IMAGINE EDUCATIONAL FOUNDATION
CHARTER HOLDER

ANNUAL FINANCIAL REPORT FOR THE YEARS ENDED

AUGUST 31, 2019 AND 2018

WITH

SUPPLEMENTARY INFORMATION ON

LIGHTHOUSE CHARTER SCHOOL
(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

CONTENTS

	PAGE	EXHIBIT
CERTIFICATE OF THE BOARD	1	B.1
INDEPENDENT AUDITOR'S REPORT	2 – 3	B.2
STATEMENTS OF FINANCIAL POSITION	4	B.3
STATEMENTS OF ACTIVITIES	5 - 6	B.4
STATEMENT OF FUNCTIONAL EXPENSES	7	B.4a
STATEMENTS OF CASH FLOWS	8	B.5
NOTES TO THE FINANCIAL STATEMENTS	9 – 19	B.6
SUPPLEMENTARY INFORMATION		
STATEMENTS OF FINANCIAL POSITION	20	B.7
STATEMENTS OF ACTIVITIES	21	B.8
STATEMENTS OF CASH FLOWS	22	B.9
SCHEDULES OF EXPENSES	23	B.10
SCHEDULE OF CAPITAL ASSETS	24	B.11
BUDGETARY COMPARISON SCHEDULE	25 - 26	B.12
COMPLIANCE AND INTERNAL CONTROL		
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ONCOMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*	27 – 28	B.13
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	29	B.15

Imagine Educational Foundation
Certificate of Board
August 31, 2019

Imagine Educational Foundation	Bexar	015825
Name of Charter Holder	County	Co.-Dist. Number

Federal EIN 74-3016634

We, the undersigned, certify that the attached annual financial reports of the above-named charter school were reviewed and (check one) __ approved __ disapproved for the year ended August 31, 2019, at a meeting of the Board of Trustees of such charter school on the _____ day of _____,_____.

_____ _____

Signature of Board Secretary Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):
(Attach list as necessary)

Independent Auditor's Report

To the Board of Directors
Imagine Educational Foundation
2718 Frontier Drive
San Antonio, TX 78227

Report on the Financial Statements

We have audited the accompanying financial statements of Imagine Educational Foundation (a nonprofit organization), which comprise the statements of financial position as of August 31, 2019 and 2018, the related statements of activities and cash flows for the years then ended, and the statement of functional expenses for the year ended August 31, 2019 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Imagine Educational Foundation, as of August 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 20-26 is presented for purposes of additional analysis and is not a required part of the 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. The 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2020, on our consideration of Imagine Educational Foundation 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 Imagine Educational Foundation's internal control over financial reporting and compliance.

Douville, Goldman & Associates, PLLC
Certified Public Accountants
Kerrville, Texas 78028

January 13, 2020

Financial Statements

Exhibit B.3

IMAGINE EDUCATIONAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2019 AND 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 1,402,109	$ 1,047,943
Grants receivable	197,798	145,653
Deferred expense	-	1,950
Other receivables	4,229	6,378
Total current assets	1,604,136	1,201,924
Property and Equipment, net	6,593,082	6,762,866
Total Assets	$ 8,197,218	$ 7,964,790
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 278	$ 7,602
Accrued interest	18,033	18,033
Accrued wages	131,984	92,419
Other liabilities	4,764	3,901
Current portion of note payable	142,103	118,447
Total current liabilities	297,162	240,402
Long-Term Debt	3,726,364	3,878,242
Total Liabilities	$ 4,023,526	$ 4,118,644
Net Assets		
Without donor restrictions	84,055	53,729
With donor restrictions	4,089,637	3,792,417
Total Net Assets	$ 4,173,692	$ 3,846,146
Total Liabilities and Net Assets	$ 8,197,218	$ 7,964,790

