

ISLAND CITY ACADEMY

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

YEAR ENDED JUNE 30, 2026

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Island City Academy

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Island City Academy, as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise Island City Academy's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Island City Academy, as of June 30, 2026, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Island City Academy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2026 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

Lansing, Michigan
September 2, 2026

ISLAND CITY ACADEMY MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of management's discussion and analysis (MD&A) is to help Island City Academy's (Academy) readers understand what the financial statements and notes in this financial report say about the Academy's financial health and why it changed since last year. It contains information drawn from those other parts of the report, accompanied by explanations informed by the finance staff's knowledge of the Academy's finances.

If you have any questions about this report or need any additional information, please contact the Academy at 6421 S. Clinton Trail, Eaton Rapids, Michigan 48827.

OVERVIEW OF THE FINANCIAL STATEMENTS

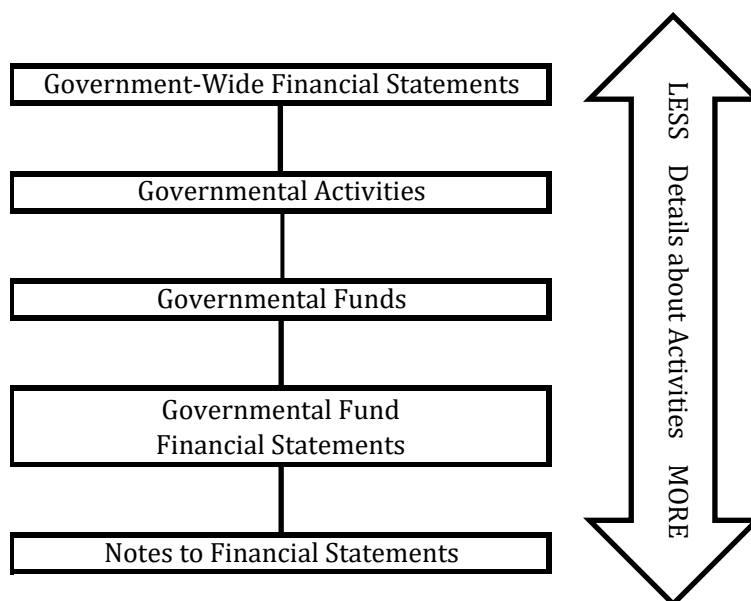
The Academy's financial report contains basic financial statements. Those financial statements present the Academy's finances at both an overall and a detailed level. The first two - the *government-wide financial statements* - cover the Academy's governmental activities. (See the diagram in Figure A-1.)

- *Governmental Activities* comprise of the Academy's most basic functions, such as instruction, support services, and food services. Governmental activities primarily are financed by state aid foundation and federal grants. These statements provide both short-term and long-term information.

The remaining basic financial statements present the Academy's finances in greater detail. As their name implies, the fund financial statements disaggregate financial information by separate funds to report on the specific purposes for which resources are used or for which they are restricted. The Academy reports one group of funds:

- *Governmental Fund Financial Statements* report all of the governmental activities. In addition to the Academy's main operating fund - the general fund - those financial statements report special revenue funds that track the use of restricted or committed funding sources, debt service funds to record the repayment of outstanding bonds, and capital projects funds to account for resources used to acquire or construct long-lived assets.

Figure A-1. Contents of the Academy's Basic Financial Statements



ISLAND CITY ACADEMY MANAGEMENT'S DISCUSSION AND ANALYSIS

The next section of this financial report contains *notes to financial statements*, which delve deeper into the Academy's finances as reported in the financial statements. The information in the notes is as important to understanding the Academy's finances as the information in the financial statements. The Academy uses notes to (1) present information in greater detail than is possible within the financial statements themselves, (2) explain the nature of amounts reported in the financial statements and how those amounts were determined, and (3) report certain information that does not meet the requirements for inclusion in the financial statements (such as certain contingencies).

