

ISLAND FOUNDATION, INC.
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED AUGUST 31, 2020

ISLAND FOUNDATION, INC.

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ISLAND FOUNDATION, INC.

CERTIFICATE OF BOARD

Name of Charter School
Seashore Charter Schools

County
Nueces County

Co.-Dist.
178-808

We, the undersigned, do hereby certify that this accompanying audit report for fiscal year ended August 31, 2020 from Raul Hernandez & Company, P.C., was reviewed and approved/ disapproved at a meeting of the Board of Directors held on the 18th day of January, 2021.



President, Board of Directors



Secretary, Board of Directors

Raul Hernandez & Company, P. C.

Certified Public Accountants
5402 Holly Rd., Ste 102
Corpus Christi, Texas 78411
Office (361)980-0428 Fax (361)980-1002

INDEPENDENT AUDITORS' REPORT

Board of Directors
Island Foundation, Inc.
Corpus Christi, Texas

Members of the Board of Directors:

We have audited the accompanying financial statements of Island Foundation, Inc. (a non-profit organization) which comprise the statement of financial position as of August 31, 2020 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion 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, issued 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 auditors' judgment, including 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 of 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Island Foundation, Inc. as of August 31, 2020, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2020, on our consideration of Island Foundation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 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 the Island Foundation Inc.'s internal control over financial reporting and compliance.

Raul Hernandez & Company, P.C.

Corpus Christi, TX
December 16, 2020

FINANCIAL STATEMENTS

Island Foundation, Inc.
Statement of Financial Position
August 31, 2020

Exhibit A-1

Assets	
Current assets:	
Cash in Bank	\$ 1,886,634
Due from State	48,623
Other Receivables	68,612
Prepaid Expenses	121,859
Total Current Assets	<u>1,925,728</u>
 Fixed Assets:	
Construction in Progress	-
Land, Buildings, and Improvements	10,723,600
Furniture, Fixtures and Equipment	349,563
	<u>11,073,163</u>
Less: Accumulated Depreciation	<u>(2,127,736)</u>
	<u>8,945,427</u>
 Total Assets	
	<u><u>\$ 10,871,155</u></u>
 Liabilities and Net Assets	
Current liabilities:	
Accounts Payable	\$ 5,830
Payroll Liabilities	15,935
Accrued Salaries	158,476
Accrued Expenses	2,214
Deferred Revenue	71
Debt Payable-Current Portion	171,608
PPP Current Loan Payable	65,524
Total Current Liabilities	<u>419,658</u>
 Long-Term Liabilities	
Debt Payable-Long Term Portion	<u>5,170,403</u>
Total Liabilities	<u>5,590,061</u>
 Net assets:	
Without Donor Restrictions	2,561,338
With Donor Restrictions	2,719,756
Total net assets	<u>5,281,094</u>
 Total Liabilities and Net Assets	
	<u><u>\$ 10,871,155</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Island Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended August 31, 2020

