

ISLAND CITY ACADEMY

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

YEAR ENDED JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Island City Academy

Report on the Financial Statements

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, 2021, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issue by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Island City Academy as of June 30, 2021, 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.

Other Matters

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, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2021 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 26, 2021

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, 2021.

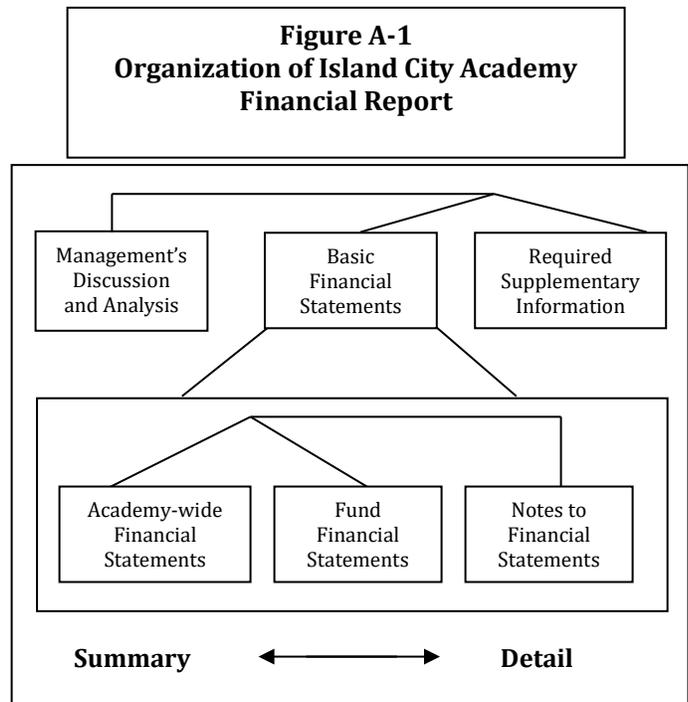
FINANCIAL HIGHLIGHTS

- Total net position increased by \$121,013.
- Overall revenues were \$2,185,428.
- The total cost of instruction programs decreased approximately \$6,237.
- Total revenues increased approximately \$308,000, while total expenses increased approximately \$208,000.
- Enrollment increased by 6 students from the prior year.
- The Academy refinanced a portion of its outstanding long-term obligations with a refunding bond of \$780,000.
- The Academy reduced its outstanding long-term obligations by \$804,428.

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, 2021, than it was the year before - increasing by \$121,013.

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

	<u>2021</u>	<u>2020</u>
Current and other assets	\$ 1,086,224	\$ 919,241
Capital assets	<u>1,360,146</u>	<u>1,422,164</u>
Total assets	<u>2,446,370</u>	<u>2,341,405</u>
Other liabilities	277,240	268,860
Noncurrent liabilities	<u>1,005,572</u>	<u>1,030,000</u>
Total liabilities	<u>1,282,812</u>	<u>1,298,860</u>
Net position		
Net investment in capital assets	354,574	392,164
Restricted for debt service	264,034	259,951
Restricted for (special revenue) food service	76	303
Unrestricted	<u>544,874</u>	<u>390,127</u>
Total net position	<u>\$ 1,163,558</u>	<u>\$ 1,042,545</u>

	<u>2021</u>	<u>2020</u>
Revenues		
Charges for services	\$ 53,322	\$ 60,713
Operating grants and contributions	356,319	180,341
General revenues		
State sources - unrestricted	1,683,140	1,582,301
Intermediate sources	47,223	44,991
Local sources	43,891	6,386
Other	<u>1,533</u>	<u>2,798</u>
Total revenues	<u>2,185,428</u>	<u>1,877,530</u>
Expenses		
Instruction	1,024,984	1,031,221
Support services	710,415	599,603
Community services	94,567	39,970
Food services	94,701	45,671
Interest on long-term debt	77,730	74,947
Unallocated depreciation	<u>62,018</u>	<u>64,979</u>
Total expenses	<u>2,064,415</u>	<u>1,856,391</u>
Change in net position	<u>\$ 121,013</u>	<u>\$ 21,139</u>

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 \$843,608, which is \$164,378 higher than last year's ending fund balances of \$679,230.