TYPES OF INFORMATION IN THE FINANCIAL STATEMENTS

All of the Academy's financial statements, except for the governmental fund financial statements, use the economic resources measurement focus and accrual basis of accounting. (See Figure A-2.) In other words, they comprehensively report all types of financial statement elements (as applicable):

- *Assets* - resources the Academy controls, from short-term assets like cash and cash equivalents to long-term assets like buildings and transportation equipment.
- *Liabilities* - amounts the Academy owes, from short-term liabilities such as salaries and related items to long-term liabilities such as outstanding debt and pension obligations.
- *Deferred Outflows of Resources and Deferred Inflows of Resources* - flows that occurred during the year, or in prior years, that will not be reported as expenses and revenues until the future year to which they are related.
- *Revenues and Expenses* - inflows and outflows of economic resources, respectively, related to the current year.

Governmental fund financial statements use the current financial resources measurement focus and modified accrual basis of accounting to report on the sources, uses, and balances of current financial resources. The governmental funds do not report nonfinancial assets, such as capital assets, or certain other long-term items, such as general obligation bonds, but they do report the flows of current financial resources related to those long-term items; for example, the proceeds from issuing bonds or selling equipment, as well as principal and interest payments on bonds and spending on the construction.

**ISLAND CITY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Figure A-2. Types of Information Reported in the Academy's Financial Statements

	Financial Statements	
	Government-wide	Governmental Funds
Types of assets and liabilities	* All assets and liabilities, both financial and nonfinancial, short term and long term	* Only current financial resources, such as cash, receivables, and accounts payable
Types of revenues/ additions	* All types of revenues/additions that flow into the Academy during the year that relate to that year, regardless of when cash is received	* Only revenues that are measurable and available to finance expenditures of that year
Types of expenses/ deductions/ expenditures	* All types of expenses/deductions that flow out of the Academy during the year that relate to that year, regardless of when cash is paid	* Only expenditures for which the related governmental fund liability is incurred in that year
Types of deferred outflows of resources and deferred inflows of resources	* All types of resources that flow into and out of the Academy during the year that relate to a future year	* Current financial resources that flow into and out of the governmental funds during the year that related to a future year

More detail about the measurement focuses and bases of accounting can be found in the first note to financial statements, the summary of significant accounting policies.

ISLAND CITY ACADEMY MANAGEMENT'S DISCUSSION AND ANALYSIS

ANALYSIS OF THE ACADEMY'S FINANCES

Table A-1 Island City Academy's Net Position				
	2026	2025	Dollar Change	Total Percentage Change
Current and other assets	\$ 1,002,373	\$ 1,079,727	\$ (77,354)	-7.2%
Capital assets	1,740,681	1,790,454	(49,773)	-2.8%
Total assets	2,743,054	2,870,181	(127,127)	-4.4%
Current liabilities	208,528	213,255	(4,727)	-2.2%
Noncurrent liabilities	34,445	210,626	(176,181)	-83.6%
Total liabilities	242,973	423,881	(180,908)	-42.7%
Net position				
Net investment in capital assets	1,706,236	1,579,828	126,408	8.0%
Restricted for (special revenue) food service	-	730	(730)	-100.0%
Unrestricted	793,845	865,742	(71,897)	-8.3%
Total net position	\$ 2,500,081	\$ 2,446,300	\$ 53,781	2.2%

Table A-1 shows that as of June 30, 2026, the Academy's total net position - assets minus liabilities was \$2,500,081, an increase of \$53,781 or 2.2% compared with 2025. This increase is primarily due to a \$126,408 or 8.0% increase in investment in capital assets. The following sections of MD&A analyze the finances of the governmental activities.

GOVERNMENTAL ACTIVITIES

Table A-2 shows that revenues continued to exceed expenses in the current year, resulting in an increase in net position. While net position continued to grow, the increase was less than 2025; however, the primary factors affecting the change in net position are as follows:

1. Decrease in state sources revenue due to a slight decline in student enrollment.
2. Decrease in federal REAP and food service funding.