Exhibit A-2

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Local Support			
Contributions	\$ 93,558	\$ -	\$ 93,558
Tuition & Fees	399,284	-	399,284
Fundraisers	89,620	-	89,620
Earnings from Temporary Deposits	8,754	-	8,754
Rents	7,228	-	7,228
Food Service Activities	39,576	-	39,576
Athletic Activity	5,609	-	5,609
Extra/Cocurricular Activities	20,205	-	20,205
Other Income	179,127	-	179,127
Total local support	842,961	-	842,961
State Program Revenues			
Foundation School Program	-	4,206,432	4,206,432
State Program Revenues Distributed by the Texas Education Agency	-	59,035	59,035
Revenues from Texas Government Agencies	-	-	-
Total State Program Revenue	-	4,265,467	4,265,467
Federal program revenues			
Federal Revenues Distributed by the Texas Education Agency	-	72,646	72,646
Federal Revenues Distributed Directly from the Federal Government	-	-	-
Total Federal Program Revenue	-	72,646	72,646
Net assets released from restrictions: Restrictions satisfied by payments	3,926,039	(3,926,039)	-
Total Revenue and Other Support	4,789,000	412,074	5,181,074
EXPENSES			
Program Services			
Instruction and Instructional-Related Services	2,840,517	-	2,840,517
Instructional and School Leadership	363,044	-	363,044
Support Services:			
Administrative Support Services	168,254	-	168,254
Support Services - Non-Student Based	949,251	-	949,251
Support Services - Student	173,396	-	173,396
Debt Service	167,330	-	167,330
Community Service	8,401	-	8,401
Fundraising	118,639	-	118,639
Total Expenses	4,788,832	-	4,788,832
OTHER FINANCING SOURCES (USES)			
Transfers In	34,637	-	34,637
Transfers Out	-	(34,637)	(34,637)
Total Other Financing Sources (Uses)	34,637	(34,637)	-
EXTRAORDINARY ITEMS			
Extraordinary Item - Resource	-	-	-
Extraordinary Item - (Use)	-	-	-
Total Extraordinary Items	-	-	-
CHANGE IN NET ASSETS	14,805	377,437	392,242
NET ASSETS BEGINNING OF YEAR	2,546,533	2,342,319	4,888,852
NET ASSETS END OF YEAR	\$ 2,561,338	\$ 2,719,756	\$ 5,281,094

The accompanying notes to financial statements are an integral part of this statement.

Island Foundation, Inc.
Statement of Functional Expenses
For the Year Ended August 31, 2020

Exhibit A-3

Expenses	Program Activities	Support Activities		Totals
	Program Services	General and Administration	Fundraising	
Salaries and Wages	\$ 2,690,463	\$ 199,707	\$ -	\$ 2,890,170
Benefits	180,540	12,924		193,464
Payroll Taxes	32,569	5,711		38,280
Total Payroll Expenses	2,903,572	218,342	-	3,121,914
Rental Expense	\$ 88,700	\$ 2,706	\$ -	\$ 91,406
Contract Labor	-	143,116	-	143,116
Maintenance and Repairs	10,979	97,412	-	108,391
Utilities	12,448	125,999	-	138,447
Depreciation	-	297,781	-	297,781
Supplies	95,671	66,269	118,639	280,579
Travel	1,707	1,381	-	3,088
Instructional Materials	87,975	2,435	-	90,410
Insurance and Bonding	2,083	203,125	-	205,208
Professional Fees and Dues	426	132,011	-	132,437
Interest	-	167,329	-	167,329
Other	-	8,726	-	8,726
Total Non-Payroll Expenses	\$ 299,989	\$ 1,248,290	\$ 118,639	\$ 1,666,918
Total Expenses	\$ 3,203,561	\$ 1,466,632	\$ 118,639	\$ 4,788,832

The accompanying notes to financial statements are an integral part of this statement.

Island Foundation, Inc.
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2020

Exhibit A-4

Cash Flows From Operating Activities

Change in Net Assets	\$ 392,242
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	297,781
(Increase) Decrease in:	
Due from State	(24,060)
Other Receivables	500
Prepaid Expenses	(16,678)
Increase (Decrease) in:	
Accounts Payable	(240,157)
Accrued Salaries	1,210
Payroll Liabilities	12,687
Accrued Expenses	(73)
Deferred Revenue	71
	<u>423,523</u>

Cash Flows From Investing Activities

Purchase of furniture, fixtures & equipment	(430,570)
	<u>(430,570)</u>

Cash Flows From Financing Activities

Loan Proceeds	65,524
Principal payments	(152,372)
	<u>(86,848)</u>

Net Increase (Decrease) in Cash (93,895)

Cash at Beginning of Year 1,780,529

Cash at End of Year 1,686,634

Summary of Cash:

Cash in Bank	1,686,634
Total Cash	<u>\$ 1,686,634</u>

Supplemental Information:

Cash Paid for Interest	\$ 167,330
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The accompanying notes to financial statements are an integral part of this statement.

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NOTES TO THE FINANCIAL STATEMENTS

ISLAND FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended August 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Island Foundation was incorporated July 5, 1994. It is a non-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is governed by the Board of Directors. The Board of Directors is selected pursuant to the bylaws of the Foundation and has the authority to make decisions, appoint the officers of the Foundation and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Foundation.