The Academy's general fund had more revenues and other financing sources than expenditures and other financing uses by \$156,510. The debt service fund had more revenue and other financing sources than expenditures and other financing uses by \$9,858. The capital projects fund - building and site had more expenditures and other financing uses than revenues and other financing sources by \$1,763. The special revenue fund had more expenditures and other financing uses than revenues and other financing sources by \$227. 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 \$170,484, the actual results show an increase in fund balance of \$156,510.

- Actual revenues and other financing sources were \$106,736 more than expected.
- The actual expenditures and other financing uses were \$120,710 more than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2021, the Academy had invested \$1,360,146 in a broad range of capital assets, including school building, computer and audiovisual equipment and other school furniture. This amount represents a net decrease of \$62,018 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 \$62,018.

Table A-5		
Island City's Capital Assets		
<i>(net of depreciation)</i>		
	2021	2020
Land	\$ 96,082	\$ 96,082
Buildings and improvements	1,188,278	1,236,557
Computer equipment	14,074	22,362
Land improvements	59,608	64,242
Furniture and fixtures	2,104	2,921
Total	\$ 1,360,146	\$ 1,422,164

Long-term Obligations

At year-end the Academy had \$1,005,572 in certificates of participation outstanding, a reduction of \$24,428 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 \$804,428.
- The Academy issued a refunding certification of participation in 2021 totaling \$780,000 to refund the 1999 certificates of participation, with the remaining outstanding balance of the certificate of participation being paid off in August 2021.

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 2021/2022 where revenues are expected to exceed expenditures by \$34,447.
- 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, 2021**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 437,798
Investments - restricted for debt service	262,441
Receivables	
Intergovernmental	335,796
Account receivables	6,975
Prepays	43,214
Capital assets not being depreciated	96,082
Capital assets, net of accumulated depreciation	1,264,064
TOTAL ASSETS	2,446,370
LIABILITIES	
Accounts payable	9,185
Accrued interest	34,624
Accrued personnel and related items	233,431
Noncurrent liabilities	
Due within one year	225,572
Due in more than one year	780,000
TOTAL LIABILITIES	1,282,812
NET POSITION	
Net investment in capital assets	354,574
Restricted for debt service	264,034
Restricted for (special revenue - food service)	76
Unrestricted	544,874
TOTAL NET POSITION	\$ 1,163,558

**ISLAND CITY ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

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	\$ 1,024,984	\$ -	\$ 198,613	\$ (826,371)
Support services	710,415	-	19,611	(690,804)
Community services	94,567	52,030	47,012	4,475
Food services	94,701	1,292	91,083	(2,326)
Interest on long-term debt	77,730	-	-	(77,730)
Unallocated depreciation	62,018	-	-	(62,018)
Total governmental activities	<u>\$ 2,064,415</u>	<u>\$ 53,322</u>	<u>\$ 356,319</u>	<u>(1,654,774)</u>
General revenues				
State source - unrestricted				1,683,140
Intermediate sources				47,223
Local sources				43,891
Investment revenue				<u>1,533</u>
Total general revenues				<u>1,775,787</u>
CHANGE IN NET POSITION				121,013
NET POSITION, beginning of year				<u>1,042,545</u>
NET POSITION, end of year				<u>\$ 1,163,558</u>

See notes to financial statements.

**ISLAND CITY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021**

	General Fund	Debt Service	Capital Projects Fund Building and Site	Nonmajor Governmental (Special Revenue) Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 424,436	\$ -	\$ 6,700	\$ 6,662	\$ 437,798
Investments - restricted for debt service	-	262,441	-	-	262,441
Receivables					
Intergovernmental	322,002	-	-	13,794	335,796
Due from other funds	-	29,242	4,500	-	33,742
Account receivables		6,975			6,975
Prepays	43,214	-	-	-	43,214
	<u>43,214</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,214</u>
TOTAL ASSETS	<u>\$ 789,652</u>	<u>\$ 298,658</u>	<u>\$ 11,200</u>	<u>\$ 20,456</u>	<u>\$ 1,119,966</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 9,185	\$ -	\$ -	\$ -	\$ 9,185
Accrued personnel and related items	233,431	-	-	-	233,431
Due to other funds	13,362	-	-	20,380	33,742
	<u>13,362</u>	<u>-</u>	<u>-</u>	<u>20,380</u>	<u>33,742</u>
TOTAL LIABILITIES	<u>255,978</u>	<u>-</u>	<u>-</u>	<u>20,380</u>	<u>276,358</u>

See notes to financial statements.