**ISLAND CITY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Table A-2
Changes in Island City Academy's Net Position**

	2026	2025	Dollar Change	Total Percentage Change
Revenues				
Program revenues				
Charges for services	\$ 36,553	\$ 49,410	\$ (12,857)	-26.0%
Operating grants and contributions	443,874	507,985	(64,111)	-12.6%
General revenues				
State sources - unrestricted	1,942,566	2,007,640	(65,074)	-3.2%
Intermediate sources	26,044	47,366	(21,322)	-45.0%
Local sources	20,798	20,867	(69)	-0.3%
Investment earnings	6,723	9,211	(2,488)	-27.0%
Total revenues	<u>2,476,558</u>	<u>2,642,479</u>	<u>(165,921)</u>	-6.3%
Expenses				
Instruction	1,226,620	1,265,719	(39,099)	-3.1%
Support services	864,818	937,986	(73,168)	-7.8%
Community services	52,850	33,390	19,460	58.3%
Food service	132,407	138,533	(6,126)	-4.4%
Interest on long-term debt	4,115	9,931	(5,816)	-58.6%
Unallocated depreciation/amortization	141,967	125,792	16,175	12.9%
Total expenses	<u>2,422,777</u>	<u>2,511,351</u>	<u>(88,574)</u>	-3.5%
Change in net position	53,781	131,128	<u>\$ (77,347)</u>	-59.0%
Net position - beginning of year	<u>2,446,300</u>	<u>2,315,172</u>		5.7%
Net position - end of year	<u>\$ 2,500,081</u>	<u>\$ 2,446,300</u>		2.2%

Decline in Operating Grants and Contributions

There were notable decreases in operating grants and contributions compared to the prior year, which accounts for 17.9% of overall revenues. The Academy also experienced a decline in federal funding in the current year specifically REAP and federal food service funding.

Decline in State Sources

State sources declined in the current year compared to the prior year, which accounts for 78.4% of overall revenues. State sources is a product of student counts multiplied by the foundation allowance. The foundation allowance increased by \$442 per pupil in 2026, however this was offset by a student enrollment decrease of approximately 12 students. The drop in the student count more than offset the increase in the foundation allowance.

ISLAND CITY ACADEMY MANAGEMENT'S DISCUSSION AND ANALYSIS

Decline in Expenses

Total expenses for the Academy dropped by 3.5% overall. The significant reduction was due to decrease in instruction expenses of 3.1% and a decrease in support services of 7.8%. The biggest reason for the decrease in these functions is due to less staffing in the current year. There were 1.5 positions that did not get filled in 2026 compared to 2025.

GOVERNMENTAL FUNDS

The Academy reports three major funds individually in the governmental fund financial statements. These funds are the general fund, debt service, and the capital projects fund. Most of the discussion regarding governmental activities is equally applicable to the finances of these governmental funds. However, certain factors that are relevant to the Academy's current financial health are more apparent in the fund financial statements than in the government-wide statements. The changes are shown in Table A-3 and are discussed in more detail below.

Table A-3 Revenues, Expenditures, and Changes in Fund Balances						
	General Fund		Debt Service		Capital Projects	
	2026	2025	2026	2025	2026	2025
REVENUES	\$ 2,360,187	\$ 2,514,915	\$ -	\$ -	\$ 140	\$ 1,332
EXPENDITURES	2,239,233	2,374,114	169,340	169,812	6,692	68,521
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	120,954	140,801	(169,340)	(169,812)	(6,552)	(67,189)
OTHER FINANCING SOURCES (USES)						
Proceeds from lease	-	54,650	-	-	-	-
Transfers in	-	-	169,340	169,812	-	225,000
Transfers out	(186,299)	(394,812)	-	-	-	-
NET CHANGE IN FUND BALANCE	(65,345)	(199,361)	-	-	(6,552)	157,811
Fund balance - beginning of year	674,005	873,366	-	-	191,737	33,926
Fund balance - end of year	<u>\$ 608,660</u>	<u>\$ 674,005</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,185</u>	<u>\$ 191,737</u>

Fund balance represents the financial standing of a governmental fund as the end of the fiscal year from a short-term perspective.

General Fund

The fund balance of the Academy's general fund decreased by 9.7%. The decline in fund balance is attributable to (1) a decline in revenues (previously discussed), (2) smaller reduction in expenditures due to not filling open positions in order to account for the reduction of revenue.

The overall fund balance at the end of June 30, 2026, represented approximately 27.2% of operating expenditures. The Academy aims to have a minimum fund balance of 10% of operating expenditures. Within fund balance, approximately 87.8% of the balance is considered unassigned. The remaining 12.2% is considered nonspendable and is not readily available for use.

