

**ISLAND CITY ACADEMY**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary information)**  
**YEAR ENDED JUNE 30, 2018**

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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, 2018, 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, 2018, 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 September 25, 2018 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*

September 25, 2018

## 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, 2018.

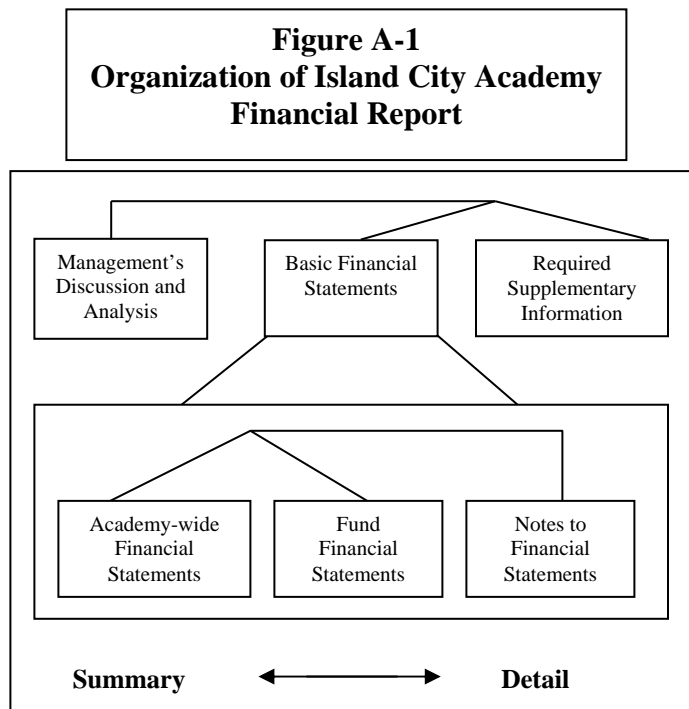
### **FINANCIAL HIGHLIGHTS**

- Total net position increased by \$69,715.
- Overall revenues were \$1,813,677.
- The total cost of instruction programs increased approximately \$11,000.
- Total revenues increased approximately \$36,500, while total expenses decreased approximately \$35,500.
- Enrollment decreased by 4 students from the prior year.
- The Academy reduced its outstanding long-term debt by \$60,000.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

<b>Figure A-2 Major Features of Academy-wide and Fund Financial Statements</b>			
	Academy-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary, such as special education and building maintenance	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
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	All assets and liabilities, both short-term and long-term, Island City Academy’s funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year regardless of when cash is received or paid

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 - are 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 establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.
- The Academy maintains a school lunch fund and a capital projects fund to properly account for these activities.

The Academy has two kinds of funds:

- 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.
- Fiduciary funds - The Academy is the trustee, or fiduciary, for assets that belong to others, such as student activities funds. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the Academy-wide financial statements because the Academy cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

**Net position** - The Academy's *combined* net position was higher on June 30, 2018, than it was the year before - increasing by \$69,715.

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

<b>Table A-3</b>		
<b>Island City's Net Position</b>		
	2018	2017
Current and other assets	\$ 889,350	\$ 827,252
Capital assets	1,482,001	1,531,213
Total assets	2,371,351	2,358,465
Other liabilities	261,085	257,914
Noncurrent liabilities	1,165,000	1,225,000
Total liabilities	1,426,085	1,482,914
Net position:		
Net investment in capital assets	317,001	306,213
Restricted for debt service	245,639	234,485
Unrestricted	382,626	334,853
Total net position	\$ 945,266	\$ 875,551

<b>Table A-4</b>		
<b>Changes in Island City's Net Position</b>		
	2018	2017
Revenues:		
Charges for services	\$ 79,048	\$ 73,264
Operating grants	23,447	18,470
General revenues:		
State sources - unrestricted	1,609,497	1,589,571
Intermediate sources - Act 18	94,516	85,205
Local sources	5,200	10,306
Other	1,969	385
Total revenues	1,813,677	1,777,201
Expenses:		
Instruction	975,801	964,922
Support services	536,397	549,577
Community services	34,956	39,550
Food services	48,472	56,804
Interest on long-term debt	84,674	87,332
Unallocated depreciation	63,662	81,344
Total expenses	1,743,962	1,779,529
Change in net position	\$ 69,715	\$ (2,328)



## 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 \$661,494, which is \$56,963 higher than last year's ending fund balances of \$604,531.