SEE ACCOMPANYING NOTES AND INDEPENDENT AUDITOR'S REPORT

Exhibit B.4

IMAGINE EDUCATIONAL FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	Without Donor Restrictions	With Donor Restrictions	2019 Total
Revenues:			
Local support:			
Food service activity	$ 3,514	$ -	$ 3,514
Rent and other income	26,812	-	26,812
Total local support	30,326	-	30,326
State program revenues:			
Foundation School Program	-	2,955,106	2,955,106
Other state aid	-	1,227	1,227
Total state program revenues	-	2,956,333	2,956,333
Federal program revenues:			
ESEA Title I Part A	-	204,726	204,726
IDEA Part B formula	-	35,630	35,630
IDEA Part B preschool	-	1,470	1,470
Child nutrition	-	200,102	200,102
ESEA Title II & Recruiting	-	4,685	4,685
ESEA Title III, Part A	-	2,100	2,100
ESEA Title IV, Part A	-	10,000	10,000
Total federal program revenues	-	458,713	458,713
Net assets released from restrictions:			
Restrictions satisfied by payments	3,117,826	(3,117,826)	-
Total Revenues	$3,148,152	$ 297,220	$3,445,372
Expenses:			
Program Services:			
Instruction and Instructional-Related Services	1,611,186	-	1,611,186
Instructional and School Leadership	314,884	-	314,884
Support services:			
Administrative Support Services	272,906	-	272,906
Support Services – Non-Student Based	424,897	-	424,897
Support Services - Student (Pupil)	284,696	-	284,696
Debt Service	209,307	-	209,307
Total Expenses	$3,117,826	$ -	$3,117,826
Change in Net Assets	30,326	297,220	327,546
Net Assets, beginning of year	53,729	3,792,417	3,846,146
Net Assets, end of year	$ 84,055	$4,089,637	$4,173,692

SEE ACCOMPANYING NOTES AND INDEPENDENT AUDITOR'S REPORT

Exhibit B.4

IMAGINE EDUCATIONAL FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	Without Donor Restrictions	With Donor Restrictions	2018 Total
Revenues:			
Local support:			
Food service activity	$ 396	$ -	$ 396
Rent and other income	24,361	-	24,361
Total local support	24,757	-	24,757
State program revenues:			
Foundation School Program	-	2,612,635	2,612,635
Other state aid	-	15,861	15,861
Total state program revenues	-	2,628,496	2,628,496
Federal program revenues:			
ESEA Title I Part A	-	86,333	86,333
ESEA Title I Part C	-	6,084	6,084
IDEA Part B formula	-	47,274	47,274
IDEA Part B preschool	-	1,146	1,146
Child nutrition	-	181,913	181,913
ESEA Title II & Recruiting	-	13,507	13,507
ESEA Title III, Part A	-	7,334	7,334
ESEA Title IV, Part A	-	9,997	9,997
Total federal program revenues	-	353,588	353,588
Net assets released from restrictions:			
Restrictions satisfied by payments	2,702,536	(2,702,536)	-
Total Revenues	$2,727,293	$ 279,548	$3,006,841
Expenses:			
Program Services:			
Instruction and Instructional-Related Services	1,422,479	-	1,422,479
Instructional and School Leadership	317,203	-	317,203
Support services:			
Administrative Support Services	185,980	-	185,980
Support Services – Non-Student Based	356,754	-	356,754
Support Services - Student (Pupil)	258,282	-	258,282
Debt Service	161,838	-	161,838
Total Expenses	$2,702,536	$ -	$2,702,536
Change in Net Assets	24,757	279,548	304,305
Net Assets, beginning of year	28,972	3,512,869	3,541,841
Net Assets, end of year	$ 53,729	$3,792,417	$3,846,146

SEE ACCOMPANYING NOTES AND INDEPENDENT AUDITOR'S REPORT

Exhibit B.4a

IMAGINE EDUCATIONAL FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2019

	PROGRAM	SUPPORT	TOTAL
Salaries and wages	$ 1,403,159	$ 233,191	$ 1,636,350
Benefits	211,925	13,917	225,842
Payroll taxes	22,531	4,764	27,295
Accounting	-	52,250	52,250
Insurance and bonding	4,803	12,121	16,924
Supplies and materials	206,985	45,782	252,767
Rental expense	9,938	22,792	32,550
Contract services	51,062	265,858	316,920
Interest	-	209,307	209,307
Utilities	-	66,004	66,004
Travel	9,790	10,611	20,401
Repairs and maintenance	1,802	28,518	30,320
Technology	-	31,706	31,706
Depreciation	-	189,967	189,967
Other expenses	4,030	5,193	9,223
Total	$ 1,926,070	$ 1,191,756	$ 3,117,826