ISLAND CITY ACADEMY MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt Service Fund

The Academy has elected to report the debt service fund as a major fund for comparative purposes. There is no fund balance in the debt service fund at the end of June 30, 2026. All activity in the fund is associated with transfers from the general fund to the debt service fund to cover principal and interest payments on long-term obligations.

Capital Projects Fund

The fund balance for the capital projects fund is considered to be 100% assigned. This means that the fund balance can only be used for the assigned purpose of that fund and is not readily available for use.

SIGNIFICANT CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets

The discussion thus far has only touched upon certain significant transactions and events during 2026 with respect to capital assets and long-term obligations. Overall, the carrying value of capital assets-original cost minus accumulated depreciation/amortization- decreased 2.8% compared to 2025. See Table A-4 for the carrying value of capital assets.

Table A-4 Island City Academy's Capital Assets					
	2026			2025	Total Percentage Change
	Cost	Accumulated Depreciation/ Amortization	Net Book Value	Net Book Value	
Land	\$ 96,082	\$ -	\$ 96,082	\$ 96,082	0.0%
Construction in progress	6,540	-	6,540	-	100.0%
Right-to-use - equipment	54,650	20,820	33,830	44,240	-23.5%
Building and improvements	2,384,480	1,137,970	1,246,510	1,321,381	-5.7%
Computer equipment	86,237	37,875	48,362	42,594	13.5%
Land improvements	181,779	83,937	97,842	97,512	0.3%
Furniture and fixtures	306,558	95,043	211,515	188,645	12.1%
Total	<u>\$ 3,116,326</u>	<u>\$ 1,375,645</u>	<u>\$ 1,740,681</u>	<u>\$ 1,790,454</u>	-2.8%

A significant factor contributing to the decrease in net capital assets during fiscal year 2026 was that depreciation/amortization expense exceeded current-year capital asset additions. During the year, the Academy invested \$92,194 in capital assets to support educational programs, student services, and facility improvements. Significant additions included technology equipment totaling \$19,476, consisting primarily of student Chromebooks. The Academy also invested \$55,947 in furniture and fixtures, including classroom desks, gymnasium equipment, and room dividers. Facility improvements included \$10,231 for parking lot resurfacing, and construction-in-progress increased by \$6,540 related to architectural services for a planned storage area. The Academy had no capital asset disposals during fiscal year 2026.

**ISLAND CITY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Long-term Obligations

Overall, the carrying value of the Academy's long-term obligations decreased by 83.6% from the prior year. See Table A-5 for the carrying value of the Academy's long-term obligations.

Table A-5 Island City Academy's Outstanding Long-Term Obligations			
	<u>2026</u>	<u>2025</u>	<u>Total Percentage Change</u>
Notes from direct borrowings and direct placements	<u>\$ 34,445</u>	<u>\$ 210,626</u>	-83.6%

During 2026, the Academy paid off the June 2021 certificates of participation that matured in June 2026 this decreased the balance by \$166,024 and the remaining decrease is from \$10,157 payments on the copier lease.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

There are several factors that could significantly affect the financial health of the Academy in the future.

- The Academy will be receiving an increase of \$250 in per pupil state aid for the 2026-27 school year. This additional funding will help strengthen the Academy's financial stability and support the educational experiences for students and staff retention.
- The Academy has adopted a general fund budget for the 2026-27 school year in which revenues are expected to exceed expenditures by \$18,729.

BASIC FINANCIAL STATEMENTS

**ISLAND CITY ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2026**

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 518,799
Accounts receivable	93
Intergovernmental receivable	409,388
Prepays	74,093
Capital assets not being depreciated/amortized	102,622
Capital assets, net of accumulated depreciation/amortization	<u>1,638,059</u>
TOTAL ASSETS	<u>2,743,054</u>
LIABILITIES	
Accounts payable	40,678
Accrued purchased services - payroll and related	167,850
Noncurrent liabilities	
Due within one year	10,362
Due in more than one year	<u>24,083</u>
TOTAL LIABILITIES	<u>242,973</u>
NET POSITION	
Net investment in capital assets	1,706,236
Unrestricted	<u>793,845</u>
TOTAL NET POSITION	<u><u>\$ 2,500,081</u></u>

See accompanying notes to financial statements.