The Foundation operates the Seashore Learning Center as a Charter School. The school operates under an open enrollment charter granted by the Texas State Board of Education. The charter was initially issued for a period of five years. The school is part of the public school system of the state and is entitled to distribution from the State's available school fund. However, the School does not have the authority to impose taxes or charge tuition.

During fiscal year ended August 31, 2005, the Texas Education Agency approved a charter amendment request to add seventh through eighth grade effective August 2006. Seashore Learning Center currently serves kindergarten through fourth grade.

The Texas Education Agency also approved the addition of a new middle school charter and increased maximum enrollment. Seashore Middle Academy began operations in August, 2007 and currently services fifth through eighth grades.

On July 1, 2011, the Foundation merged the two campuses under one charter creating Seashore Charter Schools.

B. Basis of Presentation

The combined general-purpose financial statements include the accounts of Island Foundation, Inc. and the Seashore Charter Schools. All significant intercompany accounts and transactions have been eliminated in the combined general-purpose financial statements.

The financial statements of the Association have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Island Foundation, Inc. has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

ISLAND FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended August 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

C. Fixed Assets and Depreciation

All purchased fixed assets are valued at cost or estimated cost. Donated assets are reported at the fair market value at time of acquisition. Fixed assets are defined by the organization as capital assets with an individual cost of more than \$5,000. Depreciation of building improvements and equipment is provided over the estimated useful lives of the assets on a straight-line basis.

D. Revenues

Revenues from the state's available school fund are based on reported attendance. State foundation revenues are public funds held in trust by the charter holder for the benefit of the students of the charter school and as such are reported as temporarily restricted revenues.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Governmental grant contracts that are entered into by the School are recognized as revenue when services are rendered or when the expenses in connection with those services are incurred.

ISLAND FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended August 31, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E Donated Goods and Services

Donated goods and services that can be measured and meet certain other requirements are recorded in the financial statements as in-kind contributions and expenses of a like amount.

F. Cash and Cash Equivalents

For financial statement purposes, the company considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. In preparation of the financial statements in conformity with generally accepted accounting principles, management's estimates were considered for depreciation.

H. Functional expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and wages	Time and Effort
Benefits	Time and Effort
Payroll Taxes	Time and Effort
Rental Expense	Square Footage
Contracted Services	Full Time Equivalent
Maintenance and Repair	Time and Effort
Utilities	Square Footage
Depreciation	Square Footage
Supplies	Time and Effort
Travel	Time and Effort
Instructional Materials	Time and Effort
Insurance and Bonding	Square Footage
Professional Fees and Dues	Full Time Equivalent
Interest	Direct
Other	Time and Effort

ISLAND FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended August 31, 2020

2. AVAILABILITY AND LIQUIDITY

The following represents the Charter School financial assets at August 31, 2020:

Financial assets at year end:	<u>2020</u>	
Cash in bank	\$ 1,686,634	
Due from state	48,623	
Other receivables	68,612	
Prepaid expenses	<u>121,859</u>	
Total financial assets	1,925,728	
Less amounts not available to be used within one year:		
Net assets with donor restrictions	2,719,756	
Less net assets with purpose restrictions to be met in less than a year	-	
Quasi endowment established by the board	<u>-</u>	
	<u>2,719,756</u>	
Financial assets available to meet general expenditures over the next twelve months		<u>(\$ 794,028)</u>

As part of the Foundation's liquidity management, it structures its financial assets to be available as its general expenditures and liabilities become due by maintaining a significant portion of its assets in cash.

3. FAIR VALUE MEASUREMENT OF FINANCIAL STATEMENTS

The requirements of Fair Value Measurements and Disclosures of the FASB Accounting Standards Codification (ASC) apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB also establishes a fair value hierarchy that categorizes the inputs used in valuation methodologies into three levels.

