

IMAGINE - LEON COUNTY, LLC

FINANCIAL STATEMENTS

JUNE 30, 2013

**IMAGINE - LEON COUNTY, LLC
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JUNE 30, 2013**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors,
Imagine - Leon County, LLC:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Imagine - Leon County, LLC (the "School"), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Imagine - Leon County, LLC as of June 30, 2013 and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2013 on our consideration of Imagine - Leon County, LLC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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 - Leon County, LLC's internal control over financial reporting and compliance.

James Moore & Co., P.L.

Tallahassee, Florida
August 2, 2013

Management's Discussion and Analysis

As management of Imagine - Leon County, LLC, we offer readers of Imagine - Leon County, LLC's financial statements this narrative overview and analysis of the financial activities of Imagine - Leon County, LLC for the fiscal year ended June 30, 2013.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Imagine - Leon County, LLC's basic financial statements. Imagine - Leon County, LLC's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Imagine - Leon County, LLC's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of Imagine - Leon County, LLC's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Imagine - Leon County, LLC is improving or deteriorating.

The *statement of activities* presents information showing how Imagine - Leon County, LLC's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish various functions of Imagine - Leon County, LLC. The governmental activities of the Imagine - Leon County, LLC include instruction and instruction related services, school administration, fiscal services, food services, pupil transportation services, operation of plant, and maintenance of plant.

The government-wide financial statements can be found on pages 8 – 9 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Imagine - Leon County, LLC, like other charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Imagine - Leon County, LLC are governmental funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a school's near-term financing requirements.

Management's Discussion and Analysis

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the school's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Imagine - Leon County, LLC maintains four governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and capital project fund, which are considered to be major funds.

The basic governmental fund financial statements can be found on pages 10 – 12 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 – 22 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning Imagine - Leon County, LLC's budgetary information. Required supplementary information can be found on pages 23 – 26 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a school's financial position. In the case of Imagine - Leon County, LLC, liabilities exceeded assets by \$89,903 at the close of the most recent fiscal year. This balance in the most recent fiscal year reflects its investment in capital assets (e.g., buildings, furniture, fixtures, equipment and software), less any related debt used to acquire those assets. Imagine - Leon County, LLC uses these capital assets to provide services to students. Accordingly, these assets are not available for future spending. Although Imagine - Leon County, LLC's investment in its capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Management's Discussion and Analysis

Net Position

	2013	2012
Current and other assets	\$ 346,264	\$ 607,608
Capital assets	89,803	82,212
Total assets	436,067	689,820
Long-term liabilities outstanding	-	16,676
Other liabilities	346,264	334,283
Total liabilities	346,264	350,959
Net position:		
Net investments in capital assets	89,803	65,536
Unrestricted	-	273,325
Total net position	\$ 89,803	\$ 338,861

Governmental activities. During the current fiscal year, net position for governmental activities decreased \$249,058 from the prior fiscal year for an ending net position of \$89,803. The key element of the decrease is due to significant decline in student enrollment causing less funding to be received.

Changes in Net Position

	2013	2012
Revenues:		
Program revenues:		
Charges for services	\$ 169,523	\$ 127,446
Operating grants and contributions	91,623	170,532
Capital grants and contributions	108,233	230,244
General revenues:		
Grants and contributions not restricted to specific programs	2,724,502	3,745,059
Total revenues	3,093,881	4,273,281
Expenses:		
Basic instruction	1,255,020	1,768,369
Exceptional instruction	11,632	116,607
Health services	111	491
Media services	241	3,031
General administration	474,286	652,998
School administration	323,076	334,405
Food services	145,857	100,994
Transportation	30,946	31,538
Plant	969,990	1,150,465
Maintenance of plant	96,522	87,358
Before/after care	35,258	36,637
Total expenses	3,342,939	4,282,893
Decrease in net position	(249,058)	(9,612)
Nets position , beginning of year	338,861	348,473
Fund balance , end of year	\$ 89,803	\$ 338,861

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, Imagine - Leon County, LLC uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of Imagine - Leon County, LLC's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Imagine - Leon County, LLC's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a school's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, Imagine - Leon County, LLC itself, or a group or individual that has been delegated authority to assign resources for use for a particular purposes by Imagine - Leon County, LLC's board.

At June 30, 2013, Imagine - Leon County, LLC's governmental funds reported combined fund balances of \$0, a decrease of \$273,325 in comparison with the prior year.

