,158,130</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	28,146	-	-	-	28,146
Accrued personnel and related items	134,967	-	-	-	134,967
Unearned revenue	63,761	-	-	-	63,761
Due to other funds	40,770	-	-	43,940	84,710
	<u>267,644</u>	<u>-</u>	<u>-</u>	<u>43,940</u>	<u>311,584</u>
FUND BALANCES					
Nonspendable					
Prepays	34,395	-	-	-	34,395
Restricted					
Food service	-	-	-	41,440	41,440
Debt service	-	36,270	-	-	36,270
Assigned					
Capital projects	-	-	111,221	-	111,221
Unassigned	623,220	-	-	-	623,220
	<u>657,615</u>	<u>36,270</u>	<u>111,221</u>	<u>41,440</u>	<u>846,546</u>
TOTAL FUND BALANCES	<u>657,615</u>	<u>36,270</u>	<u>111,221</u>	<u>41,440</u>	<u>846,546</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 925,259</u>	<u>\$ 36,270</u>	<u>\$ 111,221</u>	<u>\$ 85,380</u>	<u>\$ 1,158,130</u>

See notes to financial statements.

**ISLAND CITY ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2022**

Total governmental fund balances \$ 846,546

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 are not reported in the fund:

The cost of the capital assets is	\$ 2,805,818	
Accumulated depreciation is	<u>(1,412,024)</u>	
		1,393,794

Long-term liabilities are not due and payable from current resources and are not reported in the fund:

Certificates of participation		(633,341)
Accrued interest is not included as a liability in government funds, it is recorded when paid		<u>(19,902)</u>

Net position of governmental activities \$ 1,587,097

ISLAND CITY ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2022

	General Fund	Debt Service	Capital Projects Fund Building and Site	Nonmajor Governmental (Special Revenue) Fund	Total Governmental Funds
REVENUES					
Local sources	\$ 130,032	\$ -	\$ 27	\$ 2,021	\$ 132,080
State sources	1,891,365	-	-	2,003	1,893,368
Federal sources	178,756	-	-	145,927	324,683
Intermediate sources	82,949	-	-	-	82,949
TOTAL REVENUES	2,283,102	-	27	149,951	2,433,080
EXPENDITURES					
Current					
Instruction					
Basic instruction	903,756	-	-	-	903,756
Added needs	145,470	-	-	-	145,470
Total instruction	1,049,226	-	-	-	1,049,226
Support services					
Instructional staff	1,796	-	-	-	1,796
General administration	97,600	-	-	-	97,600
School administration	308,065	-	-	-	308,065
Business	16,503	-	6	-	16,509
Operations and maintenance	289,686	-	-	-	289,686
Support services other	33,614	-	-	-	33,614
Total support services	747,264	-	6	-	747,270
Community service	95,532	-	-	-	95,532
Food service	-	-	-	104,587	104,587
Debt service					
Principal retirement	-	372,231	-	-	372,231
Interest and fiscal charges	-	61,296	-	-	61,296
Total debt service	-	433,527	-	-	433,527
TOTAL EXPENDITURES	1,892,022	433,527	6	104,587	2,430,142
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	391,080	(433,527)	21	45,364	2,938
OTHER FINANCING SOURCES (USES)					
Transfers in	4,000	171,139	100,000	-	275,139
Transfers out	(271,139)	-	-	(4,000)	(275,139)
TOTAL OTHER FINANCING SOURCES (USES)	(267,139)	171,139	100,000	(4,000)	-
NET CHANGE IN FUND BALANCES	123,941	(262,388)	100,021	41,364	2,938
FUND BALANCES					
Beginning of year	533,674	298,658	11,200	76	843,608
End of year	<u>\$ 657,615</u>	<u>\$ 36,270</u>	<u>\$ 111,221</u>	<u>\$ 41,440</u>	<u>\$ 846,546</u>

See notes to financial statements.