Inputs may be observable or unobservable. Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and the reflect the assumptions that market participants would use when pricing the asset or liability. Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability. A three-tier hierarchy categorizes the inputs used to measure fair value as follows:

ISLAND FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended August 31, 2020

3. FAIR VALUE MEASUREMENT OF FINANCIAL STATEMENTS (Continued)

Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 Unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The Foundation does not have any financial instruments that apply to this three-tier hierarchy.

4. CONCENTRATIONS

The principal source of revenue for the School is its receipt of state program revenues received from the Texas Education Agency.

5. DEPOSITS AND INVESTMENTS

Cash Deposits

At August 31, 2020, the carrying amount of the organization's deposits (cash and interest-bearing savings accounts) was \$1,686,634 and the bank balance was \$1,822,483. The organization's cash deposits at August 31, 2020 and during the year ended August 31, 2020, were entirely covered by FDIC insurance or by pledged collateral held by the bank. The Organization maintains its cash with high quality financial institutions which the Organization believes limits these risks.

ISLAND FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended August 31, 2020

6. PENSION DISCLOSURE

The Foundation participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

Detailed information about TRS' fiduciary net position is available in a separately issued Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.texas.gov/Pages/about_publications.aspx; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Name of Plan: Teacher Retirement System of Texas

Plan Number: N/A

Zone Status: Unknown

	(Dollars in Thousands)
1. Total Plan Assets	\$ 181,800,159
2. Accumulated Benefit Obligations	209,961,325
3. The plan is 75.24% funded	

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

ISLAND FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended August 31, 2020

6. PENSION DISCLOSURE (continued)

Texas Government Code section 821.006 prohibits benefit improvements, if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

In May, 2019, the 86th Texas Legislature approved the TRS Pension Reform Bill (Senate Bill 12) that provides for gradual contribution increases from the state, participating employers and active employees to make the pension fund actuarially sound.

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 12 of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee and employer contribution rates for fiscal years 2020 thru 2025.

Contribution Rates		
	2020	2019
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	7.5%	6.8%
Employers	7.5%	6.8%
2020 Employer Contributions		\$ 94,725
2020 Member Contributions		\$ 157,317

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

ISLAND FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended August 31, 2020

6. PENSION DISCLOSURE (continued)

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public or charter school, the employer shall contribute 1.5% of covered payroll to the pension fund beginning in fiscal year 2020. This contribution rate called the Public Education Employer Contribution will replace the Non(OASDI) surcharge that was in effect in fiscal year 2019.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees: and 100% of the state contribution rate for all other employees. This surcharge was in effect through fiscal year 2019 and was replaced with the Public Education Employer Contribution explained above.

The charter school did not contribute to any other defined benefit pension plans.

7. FIXED ASSETS

Fixed Assets at August 31, 2020 were as follows:	Beginning Balance	Additions	Deletions	Ending Balance
Construction in Progress	\$5,075,200	\$ -	\$ -	\$ 5,075,200
Land	709,131	-	-	709,131
Land Improvements	55,186	-	-	55,186
Buildings and Improvements	4,558,204	390,958	(2,486)	4,946,676
Furniture and Equipment	175,342	39,624	-	214,966
Vehicles	72,004	-	-	72,004
Total Property and Equipment	<u>10,645,067</u>	<u>430,582</u>	<u>(2,486)</u>	<u>\$ 11,073,163</u>
Less: Accumulated Depreciation	<u>(1,832,441)</u>	<u>(297,781)</u>	<u>2,486</u>	<u>(2,127,736)</u>
Property and Equipment, net	<u>\$ 8,812,626</u>	<u>132,801</u>	<u>-</u>	<u>\$ 8,945,427</u>

Depreciation expense for the year ended August 31, 2020 was \$297,781.

ISLAND FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended August 31, 2020

8. OWNERSHIP IN PROPERTY AND EQUIPMENT

Capital assets acquired with public funds received by the Foundation for the operation of the charter schools constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

9. OPERATING LEASES

Seashore Charter Schools currently has ownership of all their buildings during the fiscal year and does not lease any outside facilities.

On September 1, 2019, Seashore Early Childhood Academy entered into a 12-month operating lease agreement with the Seashore Charter Schools. The rent payment was \$2,916.66-\$2916.74 for the twelve months. The facility lease payments totaled \$35,000 for the year ended August 31, 2020. This amount has been eliminated from the combined general-purpose financial statements.