The Academy's general fund had more revenue and transfers in than expenditures and transfers out by \$17,298. The debt service fund had more revenue and transfers in than expenditures and transfers out by \$9,190. The capital projects fund - building and site had more revenues and transfers in than expenditures and transfers out by \$27,527. The special revenue fund had more revenues and transfers in than expenditures and transfers out by \$2,948. Overall, the Academy had a 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 expenditures and transfers out would exceed revenues and transfers in by roughly \$403, the actual results show an increase in fund balance of \$17,298.

- Actual revenues were \$787 less than expected.
- The actual expenditures were \$52,358 less than expected.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of 2018, the Academy had invested \$1,482,001 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 \$49,212 from last year. (More detailed information about capital assets can be found in Note 3 to the financial statements.) Total depreciation expense for the year was \$63,662.

<b>Table A-5</b>		
<b>Island City's Capital Assets</b>		
<i>(net of depreciation)</i>		
	2018	2017
Land	\$ 96,082	\$ 96,082
Buildings	1,330,937	1,377,272
Computer equipment	10,772	19,347
Land improvements	39,601	32,760
Furniture and fixtures	4,609	5,752
Total	\$ 1,482,001	\$ 1,531,213

### **Long-term Debt**

At year-end the Academy had \$1,165,000 in certificates of participation outstanding, a reduction of \$60,000 from last year. (More detailed information about the Academy's long-term liabilities is presented in Note 4 to the financial statements.)

- The Academy continued to pay down its debt, retiring \$60,000.
- No new debt was issued during the year.

### **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 2018/2019 where revenues are expected to exceed expenditures by approximately \$8,050.

### **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, 2018**

	<u>Governmental activities</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 278,667
Investments - restricted for debt service	249,626
Receivables:	
Intergovernmental	292,100
Prepays	68,957
Capital assets not being depreciated	96,082
Capital assets, net of accumulated depreciation	<u>1,385,919</u>
<b>TOTAL ASSETS</b>	<u>2,371,351</u>
<b>LIABILITIES:</b>	
Accounts payable	11,231
Accrued interest	33,229
Accrued personnel and related items	216,625
Noncurrent liabilities:	
Due within one year	65,000
Due in more than one year	<u>1,100,000</u>
<b>TOTAL LIABILITIES</b>	<u>1,426,085</u>
<b>NET POSITION:</b>	
Net investment in capital assets	317,001
Restricted for debt service	245,639
Unrestricted	<u>382,626</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 945,266</u></u>

**ISLAND CITY ACADEMY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018**

<b>Functions/programs</b>	<b>Expenses</b>	<b>Program revenue</b>		<b>Governmental activities</b>
		<b>Charges for services</b>	<b>Operating grants</b>	<b>Net (expense) revenue and changes in net position</b>
Governmental activities:				
Instruction	\$ 975,801	\$ -	\$ -	\$ (975,801)
Support services	536,397	-	-	(536,397)
Community services	34,956	51,259	-	16,303
Food services	48,472	27,789	23,447	2,764
Interest on long-term debt	84,674	-	-	(84,674)
Unallocated depreciation	63,662	-	-	(63,662)
Total governmental activities	<u>\$ 1,743,962</u>	<u>\$ 79,048</u>	<u>\$ 23,447</u>	<u>(1,641,467)</u>
General revenues:				
State source - unrestricted				1,609,497
Intermediate sources				94,516
Local sources				5,200
Investment revenue				1,969
Total general revenues				<u>1,711,182</u>
<b>CHANGE IN NET POSITION</b>				69,715
<b>NET POSITION, beginning of year</b>				<u>875,551</u>
<b>NET POSITION, end of year</b>				<u><u>\$ 945,266</u></u>

**ISLAND CITY ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018**

	<u>General fund</u>	<u>Debt service</u>	<u>Capital projects fund building and site</u>	<u>Nonmajor governmental (special revenue) fund</u>	<u>Total governmental funds</u>
<b>ASSETS</b>					
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 238,309	\$ -	\$ 31,556	\$ 8,802	\$ 278,667
Investments - restricted for debt service	-	249,626	-	-	249,626
Receivables:					
Intergovernmental	291,432	-	-	668	292,100
Due from other funds	10,658	29,242	-	-	39,900
Prepays	68,957	-	-	-	68,957
<b>TOTAL ASSETS</b>	<u>\$ 609,356</u>	<u>\$278,868</u>	<u>\$ 31,556</u>	<u>\$ 9,470</u>	<u>\$ 929,250</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Accounts payable	\$ 11,231	\$ -	\$ -	\$ -	\$ 11,231
Accrued personnel costs and related items	216,625	-	-	-	216,625
Due to other funds	29,242	-	-	10,658	39,900
<b>TOTAL LIABILITIES</b>	<u>257,098</u>	<u>-</u>	<u>-</u>	<u>10,658</u>	<u>267,756</u>

See notes to financial statements.