**ISLAND CITY ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

Net change in fund balances total governmental funds \$ 2,938

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

Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	96,235
Depreciation expense	(62,587)

Accrued interest on certificates of participation is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	34,624
Accrued interest payable, end of the year	(19,902)

Proceeds and repayments of principal on long-term obligations are other financing sources and expenditures in the governmental funds, but not in the statements of activities (where they are additions and reductions of liabilities):

Principal repayment	372,231
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Change in net position of governmental activities	\$ 423,539
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**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Academy. *Governmental activities* normally are supported by intergovernmental revenues.

Reporting Entity

The Island City Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Central Michigan University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2026. Board members are approved by the authorizing governing body and have decision making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The Academy receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the Academy's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Academy reports the following *Major Governmental Funds*:

The *General Fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - Fund Financial Statements (continued)

The Academy reports the following *Nonmajor Governmental Fund*:

The *Special Revenue Fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activity in a special revenue fund.

During the course of operations, the Academy has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term obligations and acquisitions under leases are reported as other financing sources.

State and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amounts is received during the period or within the availability period for this revenue source (within 60 days of year-end).

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to public school academies based on information supplied by the academies. For the current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the Academy.

Budgetary Information

Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The School Administrator submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- b. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
- c. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Information (continued)

Budgetary Basis of Accounting (continued)

- d. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2022. The Academy does not consider these amendments to be significant.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand and demand deposit accounts.

Investments

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, as summarized below, are reported in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$5,000 and a useful life in excess of one year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Capital Assets (continued)

Land and construction in progress, if any, are not depreciated. Capital assets of the Academy are depreciated using the straight line method over the following estimated useful lives:

Capital Asset Classes	Lives
Buildings and improvements	15 - 50
Computer equipment	5 - 20
Land improvements	7 - 20
Furniture and fixtures	5 - 20

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Academy has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Academy has no items that qualify for reporting in this category.

Net Position Flow Assumption

Sometimes the Academy will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Fund Balance Flow Assumptions

Sometimes the Academy will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Academy itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Academy's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the Academy that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Academy for specific purposes but do not meet the criteria to be classified as committed. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates authority. The Board of Directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. Unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2022, the Academy had the following investments subject to the following risks.

Custodial Credit risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2022, \$444,526 of the Academy's bank balance of \$694,526 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

Interest Rate Risk

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2022, the Academy did not have investments in commercial paper and corporate bonds

Concentration of Credit Risk

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign Currency Risk

The Academy is not authorized to invest in investments which have this type of risk.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurement

The Academy is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the Academy's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Academy does not have any investments subject to the fair value measurement.

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governmental units at June 30, 2022 consist of the following:

Other governmental units	
State aid	\$ 343,313
Federal grants	<u>1,360</u>
	<u>\$ 344,673</u>

Because of the Academy's favorable collection experience, no allowance for doubtful accounts has been recorded.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	<u>July 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2022</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 96,082	\$ -	\$ -	\$ 96,082
Capital assets, being depreciated				
Building and improvements	1,995,004	40,100	-	2,035,104
Computer equipment	257,302	9,700	-	267,002
Land improvements	100,686	-	-	100,686
Furniture and fixtures	260,509	46,435	-	306,944
Total capital assets, being depreciated	<u>2,613,501</u>	<u>96,235</u>	<u>-</u>	<u>2,709,736</u>
Accumulated depreciation				
Building and improvements	806,726	48,922	-	855,648
Computer equipment	243,228	6,594	-	249,822
Land improvements	41,078	6,569	-	47,647
Furniture and fixtures	258,405	502	-	258,907
Total accumulated depreciation	<u>1,349,437</u>	<u>62,587</u>	<u>-</u>	<u>1,412,024</u>
Net capital assets being depreciated	<u>1,264,064</u>	<u>33,648</u>	<u>-</u>	<u>1,297,712</u>
Net capital assets	<u>\$ 1,360,146</u>	<u>\$ 33,648</u>	<u>\$ -</u>	<u>\$ 1,393,794</u>

Depreciation for the fiscal year ended June 30, 2022 amounted to \$62,587. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2022:

	<u>Notes from Direct Borrowings and Direct Placements</u>
Balance, July 1, 2021	\$ 1,005,572
Additions	-
Deletions	<u>(372,231)</u>
Balance, June 30, 2022	633,341
Due within one year	<u>(150,810)</u>
Due in more than one year	<u><u>\$ 482,531</u></u>

Long-term obligations at June 30, 2022 consist of the following:

Notes from Direct Borrowings and Direct Placements

June 2021 certificates of participation - due in monthly installments of \$15,359 to \$17,127 through June 2026, interest at 3.5%. Secured by pledged state aid.