The Schools and Foundation leased copiers during the fiscal year. The copier base lease payments were \$193.31/month and \$188.07/month. Total lease payments were \$4,576.56 for the year ended August 31, 2020.

The Schools and Foundation have entered into eight operating leases with Dell Financial Services during the fiscal year. The lease payments were \$339.76/month, \$2334.80/month, \$639.08/month, \$419.63/month, \$604.33/month, \$1,196.43/month, \$217.30/month, and \$1,086.17/month. Four of these leases have been retired during the fiscal year. Total lease payments were \$65,073.60 for the year ended August 31, 2020.

Year Ending August 31,		
2021	\$	16,964
2022		2,607
2023		2,607
2024		2,607
Total	\$	<u>19,571</u>

ISLAND FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended August 31, 2020

10. LONG-TERM DEBT PAYABLE

On March 8, 2017, the Foundation entered into a loan agreement with the Ed Rachal Foundation. The Foundation borrowed \$4,500,000 with an interest rate of 3% to refinance the prior loan balance of \$3,383,103 for the American Bank loan. Additional funds will be used to construct a new building at the Seashore Learning Center. The monthly payment for this loan is \$21,339.51.

On February 14, 2019, the Foundation entered into a loan agreement with the Ed Rachal Foundation. The Foundation borrowed \$1,300,000 with an interest rate of 3% for construction of improvements on five tracts of land. The monthly payment for this loan is \$6,164.75.

DESCRIPTION	Interest Rate Payable	Interest Current Year	Amounts Outstanding 9/1/2019	Increase	Decrease	Amounts Outstanding 8/31/2020	Current Portion
Ed Rachal Loan Payable	3.00%	\$ 124,026	\$ 4,194,384	\$ -	\$ 132,048	\$ 4,062,336	\$ 136,065
Ed Rachal Loan Payable	3.00%	43,304	1,300,000	-	20,325	1,279,675	35,543
Total		<u>\$ 167,330</u>	<u>\$ 5,494,384</u>	<u>\$ -</u>	<u>\$ 152,373</u>	<u>\$ 5,342,011</u>	<u>\$ 171,608</u>

Maturities of the note payable over the next five years are as follows:

Year Ending August 31,	Principal	Interest	Total
2020	\$ 171,608	\$ 166,358	\$ 337,966
2021	176,842	161,364	338,206
2022	182,237	156,217	338,454
2023	187,699	151,011	338,710
2024	193,522	136,529	330,051
Thereafter	<u>4,430,103</u>	<u>851,721</u>	<u>5,281,824</u>
Total	<u>\$ 5,342,011</u>	<u>\$ 1,623,200</u>	<u>\$ 6,965,211</u>

11. GROUP HEALTH INSURANCE

During the year ended August 31, 2020, employees of the charter school were covered by a health Insurance Plan (the Plan). The charter school contributed an average of \$225 per month per employee enrolled in the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums. All premiums were paid to licensed insurers.

ISLAND FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended August 31, 2020

12. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at August 31, 2020 were as follows:

Foundation School Program	\$2,719,756
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13. COMMITMENTS AND CONTINGENCIES

The School receives federal and state funds which are governed by various rules and regulations of the grantor. Expenses charged to the grant program are subject to audit and adjustment by the grantor agency. In the opinion of management, there are not contingent liabilities related to compliance with the rules and regulations governing the grants other than as reflected in the financial statements.

14. PAYCHECK PROTECTION PROGRAM LOAN

On April 16, 2020, the Foundation entered into an unsecured Small Business Administration (SBA) Paycheck Protection Program (PPP) Loan with American Bank in the amount of \$65,524. Due to the loan being recommended for forgiveness by the financial institution based on the application that will be, but has not yet been submitted to the SBA, the Foundation chose to recognize the amount as a current liability on August 31, 2020. As of August 31, 2020, the loan has yet to be forgiven and if the total balance is not forgiven, the terms of the balance will be determined at the time of forgiveness.