	<b>General fund</b>	<b>Debt service</b>	<b>Capital projects fund building and site</b>	<b>Nonmajor governmental (special revenue) fund</b>	<b>Total governmental funds</b>
<b>FUND BALANCES:</b>					
Nonspendable:					
Prepaid expenditures	\$ 68,957	\$ -	\$ -	\$ -	\$ 68,957
Restricted:					
Debt service	-	278,868	-	-	278,868
Assigned:					
Capital projects	-	-	31,556	-	31,556
Unassigned	283,301	-	-	(1,188)	282,113
<b>TOTAL FUND BALANCES</b>	<b>352,258</b>	<b>278,868</b>	<b>31,556</b>	<b>(1,188)</b>	<b>661,494</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 609,356</b>	<b>\$278,868</b>	<b>\$ 31,556</b>	<b>\$ 9,470</b>	<b>\$ 929,250</b>
<b>Total governmental fund balances</b>					<b>\$ 661,494</b>
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			\$ 2,651,293		
Accumulated depreciation is			<u>(1,169,292)</u>		1,482,001
Long-term liabilities are not due and payable from current resources and are not reported in the fund:					
Certificates of participation					(1,165,000)
Accrued interest is not included as a liability in government funds, it is recorded when paid					<u>(33,229)</u>
<b>Net position of governmental activities</b>					<b><u>\$ 945,266</u></b>

See notes to financial statements.

**ISLAND CITY ACADEMY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2018**

	General fund	Debt service	Capital projects fund building and site	Nonmajor governmental (special revenue) fund	Total governmental funds
<b>REVENUES:</b>					
Local sources	\$ 56,934	\$ 1,379	\$ 110	\$ 27,794	\$ 86,217
State sources	1,609,497	-	-	462	1,609,959
Federal sources	51,269	-	-	22,985	74,254
Intermediate sources	43,247	-	-	-	43,247
Total revenues	<u>1,760,947</u>	<u>1,379</u>	<u>110</u>	<u>51,241</u>	<u>1,813,677</u>
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Basic instruction	770,867	-	-	-	770,867
Added needs	204,934	-	-	-	204,934
Total instruction	<u>975,801</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>975,801</u>
Support services:					
Instructional staff	1,374	-	-	-	1,374
General administration	136,583	-	-	-	136,583
School administration	277,070	-	-	-	277,070
Business	11	-	-	-	11
Operations and maintenance	133,984	-	-	-	133,984
Total support services	<u>549,022</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>549,022</u>
Community service	34,956	-	-	-	34,956
Food service	-	-	-	48,472	48,472
Capital outlay	-	-	1,825	-	1,825
Debt service:					
Principal retirement	-	60,000	-	-	60,000
Interest and fiscal charges	-	86,638	-	-	86,638
Total debt service	<u>-</u>	<u>146,638</u>	<u>-</u>	<u>-</u>	<u>146,638</u>
Total expenditures	<u>1,559,779</u>	<u>146,638</u>	<u>1,825</u>	<u>48,472</u>	<u>1,756,714</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>201,168</u>	<u>(145,259)</u>	<u>(1,715)</u>	<u>2,769</u>	<u>56,963</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	66	154,449	29,242	245	184,002
Transfers out	(183,936)	-	-	(66)	(184,002)
Total other financing sources (uses)	<u>(183,870)</u>	<u>154,449</u>	<u>29,242</u>	<u>179</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	17,298	9,190	27,527	2,948	56,963
<b>FUND BALANCES:</b>					
Beginning of year	334,960	269,678	4,029	(4,136)	604,531
End of year	<u>\$ 352,258</u>	<u>\$ 278,868</u>	<u>\$ 31,556</u>	<u>\$ (1,188)</u>	<u>\$ 661,494</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, 2018**

**Net change in fund balances total governmental funds** \$ 56,963

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	14,450
Depreciation expense	(63,662)

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	35,193
Accrued interest payable, end of the year	(33,229)

Proceeds and repayments of principal on long-term debt 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	60,000
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**Change in net position of governmental activities** \$ 69,715

**ISLAND CITY ACADEMY  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITES  
JUNE 30, 2018**

	<b>ASSETS</b>	<u><b>Agency fund</b></u>
Cash and cash equivalents		\$ 18,303
	<b>LIABILITIES</b>	
Due to parent/teacher groups		\$ 3,985
Due to student groups		11,194
Due to board of directors		<u>3,124</u>
		<u>\$ 18,303</u>

**ISLAND CITY ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. 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.