\$ 633,341

The Academy's outstanding notes from direct borrowings and direct placements related to governmental activities of \$633,341 contains provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

The annual requirements to amortize long-term obligations outstanding as of June 30, 2022 are as follows:

<u>Year Ending June 30,</u>	<u>Notes from Direct Borrowings and Direct Placements</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 150,810	\$ 19,902	\$ 170,712
2024	155,719	14,549	170,268
2025	160,789	9,023	169,812
2026	<u>166,023</u>	<u>3,317</u>	<u>169,340</u>
	<u><u>\$ 633,341</u></u>	<u><u>\$ 46,791</u></u>	<u><u>\$ 680,132</u></u>

Interest expense (all funds) for the year ended June 30, 2022 was approximately \$61,000.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2022 are as follows:

Fund	Due from Other Funds	Due to Other Funds
General fund	\$ 43,940	\$ 40,770
Debt service fund	36,270	-
Capital projects fund building and site	4,500	-
Special revenue fund	-	43,940
Total	<u>\$ 84,710</u>	<u>\$ 84,710</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 7 - TRANSFERS

Transfers between the governmental funds were as follows:

Transfers Out		Transfers In	
General fund	\$ 271,139	General fund	\$ 4,000
Capital projects	-	Capital projects	100,000
Food service	4,000	Debt service	171,139
		Food service	-
	<u>\$ 275,139</u>		<u>\$ 275,139</u>

The transfer from the general fund to the debt service fund was to pay the annual principal and interest of the certificates of participation. The transfer to the general fund from the special revenue fund was to cover indirect costs.

NOTE 8 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid to Central Michigan University, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2022, the Academy incurred expense of approximately \$53,500 for oversight fees.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - LEASED EMPLOYEES

The Academy leases all of its employees from a Professional Employment Organization (PEO). Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of the PEO. The Academy contributes 4% of the annual compensation each pay period to the PEO retirement plan resulting in retirement expense of approximately \$41,000 for leased employees in 2022.

NOTE 10 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

NOTE 11 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Academy expects such amounts, if any, to be immaterial.

NOTE 12 - UPCOMING ACCOUNTING PRONOUNCEMENT

In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 - CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2022, the Academy implemented the following new pronouncement: GASB Statement No. 87, *Leases*.

Summary:

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

There was no material impact on the Academy's financial statement after the adoption of GASB Statement No. 87.

REQUIRED SUPPLEMENTARY INFORMATION

**ISLAND CITY ACADEMY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2022**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local sources	\$ 103,415	\$ 88,597	\$ 130,032	\$ 41,435
State sources	1,738,539	1,891,385	1,891,365	(20)
Federal sources	145,355	194,174	178,756	(15,418)
Intermediate sources	36,892	24,034	82,949	58,915
TOTAL REVENUES	2,024,201	2,198,190	2,283,102	84,912
EXPENDITURES				
Instruction				
Basic programs	850,688	908,579	903,756	4,823
Added needs	180,878	167,592	145,470	22,122
Total instruction	1,031,566	1,076,171	1,049,226	26,945
Support services				
Instructional staff	750	1,800	1,796	4
General administration	126,572	128,000	97,600	30,400
School administration	336,693	330,838	308,065	22,773
Business	3,500	4,100	16,503	(12,403)
Operations and maintenance	137,813	296,100	289,686	6,414
Other support services	-	-	33,614	(33,614)
Total support services	605,328	760,838	747,264	13,574
Community services	95,860	95,570	95,532	38
TOTAL EXPENDITURES	1,732,754	1,932,579	1,892,022	40,557
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	291,447	265,611	391,080	125,469
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	4,000	4,000
Transfers out	(257,000)	(265,000)	(271,139)	(6,139)
TOTAL OTHER FINANCING SOURCES (USES)	(257,000)	(265,000)	(267,139)	(2,139)
NET CHANGE IN FUND BALANCE	\$ 34,447	\$ 611	123,941	\$ 123,330
FUND BALANCE				
Beginning of year			533,674	
End of year			\$ 657,615	



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**INDEPENDENT AUDITOR'S 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
Island City Academy

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Island City Academy as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Island City Academy's basic financial statements and have issued our report thereon dated October 21, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Island City Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Island City Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Island City Academy's internal control.