15. SUBSEQUENT EVENTS

The organization has evaluated subsequent events through December 16, 2020, which is the date the financial statements were available to be issued.

The 2020 COVID-19 (Coronavirus) pandemic has caused extensive disruptions to businesses in America and the entire World. In the face of these disruptions, the fluid situation has become difficult to assess the likely impact to not only the economy in America but also the local economy. The Foundation is striving to be highly attuned and is maintaining a heightened state of readiness for the principal risks and increased uncertainties ahead. Given the potential for rapid spreading of the virus, management will be evaluating the current and potential effects on its operations and financial reporting.

**SPECIFIC-PURPOSE
FINANCIAL STATEMENTS**

**Seashore Charter Schools
Statement of Financial Position
August 31, 2020**

Exhibit B-1

Assets

Current assets:

Cash in Bank	\$ 914,094
Due from State	48,623
Other Receivables	500
Prepaid Expenses	121,859
Total Assets	<u>1,085,076</u>

Fixed Assets:

Construction in Progress	-
Land, Building and Improvements	10,723,600
Furniture, Fixtures and Equipment	349,563
Less: Accumulated Depreciation	<u>(2,127,736)</u>
	<u>8,945,427</u>

Total Assets

\$ 10,030,503

Liabilities and Net Assets

Current liabilities:

Accounts Payable	\$ 5,830
Payroll Liabilities	6,132
Accrued Wages Payable	158,476
Accrued Expenditures	2,214
Deferred Revenue	71
Debt Payable-Current Portion	<u>171,608</u>
Total Current Liabilities	<u>344,331</u>

Long Term Liabilities

Debt Payable-Long-term Portion	5,170,403
--------------------------------	-----------

Total Liabilities

5,514,734

Net assets:

Without Donor Restrictions	1,796,013
With Donor Restrictions	<u>2,719,756</u>
Total net assets	<u>4,515,769</u>

Total Liabilities and Net Assets

\$ 10,030,503

**Seashore Charter Schools
Statement of Activities
For the Year Ended August 31, 2020**

Exhibit B-2

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Local Support			
5742 Earnings from Temporary Deposits	\$ 441	\$ -	\$ 441
5743 Rents	42,228	-	42,228
5744 Contributions	93,558	-	93,558
5749 Other Revenues from Local Sources	107,863	-	107,863
5751 Food Services	39,578	-	39,578
5752 Athletic Activity	5,609	-	5,609
5753 Extracurricular Activities	-	-	-
Total local support	289,295	-	289,295
State Program Revenues			
5810 Foundation School Program	-	4,208,432	4,208,432
5820 State Program Revenues Distributed by the Texas Education Agency	-	59,035	59,035
5830 Revenues from Texas Government Agencies	-	-	-
Total State Program Revenue	-	4,265,467	4,265,467
Federal program revenues			
5920 Federal Revenues Distributed by the Texas Education Agency	-	72,848	72,848
5940 Federal Revenues Distributed Directly from the Federal Government	-	-	-
Total Federal Program Revenue	-	72,848	72,848
Net assets released from restrictions:			
Restrictions satisfied by payments	3,926,039	(3,926,039)	-
Total Revenue and Other Support	4,215,334	412,074	4,627,408
EXPENSES			
11 Instruction	2,445,304	-	2,445,304
12 Instructional Resources and Media Services	-	-	-
13 Curriculum Development and Instructional Staff Development	20,417	-	20,417
21 Instructional Leadership	53,207	-	53,207
23 School Leadership	309,837	-	309,837
31 Guidance, Counseling, and Evaluation Services	101,085	-	101,085
33 Health Services	7,079	-	7,079
35 Food Services	32,128	-	32,128
36 Cocurricular/Extracurricular Activities	33,108	-	33,108
41 General Administration	110,450	-	110,450
51 Plant Maintenance and Operations	874,824	-	874,824
52 Security and Monitoring Service	9,900	-	9,900
53 Data Processing	64,527	-	64,527
61 Community Services	151	-	151
72 Debt Service	187,330	-	187,330
81 Fund Raising	20,628	-	20,628
Total Expenses	4,249,971	-	4,249,971
Excess (Deficiency) of Revenues Over (Under) Expenses	(34,637)	412,074	377,437
OTHER FINANCING SOURCES (USES)			
Transfers In	34,637	-	34,637
Transfers Out	-	(34,637)	(34,637)
Total Other Financing Sources (Uses)	34,637	(34,637)	-
EXTRAORDINARY ITEMS			
Extraordinary Item -Resource	-	-	-
Extraordinary Item -(Use)	-	-	-
Total	-	-	-
CHANGE IN NET ASSETS	-	377,437	377,437
NET ASSETS BEGINNING OF YEAR	1,798,013	2,342,319	4,138,332
NET ASSETS END OF YEAR	\$ 1,798,013	\$ 2,719,756	\$ 4,515,789