SEE ACCOMPANYING NOTES AND INDEPENDENT AUDITOR'S REPORT

Exhibit B.5

IMAGINE EDUCATIONAL FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Foundation School Program payments	$ 2,955,106	$ 2,612,635
Grant payments	459,940	305,132
Miscellaneous sources	30,326	22,870
Payments to vendors for goods and services rendered	(1,306,451)	(1,340,574)
Payments to charter school personnel for services rendered	(1,636,350)	(1,445,962)
Net cash provided by operating activities	502,571	154,101
Cash flow from investing activities:		
Expenditures for capital assets	(20,183)	-
Expenditures for new construction	-	(1,583,095)
Net cash used in investing activities	(20,183)	(1,583,095)
Cash flows from financing activities:		
Advance on note payable	-	1,600,000
Principal payments on note payable	(128,222)	(79,621)
Net cash provided by (used in) financing activities	(128,222)	1,520,379
Net increase in cash	354,166	91,385
Cash at beginning of year	1,047,943	956,558
Cash at ending of year	$ 1,402,109	$ 1,047,943
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	$ 327,546	$ 304,305
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	189,967	152,645
(Increase) Decrease in assets:		
Grants receivable	(52,145)	(64,317)
Accounts receivable – other	2,149	(1,887)
Deferred expenses	1,950	(200)
Increase (Decrease) in liabilities:		
Accounts payable	(7,324)	(240,404)
Accrued salary	39,565	(2,329)
Accrued interest on note payable	-	6,305
Other liabilities	863	(17)
Net cash provided by operating activities	$ 502,571	$ 154,101

SEE ACCOMPANYING NOTES AND INDEPENDENT AUDITOR'S REPORT

Notes to the Financial Statements

IMAGINE EDUCATIONAL FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

NOTE 1: DESCRIPTION OF ORGANIZATION

Reporting Entity

The charter holder is a not-for-profit organization incorporated in the State of Texas in 2001 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Corporation's Form 990, Return of Organization Exempt from Income Tax, for the years 2016, 2017 and 2018 are subject to examination by the IRS, generally for three years after they are filed.

The corporation is governed by a Board of Directors to consist of three members. The Board of Directors is selected pursuant to the bylaws of the corporation and has the authority to make decisions, appoint the chief executive officer of the corporation and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the corporation.

Since the corporation receives funding from local, state and federal government sources, it must comply with the requirements of the entities providing those funds.

Corporate Operations

The charter holder is operating an open-enrollment charter school providing education to Pre-kindergarten through eighth grade students authorized under Chapter 12, Subchapter D of the Texas Education Code. The Texas State Board of Education renewed the charter until July 31, 2029. The School was organized to provide educational services to at-risk students and their programs, services, activities and functions are governed by the corporation's board of directors.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S.GAAP) for not-for-profit entities. The significant accounting and reporting policies used by the organization are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis of Presentation

The organization prepares its financial statements using the accrual basis of accounting and accounting principles generally accepted in the United States of America.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Uses of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the organization's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The organization's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Change in Accounting Principles

The organization implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a disclosure about liquidity and availability of resources (NOTE 3).

The changes have the following effect on net assets at August 31, 2018:

Net Assets Class	As Originally Presented	After Adoption of AUS 2016-14
Unrestricted net assets	$ 53,729	
Temporarily restricted net assets	3,792,417	
Net assets without donor restrictions		$ 53,729
Net assets with donor restrictions		3,792,417
Total net assets	$ 3,846,146	$ 3,846,146

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors.

Net Assets without Donor Restrictions
Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting for the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets (continued)

Net Assets with Donor Restrictions
Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the organization must continue to use the resources in accordance with the donor's instructions.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the organization, unless donor provides more specific directions about period of its use.

Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses are reported as decreases in net assets without donor restrictions.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less or be cash equivalents.

Accounts Receivable

The change in net assets is charged with an allowance for estimated uncollectible accounts based on past experience and on analysis of current accounts receivable collectability. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. Allowance for 2019 was $0 and for 2018 was $0.

Donated Services

No amounts have been reflected in the financial statements for donated materials or services since no objective basis is available to measure the value thereof; however, a substantial number of volunteers donate their time to the charter school's program services.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general-purpose and specific-purpose financial statements. Capital assets are defined by the corporation as assets with an individual cost of more than $5,000 and an estimated useful life of three or more years. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to thirty-nine years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

Personal Leave

Full time employees of the charter school earn five days of state paid and an additional five days of local paid personal and sick leave per year. There is no material liability for unpaid accumulated sick leave since the charter school does not have a policy to pay any amounts when the employees separate from service, and any unused state balance is transferable to other schools.

Functional Allocation of Expense

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Tax Status

The organization is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). Contributions to the organization are tax deductible to donors under Section 170 of the IRC. The organization is not classified as a private foundation.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budget

The charter school's official budget was prepared for adoption. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1) The charter school prepares a budget at the beginning of each fiscal year. The operating budget includes proposed expenditures and the means of financing them.

2) A meeting of the Board of Directors is then called for the purpose of adopting the proposed budget after ten days public notice of the meeting has been given.

3) The budget is legally enacted through passage of a vote by the Board prior to September 1.

NOTE 3: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure that is without donor or other restrictions limiting their use, within one year of August 31, 2019 are:

Financial Assets:	
Cash & cash equivalents	$ 1,402,109
Accounts receivable, net	202,027
Total financial assets	1,604,136
Amount available for general expenditures within one year	$ 1,604,136

NOTE 4: FAIR VALUE MEASUREMENTS

The carrying value of cash, receivables, and payables approximate fair values as of August 31, 2019 and 2018, due to the relative short maturities of these instruments, and are considered Level 1.

NOTE 5: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes or periods:

	2019	2018
Purpose Restrictions		
Foundation school program	$4,089,637	$3,792,417

NOTE 6: CASH DEPOSITS

The corporation's funds (non-contingency funds) are deposited and invested with a depository bank (Wells Fargo Bank, Texas N.A.). The depository bank deposits for safekeeping and trust with the charters holder's agent bank approved pledged securities in an amount sufficient to protect corporate funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At August 31, 2019, the carrying amount of the charter holder's deposits (cash, certificates of deposit and interest bearing savings accounts) was $1,402,109 which is included in cash and cash equivalents on the Statement of Financial Position. The charter school's cash deposits at August 31, 2019, and during the year ended August 31, 2019, were entirely covered by FDIC insurance or by pledged collateral held by the charter holder's agent bank in the charter holder's name.

NOTE 7: HEALTH CARE COVERAGE

During the year ended August 31, 2019 and 2018, employees of the School were covered by a Health Insurance Plan (the Plan). The charter school contributed $367 per month per employee to the Plan for 2019 and 2018. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to licensed insurers.

NOTE 8: PENSION PLAN OBLIGATIONS

Plan Description

The charter school contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publication Heading.

NOTE 8: PENSION PLAN OBLIGATIONS (continued)

Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a 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 1 years, the period would be increased by such action. State law provides for a member contribution rate of 7.7% for fiscal years 2019 and 2018, and a state contribution rate of 6.8% for fiscal years 2019 and 2018. The charter school's employee's contributions to the System for the years ending August 31, 2019 and 2018 were $84,662 and $93,966, respectively, equal to the required contributions for each year. Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum for the years ending August 31, 2019 and 2018 were $7,147 and $6,025 respectively, equal to the required contributions for each year.