**B. 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 2021. 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 Statements.

**C. 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.

**D. 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.

**ISLAND CITY ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Basis of Presentation - Fund Financial Statements (Concluded)**

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.

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.

**Fiduciary Funds** account for assets held by the Academy in a trust capacity or as an agent on behalf of others. Trust funds account for assets held by the Academy under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the Academy holds for others in an agency capacity (primarily student activities).

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.

**ISLAND CITY ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. 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 debt 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)**

**E. Measurement Focus and Basis of Accounting (Concluded)**

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.

**F. 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:

1. 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.

**ISLAND CITY ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Budgetary Information (Concluded)**

Budgetary basis of accounting: (Concluded)

2. 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.
3. 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.
4. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2018. The Academy does not consider these amendments to be significant.

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

1. Cash and cash equivalents

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

2. 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.

**ISLAND CITY ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)**

2. Investments (Concluded)

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.

3. 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.

4. 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 \$1,000 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)**

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)**

4. Capital assets (Concluded)

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	20 - 50
Computer equipment	5 - 20
Land improvements	20
Furniture and fixtures	5 - 20

5. 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.

6. 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.

**ISLAND CITY ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)**

7. 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.

8. 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.

**ISLAND CITY ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**H. Revenues and Expenditures/Expenses**

1. 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.

2. 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.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

As of June 30, 2018, the Academy had the following investments:

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (days)</u>	<u>Standard and Poor's rating</u>	<u>%</u>
First American Treasury Obligation Fund - class D	<u>\$ 249,626</u>	<u>0.0027</u>	AAAm	<u>100%</u>
Portfolio weighted average maturity		<u>0.0027</u>		
One day maturity equals 0.0027, one year equals 1.00				

**ISLAND CITY ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

**Interest rate risk.** 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, 2018, 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.

**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, 2018, a total of \$58,876 of the Academy's bank balance of \$308,876 was exposed to custodial credit risk.

**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.

**ISLAND CITY ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - DEPOSITS AND RESTRICTED INVESTMENTS (Concluded)**

**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.

**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 3 - CAPITAL ASSETS**

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

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 96,082	\$ -	\$ -	\$ 96,082
Capital assets, being depreciated:				
Building and improvements	1,987,597	3,650	-	1,991,247
Computer equipment	231,974	-	-	231,974
Land improvements	60,681	10,800	-	71,481
Furniture and fixtures	260,509	-	-	260,509
Total capital assets, being depreciated	<u>2,540,761</u>	<u>14,450</u>	<u>-</u>	<u>2,555,211</u>
Accumulated depreciation:				
Building and improvements	610,325	49,985	-	660,310
Computer equipment	212,627	8,575	-	221,202
Land improvements	27,921	3,959	-	31,880
Furniture and fixtures	254,757	1,143	-	255,900
Total accumulated depreciation	<u>1,105,630</u>	<u>63,662</u>	<u>-</u>	<u>1,169,292</u>
Net capital assets being depreciated	<u>1,435,131</u>	<u>(49,212)</u>	<u>-</u>	<u>1,385,919</u>
Net capital assets	<u>\$ 1,531,213</u>	<u>\$ (49,212)</u>	<u>\$ -</u>	<u>\$ 1,482,001</u>

Depreciation for the fiscal year ended June 30, 2018 amounted to \$63,662. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**NOTE 4 - LONG-TERM DEBT**

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2018.

Long-term debt, July 1, 2016	\$ 1,225,000
Deductions:	
Principal payment on bonds payable	<u>(60,000)</u>
Long-term debt, June 30, 2017	<u>\$ 1,165,000</u>

**ISLAND CITY ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - LONG-TERM DEBT (Concluded)**

Long-term obligations at June 30, 2018 consist of the following:

August 1999 certificates of participation - due in annual installments of \$60,000 to \$140,000 through August 2029; interest at 7.25%. Secured by pledged state aid, first mortgage on the property security interest in specific equipment and debt service reserve fund. \$ 1,165,000

The annual requirements to amortize long-term debts outstanding are as follows:

Year ending June 30,	Principal	Interest	Total
2019	\$ 65,000	\$ 80,221	\$ 145,221
2020	70,000	75,183	145,183
2021	75,000	69,781	144,781
2022	80,000	64,018	144,018
2023	85,000	57,891	142,891
2023 - 2027	520,000	182,483	702,483
2029 - 2031	270,000	12,126	282,126
	<u><u>\$ 1,165,000</u></u>	<u><u>\$ 541,703</u></u>	<u><u>\$ 1,706,703</u></u>

**NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund payable and receivable balances at June 30, 2018 are as follows:

Fund	Due from other funds	Due to other funds
General fund	\$ 10,658	\$ 29,242
Debt service fund	29,242	-
Capital projects fund building and site	-	-
Special revenue fund	-	10,658
Total	<u><u>\$ 39,900</u></u>	<u><u>\$ 39,900</u></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.

**ISLAND CITY ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - TRANSFERS**

Transfers between the governmental funds were as follows:

Transfers out		Transfers in	
Debt service fund	\$ -	Debt service fund	\$ 154,449
General fund	183,936	General fund	66
Capital projects fund	-	Capital projects fund	29,242
Special revenue fund	66	Special revenue fund	245
	\$ 184,002		\$ 184,002

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 transfers to the capital projects fund and the special revenue fund were to cover operating short-falls. The transfer to the general fund from the special revenue fund was to cover indirect costs.

**NOTE 7 - 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, 2018, the Academy incurred expense of approximately \$46,000 for oversight fees.

**NOTE 8 - 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 \$34,000 for leased employees in 2018.

**NOTE 9 - 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.



**ISLAND CITY ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - UPCOMING ACCOUNTING PRONOUNCEMENT**

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the District's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the District's 2021 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**ISLAND CITY ACADEMY  
REQUIRED SUPPLEMENTAL INFORMATION  
BUGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2018**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget</b>
<b>REVENUES:</b>				
Local sources	\$ 52,000	\$ 52,900	\$ 56,934	\$ 4,034
State sources	1,575,830	1,605,084	1,609,497	4,413
Federal sources	25,000	51,269	51,269	-
Intermediate sources	55,423	52,481	43,247	(9,234)
Total revenues	<u>1,708,253</u>	<u>1,761,734</u>	<u>1,760,947</u>	<u>(787)</u>
<b>EXPENDITURES:</b>				
Instruction:				
Basic programs	793,910	819,818	770,867	48,951
Added needs	196,069	203,187	204,934	(1,747)
Total instruction	<u>989,979</u>	<u>1,023,005</u>	<u>975,801</u>	<u>47,204</u>
Support services:				
Pupil	900	1,300	1,374	(74)
General administration	132,700	132,200	136,583	(4,383)
School administration	269,477	279,521	277,070	2,451
Business	3,000	-	11	(11)
Operations and maintenance	108,500	133,200	133,984	(784)
Total support services	<u>514,577</u>	<u>546,221</u>	<u>549,022</u>	<u>(2,801)</u>
Community services	<u>42,761</u>	<u>42,911</u>	<u>34,956</u>	<u>7,955</u>
Total expenditures	<u>1,547,317</u>	<u>1,612,137</u>	<u>1,559,779</u>	<u>52,358</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>160,936</u>	<u>149,597</u>	<u>201,168</u>	<u>51,571</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	66	66
Transfers out	(150,000)	(150,000)	(183,936)	(33,936)
Total other financing uses	<u>(150,000)</u>	<u>(150,000)</u>	<u>(183,870)</u>	<u>(33,870)</u>
<b>NET CHANGE IN FUND BALANCE</b>				
	<u>\$ 10,936</u>	<u>\$ (403)</u>	<u>17,298</u>	<u>\$ 17,701</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>334,960</u>	
End of year			<u>\$ 352,258</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, 2018, 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 September 25, 2018.

**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*

September 25, 2018

September 25, 2018

To the Board of Directors  
Island City Academy

We have audited the financial statements of Island City Academy for the year ended June 30, 2018, and have issued our report thereon dated September 25, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Island City Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Island City Academy's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to the President of the Board of Directors.

## Significant Audit Findings

### *1. 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 2018. 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.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

We did not identify any sensitive disclosures.

### *2. Difficulties Encountered in Performing the Audit*

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

### *3. 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.

4. *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.

5. *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 25, 2018.

6. *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 Island City 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.

7. *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 Island City 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.

8. *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.

A separate management letter was not issued.

This information is intended solely for the use of the Board of Directors 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*