**ISLAND CITY ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2026**

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	\$ 1,226,620	\$ -	\$ 192,142	\$ (1,034,478)
Support services	864,818	-	138,285	(726,533)
Community services	52,850	33,769	-	(19,081)
Food services	132,407	2,784	113,447	(16,176)
Interest on long-term debt	4,115	-	-	(4,115)
Depreciation/amortization (unallocated)	141,967	-	-	(141,967)
Total governmental activities	<u>\$ 2,422,777</u>	<u>\$ 36,553</u>	<u>\$ 443,874</u>	<u>(1,942,350)</u>
General revenues				
State source - unrestricted				1,942,566
Intermediate sources				26,044
Local sources				20,798
Investment earnings				<u>6,723</u>
Total general revenues				<u>1,996,131</u>
CHANGE IN NET POSITION				53,781
NET POSITION, beginning of year				<u>2,446,300</u>
NET POSITION, end of year				<u>\$ 2,500,081</u>

See accompanying notes to financial statements.

**ISLAND CITY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2026**

	General Fund	Debt Service	Capital Projects Fund	Nonmajor Governmental (Special Revenue) Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 463,149	\$ -	\$ 28,428	\$ 27,222	\$ 518,799
Accounts receivable	93	-	-	-	93
Intergovernmental receivables	399,336	-	-	10,052	409,388
Due from other funds	27,602	-	156,757	-	184,359
Prepays	74,093	-	-	-	74,093
TOTAL ASSETS	\$ 964,273	\$ -	\$ 185,185	\$ 37,274	\$ 1,186,732
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 31,006	\$ -	\$ -	\$ 9,672	\$ 40,678
Accrued purchased services - payroll and related	167,850	-	-	-	167,850
Due to other funds	156,757	-	-	27,602	184,359
TOTAL LIABILITIES	355,613	-	-	37,274	392,887
FUND BALANCES					
Nonspendable					
Prepays	74,093	-	-	-	74,093
Assigned					
Capital projects	-	-	185,185	-	185,185
Unassigned	534,567	-	-	-	534,567
TOTAL FUND BALANCES	608,660	-	185,185	-	793,845
TOTAL LIABILITIES AND FUND BALANCES	\$ 964,273	\$ -	\$ 185,185	\$ 37,274	\$ 1,186,732

See accompanying notes to financial statements.

**ISLAND CITY ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2026**

Total governmental fund balances	\$ 793,845
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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	\$ 3,116,326	
Accumulated depreciation/amortization is	<u>(1,375,645)</u>	
		1,740,681

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

Direct borrowings and direct placements	<u>(34,445)</u>
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Net position of governmental activities	<u>\$ 2,500,081</u>
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ISLAND CITY ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2026

	General Fund	Debt Service	Capital Projects Fund	Nonmajor Governmental (Special Revenue) Fund	Total Governmental Funds
REVENUES					
Local sources	\$ 102,641	\$ -	\$ 140	\$ 2,784	\$ 105,565
State sources	2,140,966	-	-	71,470	2,212,436
Federal sources	90,536	-	-	41,977	132,513
Intermediate sources	26,044	-	-	-	26,044
TOTAL REVENUES	2,360,187	-	140	116,231	2,476,558
EXPENDITURES					
Current					
Instruction					
Basic instruction	1,003,744	-	-	-	1,003,744
Added needs	266,491	-	-	-	266,491
Total instruction	1,270,235	-	-	-	1,270,235
Support services					
Pupil	95,027	-	-	-	95,027
Instructional staff	275	-	-	-	275
General administration	111,643	-	-	-	111,643
School administration	267,671	-	-	-	267,671
Business services	88,759	-	-	-	88,759
Operations and maintenance	250,280	-	-	-	250,280
Support services other	91,537	-	-	-	91,537
Total support services	905,192	-	-	-	905,192
Community service	52,850	-	-	-	52,850
Food service	-	-	-	133,920	133,920
Capital outlay	-	-	6,692	-	6,692
Debt service					
Principal repayment	10,157	166,024	-	-	176,181
Interest	799	3,316	-	-	4,115
Total debt service	10,956	169,340	-	-	180,296
TOTAL EXPENDITURES	2,239,233	169,340	6,692	133,920	2,549,185
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	120,954	(169,340)	(6,552)	(17,689)	(72,627)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	169,340	-	16,959	186,299
Transfers out	(186,299)	-	-	-	(186,299)
TOTAL OTHER FINANCING SOURCES (USES)	(186,299)	169,340	-	16,959	-
NET CHANGE IN FUND BALANCES	(65,345)	-	(6,552)	(730)	(72,627)
FUND BALANCES					
Beginning of year	674,005	-	191,737	730	866,472
End of year	\$ 608,660	\$ -	\$ 185,185	\$ -	\$ 793,845