NOTE 9: COMMITMENTS AND CONTINGENCIES

The charter school participates in numerous grant programs which are governed by various rules and regulations of the grantor agencies. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the charter school has not complied with the complex rules and compliance requirements governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the charter school, there are no significant contingent liabilities related to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 10: DEFERRED EXPENSE

Deferred expense at August 31, 2019 and 2018 consisted of the following:

	2019	2018
Prepaid Academic and Athletic League fees	-	$1,950

NOTE 11: CAPITAL ASSETS

Capital assets at August 31, 2019 and 2018 were as follows:

	2019	2018
Land	$ 137,864	$ 137,864
Building & improvements	7,036,885	7,016,702
Furniture and equipment	127,989	127,989
Total property and equipment	7,302,738	7,282,555
Less accumulated depreciation	(709,656)	(519,689)
Property and equipment, net	$ 6,593,082	$ 6,762,866

Depreciation expense for the year ended August 31, 2019 was $189,967 and for August 31, 2018 was $152,645.

Capital assets acquired with public funds received by the organization for the operation of Lighthouse Charter School constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets, Exhibit B.11 and could revert back to the grantor.

NOTE 12: ECONOMIC DEPENDENCY

During the year ended August 31, 2019, the charter school received revenue of $2,956,333 from the Texas Education Agency (TEA). This constitutes approximately 86% of total revenue received. Any unforeseen loss of this charter agreement with TEA or changes in legislative funding could have a material effect on the ability of the School to continue to provide the current level of services to its students.

NOTE 13: LEASES

The charter school entered into a lease agreement on a copier in August 2017. Terms of the lease are 60 monthly payments of $422.23.

Future lease payments required:

For year ending August	
2020	$ 5,067
2021	5,067
2022	5,067
Total	$ 15,201

NOTE 13: LEASES (continued)

The charter school entered into a lease agreement on a copier in August 2017. Terms of the lease are 60 monthly payments of $411.87.

Future lease payment required:

For year ending August	
2020	$ 4,942
2021	4,942
2022	4,942
Total	$ 14,826

The charter school entered into a lease agreement on a copier in August 2017. Terms of the lease are 60 monthly payment of $420.11

Future lease payment required:

For year ending August	
2019	$ 5,041
2021	5,041
2022	5,041
Total	$ 15,123

Lease expenses on copiers were $15,050 and $14,682 for the years ended August 31, 2019 and 2018, respectively.

Commitments under operating lease agreements for buildings require future rental payments as of August 31, 2019 of $17,500 for 2020. Rental expenditures for the years ended August 31, 2019 and 2018 were $17,500.

NOTE 14: NOTE PAYABLE

At August 31, 2019, Imagine Educational Foundation has a note payable as follows:

Note payable to Amegy Bank dated November 4, 2015 payable in monthly installments of $17,957 including interest. The mortgage note bears interest at the stated rate of 5.50%. The note is secured by a first lien on land and buildings.

Principal payments outstanding	$ 2,312,963
Less: current portion	(90,534)
Total long-term debt	$ 2,222,429

Scheduled maturities of Amegy Bank notes payable as of August 31, 2019 are as follows:

2020	$ 90,534
2021	95,641
2022	101,036
2023	106,735
2024	1,919,017
Total	$ 2,312,963

On May 26, 2017, Imagine Educational Foundation entered into a line of credit to Amegy Bank for $1,600,000. The mortgage note bears interest at the stated rate of 4.85%. The note is secured by a second lien on land and buildings.

Principle payments outstanding	$ 1,555,504
Less: Current portion	(51,569)
Total long-term debt	$ 1,503,935

Scheduled maturities of line of credit as of August 31, 2019 are as follows:

2020	$ 51,569
2021	54,126
2022	56,810
2023	59,627
2024	1,333,372
Total	$ 1,555,504

NOTE 14: NOTE PAYABLE (continued)

Interest expense was $209,307 and $161,838 for the years ended August 31, 2019 and 2018, respectively.

The Organization capitalizes interest cost as a component of the cost of construction in progress. The following is a summary of interest cost incurred during the years ended August 31, 2019 and 2018.

	2019	2018
Interest cost capitalized	$ -	$ 18,639
Interest cost expensed	209,307	161,838
Total interest cost incurred	$ 209,307	$ 180,477

NOTE 15: SUBSEQUENT EVENTS

Subsequent events were evaluated through January 13, 2020, which is the date the financial statements were available to be issued.