	General Fund	Debt Service	Capital Projects Fund Building and Site	Nonmajor Governmental (Special Revenue) Fund	Total Governmental Funds
LIABILITIES AND FUND BALANCES (continued)					
FUND BALANCES					
Nonspendable					
Prepays	\$ 43,214	\$ -	\$ -	\$ -	\$ 43,214
Restricted					
Debt service	-	298,658	-	-	298,658
Assigned					
Capital projects	-	-	11,200	-	11,200
Food service	-	-	-	76	76
Unassigned	490,460	-	-	-	490,460
TOTAL FUND BALANCES	<u>533,674</u>	<u>298,658</u>	<u>11,200</u>	<u>76</u>	<u>843,608</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 789,652</u>	<u>\$ 298,658</u>	<u>\$ 11,200</u>	<u>\$ 20,456</u>	<u>\$ 1,119,966</u>

Total governmental fund balances

\$ 843,608

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	\$ 2,709,583	
Accumulated depreciation is	<u>(1,349,437)</u>	1,360,146

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

Certificates of participation		(1,005,572)
Accrued interest is not included as a liability in government funds, it is recorded when paid		<u>(34,624)</u>

Net position of governmental activities

\$ 1,163,558

See notes to financial statements.

**ISLAND CITY ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021**

	General Fund	Debt Service	Capital Projects Fund Building and Site	Nonmajor Governmental (Special Revenue) Fund	Total Governmental Funds
REVENUES					
Local sources	\$ 115,941	\$ 13	\$ 12	\$ 2,391	\$ 118,357
State sources	1,768,770	-	-	786	1,769,556
Federal sources	159,995	-	-	90,297	250,292
Intermediate sources	47,223	-	-	-	47,223
TOTAL REVENUES	2,091,929	13	12	93,474	2,185,428
EXPENDITURES					
Current					
Instruction					
Basic instruction	814,658	-	-	-	814,658
Added needs	197,805	-	-	-	197,805
Total instruction	1,012,463	-	-	-	1,012,463
Support services					
Instructional staff	1,403	-	-	-	1,403
General administration	145,123	-	-	-	145,123
School administration	362,060	-	-	-	362,060
Business	3	-	3	-	6
Operations and maintenance	146,784	-	-	-	146,784
Support services other	25,137	-	-	-	25,137
Total support services	680,510	-	3	-	680,513
Community service	91,643	-	-	-	91,643
Food service	-	-	-	94,701	94,701
Capital outlay	-	-	1,750	-	1,750
Debt service					
Principal retirement	-	804,428	-	-	804,428
Interest and fiscal charges	-	71,955	-	-	71,955
Bond issuance costs	-	43,597	-	-	43,597
Total debt service	-	919,980	-	-	919,980
TOTAL EXPENDITURES	1,784,616	919,980	1,753	94,701	2,801,050
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	307,313	(919,967)	(1,741)	(1,227)	(615,622)
OTHER FINANCING SOURCES (USES)					
Proceeds from refinancing certificates of participation	-	780,000	-	-	780,000
Transfers in	22	149,825	-	1,000	150,847
Transfers out	(150,825)	-	(22)	-	(150,847)
TOTAL OTHER FINANCING SOURCES (USES)	(150,803)	929,825	(22)	1,000	780,000
NET CHANGE IN FUND BALANCES	156,510	9,858	(1,763)	(227)	164,378
FUND BALANCES					
Beginning of year	377,164	288,800	12,963	303	679,230
End of year	\$ 533,674	\$ 298,658	\$ 11,200	\$ 76	\$ 843,608