See accompanying 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, 2026**

Net change in fund balances total governmental funds	\$ (72,627)
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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/amortization:

Capital outlay	92,194
Depreciation/amortization expense	(141,967)

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

Principal repayment	<u>176,181</u>
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Change in net position of governmental activities	<u><u>\$ 53,781</u></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. The Academy currently does not have fiduciary activities. *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 2033. Board members are approved by the authorizing governing body and have decision making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The Academy receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

Basis of Presentation - Government-wide Financial Statements

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

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

Basis of Presentation - Fund Financial Statements

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

The Academy reports the following *Major Governmental Funds*:

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

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

The *Capital Projects Fund* accounts for the receipt of general fund transfers and the acquisition of capital 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 and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term obligations and acquisitions under leases are reported as other financing sources.

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

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

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

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

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

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

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.

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 asset lives are not capitalized. Right to use assets of the Academy are amortized using the straight-line method over the shorter of the lease period or the estimated lives.

**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:

<u>Capital Asset Classes</u>	<u>Years</u>
Buildings and improvements	5 - 50
Computer equipment	5 - 20
Land improvements	5 - 39
Furniture and fixtures	5 - 20
Right to use - equipment	6

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.

Leases

The Academy is a lessee for a noncancelable lease of equipment. The Academy recognizes a lease liability and an intangible right-to-use lease asset in the government-wide financial statements.

At the commencement of a lease, the Academy initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgements related to leases include how the Academy determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Academy uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Academy generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Academy is reasonably certain to exercise.

**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)

Leases (continued)

The Academy monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term obligations on the statement of net position.

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.

NOTE 2 - CASH DEPOSITS - CREDIT RISK

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2026, \$268,864 of the Academy's bank balance of \$518,864 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governmental units at June 30, 2026 consist of the following:

	Government- wide
State sources	\$ 381,593
Federal sources	27,795
	<u>\$ 409,388</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, 2025	Additions	Deletions	June 30, 2026
Governmental activities				
Capital assets, not being depreciated/amortized				
Land	\$ 96,082	\$ -	\$ -	\$ 96,082
Construction in progress	-	6,540	-	6,540
Total capital assets, not being depreciated	96,082	6,540	-	102,622
Capital assets, being depreciated/amortized				
Building and improvements	2,384,480	-	-	2,384,480
Computer equipment	66,761	19,476	-	86,237
Land improvements	171,548	10,231	-	181,779
Right to use - equipment	54,650	-	-	54,650
Furniture and fixtures	250,611	55,947	-	306,558
Total capital assets, being depreciated/amortized	2,928,050	85,654	-	3,013,704
Accumulated depreciation/amortization				
Building and improvements	1,063,099	74,871	-	1,137,970
Computer equipment	24,167	13,708	-	37,875
Land improvements	74,036	9,901	-	83,937
Right to use - equipment	10,410	10,410	-	20,820
Furniture and fixtures	61,966	33,077	-	95,043
Total accumulated depreciation/amortization	1,233,678	141,967	-	1,375,645
Net capital assets being depreciated/amortized	1,694,372	(56,313)	-	1,638,059
Net capital assets	<u>\$ 1,790,454</u>	<u>\$ (49,773)</u>	<u>\$ -</u>	<u>\$ 1,740,681</u>

Depreciation/amortization for the fiscal year ended June 30, 2026 amounted to \$141,967. The Academy determined that it was impractical to allocate depreciation/amortization 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, 2026:

	Notes from Direct Borrowing and Direct Placement
Balance, July 1, 2025	\$ 210,626
Deletions	<u>(176,181)</u>
Balance, June 30, 2026	34,445
Due within one year	<u>10,362</u>
Due in more than one year	<u><u>\$ 24,083</u></u>

Long-term obligations at June 30, 2026 consist of the following:

Notes from Direct Borrowing and Direct Placement

During the 2025 fiscal year, the Academy entered into a 63-month lease agreement as lessee for the use of a copier. The Academy is required to make monthly principal and interest payments of \$913. The lease has an interest rate of 2%.

\$ 34,445

The Academy's outstanding notes from direct borrowings and direct placements related to governmental activities of \$34,445 contains provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

The annual requirements to amortize long-term obligations outstanding, including interest of \$1,160, as of June 30, 2026 are as follows:

	Notes from Direct Borrowing and Direct Placement		
Year Ending June 30,	Principal	Interest	Total
2027	\$ 10,362	\$ 594	\$ 10,956
2028	10,571	385	10,956
2029	10,784	172	10,956
2030	<u>2,728</u>	<u>9</u>	<u>2,737</u>
	<u><u>\$ 34,445</u></u>	<u><u>\$ 1,160</u></u>	<u><u>\$ 35,605</u></u>

Interest expense (all funds) for the year ended June 30, 2026 was \$4,115.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2026 are as follows:

Fund	Due from Other Funds	Due to Other Funds
General fund	\$ 27,602	\$ 156,757
Capital projects fund	156,757	-
Nonmajor fund	-	27,602
Total	<u>\$ 184,359</u>	<u>\$ 184,359</u>

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

NOTE 7 - TRANSFERS

Transfers between the governmental funds were as follows:

Transfers Out	Transfers In
General fund	Debt service fund
<u>\$ 186,299</u>	\$ 169,340
	Nonmajor fund
	16,959
	<u>\$ 186,299</u>

The transfer from the general fund to the debt service fund was to pay the annual principal and interest of the certificates of participation. The transfer from the general fund to the nonmajor fund was to pay for food service related expenses.

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, 2026, the Academy incurred expense of approximately \$56,000 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 3% of the annual compensation each pay period to the PEO retirement plan resulting in retirement expense of approximately \$48,000 for leased employees in 2026.

**ISLAND CITY ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - RISK MANAGEMENT

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

NOTE 11 - CONTINGENT LIABILITIES

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

NOTE 12 - CHANGES IN ACCOUNTING PRINCIPLES

For the year ended June 30, 2026, the Academy implemented the following GASB standards:

GASB Statement No. 103, *Financial Reporting Model Improvements*. The Standard addressed the following areas:

- a. Management's discussion and analysis (MD&A)
- b. Unusual or infrequent items
- c. Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position;
- d. Information about major component units in basic financial statements should be presented separately in the statement of net position and statement of activities unless it reduces the readability of the statements in which case combining statements should be presented after the fund financial statements;
- e. Budgetary comparison information should include variances between original and final budget amounts and variances between final budget and actual amounts with explanations of significant variances required to be presented in the notes to RSI.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement No. 34. This Statement also requires additional disclosures for capital assets held for sale.

NOTE 13 - UPCOMING ACCOUNTING PRONOUNCEMENT

In December 2025, the GASB issued Statement No. 105, *Subsequent Events*. This Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted during the 2026-2027 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