Supplemental

Exhibit B.7

IMAGINE EDUCATIONAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2019 AND 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 1,402,109	$ 1,047,943
Grants receivable	197,798	145,653
Deferred expense	-	1,950
Other receivables	4,229	6,378
Total current assets	1,604,136	1,201,924
Property and Equipment, net	6,593,082	6,762,866
Total Assets	$ 8,197,218	$ 7,964,790
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 278	$ 7,602
Accrued interest	18,033	18,033
Accrued wages	131,984	92,419
Other liabilities	4,764	3,901
Current portion of note payable	142,103	118,447
Total current liabilities	297,162	240,402
Long-Term Debt	3,726,364	3,878,242
Total Liabilities	$ 4,023,526	$ 4,118,644
Net Assets		
Without donor restrictions	84,055	53,729
With donor restrictions	4,089,637	3,792,417
Total Net Assets	$ 4,173,692	$ 3,846,146
Total Liabilities and Net Assets	$ 8,197,218	$ 7,964,790

SEE ACCOMPANYING NOTES AND INDEPENDENT AUDITOR'S REPORT

Exhibit B.8

LIGHTHOUSE CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

		Without Donor Restrictions	With Donor Restrictions	Totals 2019	Totals 2018
Revenues:					
Local Support:					
5740	Other Revenues from Local Sources	$ 30,326	$ -	$ 30,326	$ 24,757
State Program Revenues					
5810	Foundation School Program Act Revenues	-	2,955,106	2,955,106	2,612,635
5820	State Program Revenues Distributed by Texas Education Agency	-	1,227	1,227	15,862
Total State Program Revenues		-	2,956,333	2,956,333	2,628,496
Federal Program Revenues:					
5920	Federal Revenues Distributed by the Texas Education Agency	-	458,713	458,713	353,588
5930	Federal Revenue from State Government	-	-	-	-
Total Federal Program Revenues		-	458,713	458,713	353,588
Net Assets Released from Restrictions:					
Restrictions Satisfied by Payments		3,117,826	(3,117,826)	-	-
Total Revenues		$ 3,148,152	$ 297,220	$ 3,445,372	$ 3,006,841
Expenses					
11	Instruction	1,611,186	-	1,611,186	1,422,479
13	Curriculum Development & Instructional Staff Development	4,737	-	4,737	25,119
21	Instructional Leadership	-	-	-	533
23	School Leadership	310,147	-	310,147	291,551
31	Guidance, Counseling & Evaluation Services	-	-	-	135
33	Health Services	1,010	-	1,010	1,846
35	Food Services	274,455	-	274,455	256,301
36	Co-curricular/Extracurricular Activities	9,231	-	9,231	-
41	General Administration	272,906	-	272,906	185,980
51	Plant Maintenance & Operations	386,169	-	386,169	326,910
52	Security & Monitoring Services	6,972	-	6,972	1,595
53	Data Processing Services	31,706	-	31,706	28,249
71	Debt Service	209,307	-	209,307	161,838
	Total Expenses	$ 3,117,826	$ -	$ 3,117,826	$ 2,702,536
Changes in Net Assets		30,326	297,220	327,546	304,305
Net Assets, beginning of year		53,729	3,792,417	3,846,146	3,541,841
Net Assets, ending of year		$ 84,055	$ 4,089,637	$ 4,173,692	$ 3,846,146