**Seashore Charter Schools
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2020**

Exhibit B -3

Cash Flows From Operating Activities	
Change in Net Assets	\$ 377,437
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	295,305
(Increase) Decrease in:	
Due from State	196,940
Other Receivables	500
Prepaid Expenses	(16,678)
Increase (Decrease) in:	
Accounts Payable	(240,157)
Payroll Liabilities	5,889
Accrued Wages	1,210
Accrued Expenses	(73)
Deferred Revenues	71
	<u>620,444</u>
Cash Flows From Investing Activities	
Acquisition of fixed assets	<u>(649,094)</u>
	<u>(649,094)</u>
Cash Flows From Financing Activities	
Issuance of debt	-
Principal payments	<u>(152,372)</u>
	<u>(152,372)</u>
Net Increase (Decrease) in Cash	(181,022)
Cash at Beginning of Year	<u>1,095,116</u>
Cash at End of Year	<u><u>914,094</u></u>
Summary of Cash:	
Cash in Bank	914,094
Cash in Money Market Funds	-
Total Cash	<u><u>\$ 914,094</u></u>
Supplemental Information:	
Cash Paid for Interest	\$ 167,330

**Seashore Charter Schools
Schedule of Expenses
August 31, 2020**

Exhibit C-1

Expenses

6100 Payroll Costs	\$ 2,754,045
6200 Professional and Contract Services	571,773
6300 Supplies and Materials	270,642
6400 Other Operating Costs	488,181
6500 Debt Related Costs	167,330
Total Expenses	<u>\$ 4,249,971</u>

**Seashore Charter Schools
Schedule of Capital Assets
August 31, 2020**

Exhibit D-1

	Ownership Interest			Total
	Local	State	Federal	
1510 Land and Improvements	\$ 726,778	\$ -	\$ -	726,778
1520 Buildings and Improvements	9,867,623	186,229	5,564	10,059,416
1531 Vehicles	72,004	-	-	72,004
1539 Furniture, Fixtures and Equipment	84,633	95,071	35,261	214,965
1580 Construction in Progress	-	-	-	-
Total Property and Equipment	\$ 10,751,038	\$ 281,300	\$ 40,825	\$ 11,073,163