**ISLAND CITY ACADEMY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2026**

	Budgeted Amounts		Variance with		Variance with
	Original	Final	Original and	Actual	Final Budget
	Budget	Budget	Final Budget		
REVENUES					
Local sources	\$ 57,715	\$ 102,304	\$ 44,589	\$ 102,641	\$ 337
State sources	2,111,122	2,136,889	25,767	2,140,966	4,077
Federal sources	99,310	82,858	(16,452)	90,536	7,678
Intermediate sources	35,882	35,882	-	26,044	(9,838)
TOTAL REVENUES	2,304,029	2,357,933	53,904	2,360,187	2,254
EXPENDITURES					
Instruction					
Basic programs	909,156	1,011,129	101,973	1,003,744	7,385
Added needs	342,883	262,484	(80,399)	266,491	(4,007)
Total instruction	1,252,039	1,273,613	21,574	1,270,235	3,378
Support services					
Pupil	87,243	99,177	11,934	95,027	4,150
Instructional staff	-	-	-	275	(275)
General administration	114,035	112,883	(1,152)	111,643	1,240
School administration	260,428	280,073	19,645	267,671	12,402
Business services	89,202	90,115	913	88,759	1,356
Operations and maintenance	183,779	232,229	48,450	250,280	(18,051)
Support services other	106,471	97,481	(8,990)	91,537	5,944
Total support services	841,158	911,958	70,800	905,192	6,766
Community services	24,359	55,603	31,244	52,850	2,753
Debt service					
Principal repayment	10,157	10,157	-	10,157	-
Interest	799	799	-	799	-
Total debt service	10,956	10,956	-	10,956	-
TOTAL EXPENDITURES	2,128,512	2,252,130	123,618	2,239,233	12,897
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	175,517	105,803	(69,714)	120,954	15,151
OTHER FINANCING SOURCES (USES)					
Transfers out	(169,340)	(174,340)	(5,000)	(186,299)	(11,959)
TOTAL OTHER FINANCING SOURCES (USES)	(169,340)	(174,340)	(5,000)	(186,299)	(11,959)
NET CHANGE IN FUND BALANCE	6,177	(68,537)	(74,714)	(65,345)	3,192
FUND BALANCE					
Beginning of year	674,005	674,005	-	674,005	-
End of year	\$ 680,182	\$ 605,468	\$ (74,714)	\$ 608,660	\$ 3,192

**ISLAND CITY ACADEMY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2026**

NOTE 1 - 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.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The Academy does not utilize encumbrance accounting.

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

- a. The Chief Administrative Officer 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 budgetary comparison schedule.
- 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.
- d. The final budget was approved prior to June 30, 2026, year-end.

**ISLAND CITY ACADEMY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2026**

NOTE 2 - BUDGETARY COMPARISON

Significant Variances Between Original and Final Budget

	<u>Variance</u>	<u>Explanation</u>
REVENUES		
Local Sources	\$ 44,589	Original budget was super conservative for student activities. The final budget is squaring up to what actually happened. There also ended up being more miscellaneous revenue this year.
EXPENDITURES		
Instruction - Basic	101,973	Increase for curriculum purchases, we were supposed to reduce the substitute costs which were removed (largely) in the original budget, but that didn't happen as planned so final accounts for the actual spend in that category.
Instruction - Added Needs	(80,399)	Original budget included 3 interventionists and a full time special education teacher. In reality, we had 2.5 interventionist and .5 SE teacher.
Support - Operations and maintenance	48,450	Original was an estimate of building repairs. We ended up doing more projects than projected so the category increased.

Significant Variances Between Final Budget and Actual

There were no significant variances between the final budget and actual results for the year ended June 30, 2026.



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

To the Board of Directors
Island City Academy

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Island City Academy as of and for the year ended June 30, 2026, 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 2, 2026.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Island City Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Lansing, Michigan
September 2, 2026



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September 2, 2026

To the Board of Directors
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, 2026. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information orally during our discussion on September 2, 2026. 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. The significant accounting policies used by Island City Academy are described in Note 1 to the financial statements. As described in Note 12 to the financial statements, the Academy adopted Governmental Accounting Standards Board (GASB) Statements No. 103, *Financial Reporting Model Improvements* and No. 104, *Disclosure of Certain Capital Assets* during the year ended June 30, 2026. Accordingly, the cumulative effects of the accounting changes are reported in the applicable financial statements and note disclosures. We noted no transactions entered into by Island City Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 calculation of the depreciation expense is based on the estimated useful lives of the capital assets.

Management's estimate of the discount rate used for leases, the lease term, and lease payments/receipts is based on the Island City Academy incremental borrowing rate and consideration of the noncancelable period of the lease and reasonably certain lease options.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures 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 clearly 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 each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 September 2, 2026.

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) that supplements 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.

Restriction on Use

This information is intended solely for the use of the management and members of the Board of Directors 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 Costain PC

Lansing, Michigan