SEE ACCOMPANYING NOTES AND INDEPENDENT AUDITOR'S REPORT

Exhibit B.9

IMAGINE EDUCATIONAL FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Foundation School Program payments	$ 2,955,106	$ 2,612,635
Grant payments	459,940	305,132
Miscellaneous sources	30,326	22,870
Payments to vendors for goods and services rendered	(1,306,451)	(1,340,574)
Payments to charter school personnel for services rendered	(1,636,350)	(1,445,962)
Net cash provided by operating activities	502,571	154,101
Cash flow from investing activities:		
Expenditures for capital assets	(20,183)	-
Expenditures for new construction	-	(1,583,095)
Net cash used in investing activities	(20,183)	(1,583,095)
Cash flows from financing activities:		
Advance on note payable	-	1,600,000
Principal payments on note payable	(128,222)	(79,621)
Net cash provided by (used in) financing activities	(128,222)	1,520,379
Net increase in cash	354,166	91,385
Cash at beginning of year	1,047,943	956,558
Cash at ending of year	$ 1,402,109	$ 1,047,943
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	$ 327,546	$ 304,305
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	189,967	152,645
(Increase) Decrease in assets:		
Grants receivable	(52,145)	(64,317)
Accounts receivable – other	2,149	(1,887)
Deferred expenses	1,950	(200)
Increase (Decrease) in liabilities:		
Accounts payable	(7,324)	(240,404)
Accrued salary	39,565	(2,329)
Accrued interest on note payable	-	6,305
Other liabilities	863	(17)
Net cash provided by operating activities	$ 502,571	$ 154,101

SEE ACCOMPANYING NOTES AND INDEPENDENT AUDITOR'S REPORT

Exhibit B.10

LIGHTHOUSE CHARTER SCHOOL
SCHEDULES OF EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

		Totals	
		2019	2018
Expenses			
6100	Payroll Costs	$ 1,889,486	$ 1,681,567
6200	Professional and Contracted Services	529,750	504,848
6300	Supplies and Materials	252,768	163,394
6400	Other Operating Costs	236,515	190,889
6500	Debt	209,307	161,838
Total Expenses		$ 3,117,826	$ 2,702,536

SEE ACCOMPANYING NOTES AND INDEPENDENT AUDITOR'S REPORT

Exhibit B.11

LIGHTHOUSE CHARTER SCHOOL
SCHEDULES OF CAPITAL ASSETS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

		2019 Ownership Interest			2018 Ownership Interest		
		Local	State	Federal	Local	State	Federal
1510	Land	$ -	$ 137,864	$ -	$ -	$ 137,864	$ -
1520	Building & Improvements	-	7,036,885	-	-	7,016,705	-
1549	Furniture & Equipment	-	120,976	7,013	-	120,976	7,013
Total Property & Equipment		$ -	$ 7,295,725	$ 7,013	$ -	$ 7,275,542	$ 7,013

SEE ACCOMPANYING NOTES AND INDEPENDENT AUDITOR'S REPORT

Exhibit B.12

LIGHTHOUSE CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULES
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	2019 Budgeted Amounts			
	Original	Final	Actual Amounts	Variance from Final Budget
Revenues				
Local Support:				
5740 Other Revenues from Local Sources	$ 24,500	$ 30,000	$ 30,326	$ 326
State Program Revenues				
5810 Foundation School Program Act Revenues	2,361,726	2,894,786	2,955,106	55,802
5820 State Program Revenues Distributed by Texas Education Agency	1,175	1,175	1,227	52
Total State Program Revenues	2,362,901	2,895,961	2,956,333	55,854
Federal Program Revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency	261,000	261,000	458,713	202,231
5930 Federal Revenue from State Government	-	-	-	-
Total Federal Program Revenues	261,000	261,000	458,713	202,231
Total revenues	$ 2,648,401	$ 3,186,961	$ 3,445,372	$ 258,411
Expenses				
11 Instruction	1,399,950	1,769,510	1,611,186	158,324
12 Instructional Resources and Media Services	1,000	1,000	-	1,000
13 Curriculum and Instructional Staff Development	1,000	1,000	4,737	(3,737)
23 School Leadership	273,002	308,002	310,147	(2,145)
33 Health Services	2,500	2,500	1,010	1,490
35 Food Services	262,675	262,675	274,455	(11,780)
36 Curricular/Extracurricular Activities	5,000	10,000	9,231	769
41 General Administration	217,113	267,113	272,906	(5,793)
51 Plant Maintenance and Operations	337,891	347,891	386,169	(38,278)
52 Security and Monitoring	2,000	5,000	6,972	(1,972)
53 Data Processing Services	35,000	35,000	31,706	3,294
61 Community Service	500	1,500	-	1,500
71 Interest on Debt	110,770	175,770	209,307	(33,537)
Total Expenses	$ 2,648,401	$ 3,186,961	$ 3,117,826	$ 69,135
Changes in Net Assets	-	-	327,546	327,546
Net Assets, beginning of year	3,846,146	3,846,146	3,846,146	-
Net Assets, ending of year	$ 3,846,146	$ 3,846,146	$ 4,173,692	$ 327,546