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 and correct, misstatements, on a timely basis. *A material weakness* is a deficiency, or a 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal controls, as described in the accompanying schedule of findings and responses that we consider to be a material weakness (2022-001).

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Island City Academy's financial statements are free from 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 financial statements. 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* which are described in the accompanying schedule of findings and responses as item 2022-001.

Academy's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Island City Academy's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Island City Academy's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maney Costeiran PC

October 21, 2022

**ISLAND CITY ACADEMY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2022**

2022-001 Considered a material weakness

Condition: Material journal entries for the proper recognition of revenue and accruals were proposed by the auditors. These misstatements were not detected by the Academy's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the Academy's general ledger.

Criteria: Statement on Auditing Standards No. 115 (SAS 115), *Communication Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cashflows (where applicable), including the notes to the financial statements, in conformity with U.S. generally accepted accounting principles.

Cause: Misstatements were not identified and corrected by management.

Effect: Material journal entries that were not otherwise identified by management were proposed by the Academy's auditors. These journal entries were necessary for the fair presentation of the Academy's financial statements.

Recommendation: We recommend that the Academy take steps to assure that material journal entries are not necessary at the time future audit analysis is performed.

View of Responsible Officials: The Academy Administrator concur with the facts of this finding and is implementing a checklist for year-end reconciliation procedures.



**ISLAND CITY ACADEMY
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2022**

Island City Academy respectfully submits the following corrective action plan for the year ended June 30, 2022.

Auditor: Maner Costerisan
2425 E. Grand River Ave., Suite 1
Lansing, Michigan 48912

Audit Period: Year ended June 30, 2022

Academy contact person: Wm. Aaron Warren, Administrator

The findings from the June 30, 2022 schedule of findings and responses are discussed below. The findings are numbered consistently with the number assigned in the schedule.

Finding - Financial Statement Audit

Finding 2022-001 Considered a material weakness

Recommendation: We recommend that the Academy take steps to assure that material journal entries are not necessary at the time future audit analysis is performed.

Action to be taken: Management agrees with the finding and we are in the process of developing month end checklists as recommended.

**ISLAND CITY ACADEMY
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2022**

There were no findings to be reported in the prior year.



2425 E. Grand River Ave.,
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October 21, 2022

To the Board of Education
Island City Academy

In planning and performing our audit of the financial statements of Island City Academy as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered Island City Academy'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 Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted one matter involving the internal control and other operational matters that is presented for your consideration. This letter does not affect our report dated October 21, 2022 on the financial statements of Island City Academy. We will review the status of this comment during our next audit engagement. Our comment and recommendation, which has been discussed with appropriate members of management, is intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss this comment in further detail at your convenience, perform any additional study of this matter, or assist you in implementing the recommendation. Our comment is summarized as follows.

Food Service Fund Balance

Per Michigan Department of Education (MDE) guidelines, school food authorities (SFA) must operate food services on a nonprofit basis. We noted that the food service fund balance exceeded the three months' operating expenditures allowed. MDE requires that the SFA spend down the excess by the end of the next school year. Island City Academy has developed a plan to spend down the excess by June 30, 2023.

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

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner Costerisan PC



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October 21, 2022

To the Board of Education
Island City Academy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Island City Academy for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

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 Island City Academy are described in Note 1 to the financial statements. During fiscal year 2022, the Academy implemented Governmental Accounting Standard No. 87, *Leases*. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's determination of the estimated life span of the capital assets. We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

The disclosures in the financial statements are neutral, consistent, and clear.

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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 October 21, 2022.

Management Consultations 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.

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 Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Island City Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

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