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, 2021**

Net change in fund balances total governmental funds \$ 164,378

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

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

Depreciation expense	(62,018)
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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	28,849
Accrued interest payable, end of the year	(34,624)

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):

Proceeds from refinancing certificates of participation	(780,000)
Principal repayment	804,428

Change in net position of governmental activities	<u>\$ 121,013</u>
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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. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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 capital 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, 2021. 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
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, 2021, 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, 2021, \$187,803 of the Academy's bank balance of \$437,803 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.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
First American Treasury Obligation Fund - Class D	<u>\$ 262,441</u>	<u>0.0027</u>
Portfolio weighted average maturity		<u>0.0027</u>

One day maturity equals 0.0027, one year equals 1.00.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Agency</u>
First American Treasury Obligation Fund - Class D	<u>\$ 262,441</u>	AAAm	Standard & Poor's

The Academy invests in external pooled investment funds which included government obligations. The government obligation reports as of June 30, 2021, the fair value of the Academy's investments is the same as the value of the pool shares. These investments are restricted under the terms of the revenue refunding bonds debt agreement for debt service.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

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, 2021, 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.

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.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governmental units at June 30, 2021 consist of the following:

Other governmental units	
State aid	\$ 322,002
Federal grants	<u>13,794</u>
	<u>\$ 335,796</u>

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

NOTE 4 - CAPITAL ASSETS

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

	July 1, 2020	Additions	Deletions	June 30, 2021
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 96,082	\$ -	\$ -	\$ 96,082
Capital assets, being depreciated				
Building and improvements	1,995,004	-	-	1,995,004
Computer equipment	257,302	-	-	257,302
Land improvements	100,686	-	-	100,686
Furniture and fixtures	260,509	-	-	260,509
Total capital assets, being depreciated	2,613,501	-	-	2,613,501
Accumulated depreciation				
Building and improvements	758,447	48,279	-	806,726
Computer equipment	234,940	8,288	-	243,228
Land improvements	36,444	4,634	-	41,078
Furniture and fixtures	257,588	817	-	258,405
Total accumulated depreciation	1,287,419	62,018	-	1,349,437
Net capital assets being depreciated	1,326,082	(62,018)	-	1,264,064
Net capital assets	\$ 1,422,164	\$ (62,018)	\$ -	\$ 1,360,146

Depreciation for the fiscal year ended June 30, 2021 amounted to \$62,018. 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, 2021:

	<u>Notes from Direct Borrowings and Direct Placements</u>
Balance, July 1, 2020	\$ 1,030,000
Additions	780,000
Deletions	<u>(804,428)</u>
Balance, June 30, 2021	1,005,572
Due within one year	<u>(225,572)</u>
Due in more than one year	<u><u>\$ 780,000</u></u>

Long-term obligations at June 30, 2021 consist of the following:

Notes from Direct Borrowings and Direct Placements

August 1999 certificates of participation with interest at 7.25%. Secured by pledged state aid, first mortgage on the property, security interest in specific equipment, and debt service reserve fund. This loan was paid off in full in August 2021.	\$ 225,572
June 2021 certificates of participation - due in annual installments of \$145,000 to \$170,000 through August 2026, interest at 3.5%. Secured by pledged state aid.	<u>780,000</u>
Total general long-term obligations	<u><u>\$ 1,005,572</u></u>

The Academy's outstanding notes from direct borrowings and direct placements related to governmental activities of \$1,005,572 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.

On June 28, 2021, the Academy issued general obligation refunding 2021 certificates of participation of \$780,000 with interest rate of 3.5% to refund the majority of the Academy's outstanding 1999 certificates of participation. After paying issuance costs of \$43,597, the net proceeds were \$736,403. The net proceeds from the issuance of the general obligation 2021 certificates participation were used to refund a portion of the Academy's outstanding 1999 certificates of participation.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM OBLIGATIONS (continued)

The annual requirements to amortize long-term obligations outstanding as of June 30, 2021 are as follows:

Year Ending June 30,	Notes from Direct Borrowings and Direct Placements		Total
	Principal	Interest	
2022	\$ 225,572	\$ 37,127	\$ 262,699
2023	145,000	27,300	172,300
2024	150,000	22,225	172,225
2025	155,000	16,975	171,975
2026	160,000	11,550	171,550
2027	170,000	5,950	175,950
	\$ 1,005,572	\$ 121,127	\$ 1,126,699

Interest expense (all funds) for the year ended June 30, 2021 was approximately \$72,000.