SEE ACCOMPANYING NOTES AND INDEPENDENT AUDITOR'S REPORT

Exhibit B.12

LIGHTHOUSE CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULES
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	2018 Budgeted Amounts			
	Original	Final	Actual Amounts	Variance from Final Budget
Revenues				
Local Support:				
5740 Other Revenues from Local Sources	$ -	$ -	$ 24,757	$ 24,757
State Program Revenues				
5811 Foundation School Program Act Revenues	2,050,000	2,260,418	2,612,635	352,217
5821 State Program Revenues Distributed by Texas Education Agency	82,335	82,335	15,861	(66,474)
Total State Program Revenues	2,132,335	2,342,753	2,628,496	285,743
Federal Program Revenues:				
5921 Federal Revenues Distributed by the Texas Education Agency	220,605	220,605	353,588	132,983
5930 Federal Revenue from State Government	-	-	-	-
Total Federal Program Revenues	220,605	220,605	353,568	132,983
Total revenues	$ 2,352,940	$ 2,563,358	$ 3,006,841	$ 443,483
Expenses				
11 Instruction	1,461,802	1,540,096	1,422,479	117,617
14 Instructional Resources and Media Services	-	-	-	-
15 Curriculum and Instructional Staff Development	10,649	10,649	25,119	(14,470)
21 Instructional Leadership	-	-	533	(533)
23 School Leadership	272,381	276,005	291,551	(15,546)
31 Guidance, Counseling and Evaluation Services	-	-	135	(135)
33 Health Services	2,000	2,500	1,846	654
35 Food Services	188,100	188,100	256,301	(68,201)
36 Curricular/Extracurricular Activities	-	-	-	-
41 General Administration	213,008	213,008	185,980	27,028
51 Plant Maintenance and Operations	171,500	179,500	326,910	(147,410)
52 Security and Monitoring	5,000	5,000	1,595	3,405
53 Data Processing Services	28,000	35,000	28,249	6,751
61 Community Service	500	500	-	500
71 Interest on Debt	-	113,000	161,838	(48,838)
Total Expenses	$ 2,352,940	$ 2,563,358	$ 2,702,536	$ (139,178)
Changes in Net Assets	-	-	304,305	304,305
Net Assets, beginning of year	3,541,841	3,541,841	3,541,841	-
Net Assets, ending of year	$ 3,541,841	$ 3,541,841	$ 3,846,146	$ 304,305

SEE ACCOMPANYING NOTES AND INDEPENDENT AUDITOR'S REPORT

Compliance
And
Internal Control

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*

Board of Directors
Imagine Educational Foundation
2718 Frontier Drive
San Antonio, TX 78227

We have audited, in accordance with the 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 Imagine Educational Foundation, (a nonprofit organization) which comprise the statements of financial position as of August 31, 2019 and 2018, the related statements of activities and cash flows for the years then ended, and the statement of functional expenses for the year ended August 31, 2019 and the related notes to the financial statements, and have issued our report thereon dated January 13, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Imagine Educational Foundation's internal control over financial reporting over financial 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 Imagine Educational Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Imagine Educational Foundation'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 intended 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 foundation'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 foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Douville, Goldman & Associates, PLLC
Certified Public Accountants
Kerrville, Texas 78028

January 13, 2020

Exhibit B.15

IMAGINE EDUCATIONAL FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2019

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	___Yes __X__ No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___Yes __X__ None reported
Noncompliance material to financial statement noted?	___Yes __X__ No
Federal Awards	N/A

II. Financial Statement Findings

None identified

III. Findings and questioned costs for state and federal awards

None identified