**Seashore Charter Schools
Budgetary Comparison Schedule
For the Fiscal Year Ended August 31, 2020**

Exhibit E-1

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUE AND OTHER SUPPORT				
Local Support				
5742 Earnings on Temporary Deposits	\$ 200	\$ 200	\$ 441	\$ 241
5743 Rents	43,001	43,001	42,228	(773)
5744 Contributions	95,500	95,500	93,558	(1,942)
5749 Other Revenues from Local Sources	100,903	106,482	107,883	1,401
5751 Food Services	42,000	42,000	39,578	(2,424)
5752 Athletic Activity	4,000	4,000	5,609	1,609
5753 Extracurricular Activities	-	-	-	-
Total local support	<u>285,604</u>	<u>291,183</u>	<u>289,295</u>	<u>(1,888)</u>
State Program Revenues				
5810 Foundation School Program	4,217,670	4,217,670	4,208,432	(11,238)
5820 State Program Revenues Distributed by the Texas Education Agency	45,500	70,500	59,036	(11,465)
5830 Revenues from Texas Government Agencies	-	-	-	-
Total State Program Revenue	<u>4,263,170</u>	<u>4,288,170</u>	<u>4,265,467</u>	<u>(22,703)</u>
Federal program revenues				
5920 Federal Revenues Distributed by the Texas Education Agency	71,227	72,653	72,646	93
5940 Federal Revenues Distributed Directly from the Federal Government	-	-	-	-
Total Federal Program Revenue	<u>71,227</u>	<u>72,653</u>	<u>72,646</u>	<u>93</u>
Total Revenue and Other Support	<u>4,820,001</u>	<u>4,851,906</u>	<u>4,627,408</u>	<u>(24,498)</u>
EXPENSES				
11 Instruction	2,462,131	2,519,562	2,445,304	74,258
12 Instructional Resources and Media Services	-	-	-	-
13 Curriculum Development and Instructional Staff Development	21,180	25,260	20,417	4,863
21 Instructional Leadership	55,856	55,859	53,207	2,752
23 School Leadership	292,468	292,866	309,637	(16,971)
31 Guidance, Counseling, and Evaluation Services	107,506	107,507	101,085	6,422
33 Health Services	-	7,100	7,079	21
35 Food Services	44,000	44,000	32,126	11,874
36 Cocurricular/Extracurricular Activities	34,474	36,474	33,108	3,368
41 General Administration	118,471	116,472	110,450	8,022
51 Plant Maintenance and Operations	684,477	839,485	874,624	(35,339)
52 Security and Monitoring Services	18,000	18,000	9,900	8,100
63 Data Processing	75,631	82,631	64,527	18,104
61 Community Services	500	500	151	349
71 Debt Service	330,052	330,051	167,330	162,721
81 Facilities Acquisition and Construction	28,501	32,080	20,828	11,452
Total Expenses	<u>4,266,347</u>	<u>4,507,967</u>	<u>4,249,971</u>	<u>257,996</u>
Excess (Deficiency) of Revenues Over (Under) Expenses	<u>350,654</u>	<u>143,939</u>	<u>377,437</u>	<u>233,498</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	34,637	34,637
Transfers Out	-	-	(34,637)	(34,637)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXTRAORDINARY ITEMS				
Extraordinary Item - Resource	-	-	-	-
Extraordinary Item - (Use)	-	-	-	-
Total Extraordinary Items	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	350,654	143,939	377,437	233,498
NET ASSETS BEGINNING OF PERIOD	<u>4,138,332</u>	<u>4,138,332</u>	<u>4,138,332</u>	<u>-</u>
NET ASSETS END OF PERIOD	<u>\$ 4,488,986</u>	<u>\$ 4,282,271</u>	<u>\$ 4,515,769</u>	<u>\$ 233,498</u>

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COMPLIANCE
AND
INTERNAL CONTROL

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Raul Hernandez & Company, P. C.
Certified Public Accountants
5402 Holly Rd., Ste 102
Corpus Christi, Texas 78411
(361)980-0428 Fax (361)980-1002

**Independent Auditors' 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**

Board of Directors
Island Foundation, Inc.

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 Island Foundation, Inc. (a non-profit organization), which comprise the statement of financial position as of August 31, 2020, and related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Island Foundation, Inc.'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Island Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Island Foundation, Inc.'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 considered 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 Foundation, Inc.'s financial statements are free of 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 organization'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 organization's internal control and compliance. Accordingly, the communication is not suitable for any other purpose.

Raul Hernandez & Company, P.C.

Corpus Christi, TX
December 16, 2020

ISLAND FOUNDATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COST
For the Fiscal Year Ended August 31, 2020

A. Summary of Auditor's Results

1. Financial Statements

Type of Report on Financial Statements Unmodified

Internal Control over financial reporting:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that
Are not considered to be material weaknesses? Yes No

Noncompliance material to financial statements
Noted? Yes No

2. Federal Awards N/A

B. Findings related to the Financial Statements which are required to be reported in accordance with generally accepted government auditing standards.

NONE

C. Findings and Questioned Costs

NONE

ISLAND FOUNDATION, INC.
SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended August 31, 2020

None