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2021 are as follows:

Fund	Due from Other Funds	Due to Other Funds
General fund	\$ -	\$ 13,362
Debt service fund	29,242	-
Capital projects fund building and site	4,500	-
Special revenue fund	-	20,380
Total	\$ 33,742	\$ 33,742

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.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - TRANSFERS

Transfers between the governmental funds were as follows:

Transfers Out		Transfers In	
General fund	\$ 150,825	General fund	\$ 22
Capital projects	22	Debt service	149,825
		Food service	1,000
	\$ 150,847		\$ 150,847

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, 2021, the Academy incurred expense of approximately \$50,000 for oversight fees.

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 \$39,000 for leased employees in 2021.

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.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 - UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the Academy's 2022 year end. 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.

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.

REQUIRED SUPPLEMENTARY INFORMATION

**ISLAND CITY ACADEMY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2021**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local sources	\$ 53,551	\$ 67,500	\$ 115,941	\$ 48,441
State sources	1,567,657	1,731,792	1,768,770	36,978
Federal sources	43,800	152,523	159,995	7,472
Intermediate sources	33,400	33,400	47,223	13,823
TOTAL REVENUES	<u>1,698,408</u>	<u>1,985,215</u>	<u>2,091,929</u>	<u>106,714</u>
EXPENDITURES				
Instruction				
Basic programs	774,936	834,923	814,658	20,265
Added needs	204,531	179,928	197,805	(17,877)
Total instruction	<u>979,467</u>	<u>1,014,851</u>	<u>1,012,463</u>	<u>2,388</u>
Support services				
Instructional staff	750	750	1,403	(653)
General administration	137,500	141,500	145,123	(3,623)
School administration	272,218	283,900	362,060	(78,160)
Business	3,500	3,500	3	3,497
Operations and maintenance	116,200	126,200	146,784	(20,584)
Other support services	-	-	25,137	(25,137)
Total support services	<u>530,168</u>	<u>555,850</u>	<u>680,510</u>	<u>(124,660)</u>
Community services	49,232	92,070	91,643	427
TOTAL EXPENDITURES	<u>1,558,867</u>	<u>1,662,771</u>	<u>1,784,616</u>	<u>(121,845)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>139,541</u>	<u>322,444</u>	<u>307,313</u>	<u>(15,131)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	6,200	-	22	22
Transfers out	(149,460)	(151,960)	(150,825)	1,135
TOTAL OTHER FINANCING SOURCES (USES)	<u>(143,260)</u>	<u>(151,960)</u>	<u>(150,803)</u>	<u>1,157</u>
NET CHANGE IN FUND BALANCE	<u>\$ (3,719)</u>	<u>\$ 170,484</u>	156,510	<u>\$ (13,974)</u>
FUND BALANCE				
Beginning of year			<u>377,164</u>	
End of year			<u>\$ 533,674</u>	

**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, 2021, 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 26, 2021.

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. However, material weaknesses may exist that have not been identified.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 26, 2021

October 26, 2021

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, 2021, 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 26, 2021 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.

Budget Noncompliance

For the year ended June 30, 2021, the Academy's budget reflects an estimated increase in fund balance that is greater than the actual increase in fund balance. In accordance with the Uniform Budgeting and Accounting Act, academies are required to amend the budget prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues will be less than anticipated or so that expenditures will not be in excess of previous estimates. Our recommendation is the Academy should review budgeting procedures to ensure amendments are properly made and revenue and expenditures are maintained within the approved budget.

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

October 26, 2021

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, 2021. 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. No new accounting policies were adopted, and the application of existing policies was not changed during fiscal year 2021. 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 26, 2021.

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,

Maney Costeiran PC