The general fund is the chief operating fund of Imagine - Leon County, LLC As of the end of the current fiscal year, unassigned fund balance of the general fund was (\$11,024), while total fund balance was \$0.

The fund balance of Imagine - Leon County, LLC's general fund decreased by \$273,325 during the current fiscal year. The key element of the decrease is a significant decline in student enrollment.

General Fund Budgetary Highlights

Original budget compared to final budget. The major differences between the original budget and the final amended budget were due to the following:

- A decrease in enrollment from the beginning of the school year caused a decrease in revenue and expenditures.

Capital Asset Administration

Capital assets. Imagine - Leon County, LLC's investment in capital assets for its governmental activities as of June 30, 2013, amounts to \$89,803 (net of accumulated depreciation). This investment in capital assets includes technology equipment, furniture, fixtures, equipment and vehicles. The total increase in capital assets for the current fiscal year was approximately 9%.

Additional information on Imagine - Leon County, LLC's capital assets can be found in Note 5 on page 19 of this report.

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

The following economic factors currently affect Imagine - Leon County, LLC and were considered in developing the 2013-2014 fiscal year budget.

- Current per student funding levels
- Current and projected enrollment

Requests for Information

This financial report is designed to provide a general overview of Imagine - Leon County, LLC's finances for all those with an interest in the school's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Imagine - Leon County, LLC, 3611 Austin Davis Blvd., Tallahassee, FL 32308.

**IMAGINE - LEON COUNTY, LLC
STATEMENT OF NET POSITION
JUNE 30, 2013**

		<u>Governmental Activities</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$	58,210
Receivables		30,083
Receivable - Imagine Schools Non-Profit		246,947
Prepays		11,024
Capital assets, being depreciated, net		89,803
Total assets		<u><u>436,067</u></u>
<u>LIABILITIES</u>		
Accounts payable and accrued expenses		346,264
Total liabilities		<u><u>346,264</u></u>
<u>NET POSITION</u>		
Net investment in capital assets		89,803
Unrestricted		-
Total net position	\$	<u><u>89,803</u></u>

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

**IMAGINE - LEON COUNTY, LLC
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS		CAPITAL GRANTS AND CONTRIBUTIONS
Governmental activities:					
Basic instruction	\$ 1,255,020	\$ -	\$ 5,040	\$ -	\$ (1,249,980)
Exceptional instruction	11,632	-	-	-	(11,632)
Health services	111	-	-	-	(111)
Media services	241	-	-	-	(241)
General administration	474,286	-	-	-	(474,286)
School administration	323,076	-	-	-	(323,076)
Food services	145,857	62,016	86,583	-	2,742
Transportation	30,946	-	-	-	(30,946)
Plant	969,990	-	-	108,233	(861,757)
Maintenance of plant	96,522	-	-	-	(96,522)
Before/after care	35,258	107,507	-	-	72,249
Total governmental activities	<u>\$ 3,342,939</u>	<u>\$ 169,523</u>	<u>\$ 91,623</u>	<u>\$ 108,233</u>	<u>(2,973,560)</u>
			General revenues:		
			Grants and contributions not restricted to specific purposes		2,724,502
			Change in net position		<u>(249,058)</u>
			Net position, beginning of year		338,861
			Net position, end of year		<u>\$ 89,803</u>

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

**IMAGINE - LEON COUNTY, LLC
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2013**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 58,210
Receivables	277,030
Prepaid items	11,024
Total Assets	\$ 346,264
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable and accrued expenses	\$ 346,264
Total liabilities	346,264
Fund Balance:	
Nonspendable:	
Prepaid items	11,024
Unassigned	(11,024)
Total fund balance	-
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	89,803
Net position of governmental activities	\$ 89,803

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

**IMAGINE - LEON COUNTY, LLC
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Intergovernmental				
Florida education finance program	\$ 2,417,056	\$ -	\$ -	\$ 2,417,056
Capital outlay funds	-	108,233	-	108,233
Federal through state	-	-	86,583	86,583
Local	419,992	-	62,016	482,008
Total revenues	<u>2,837,048</u>	<u>108,233</u>	<u>148,599</u>	<u>3,093,880</u>
Expenditures				
Basic instruction	1,244,452	-	-	1,244,452
Exceptional instruction	11,632	-	-	11,632
Health services	111	-	-	111
Media services	241	-	-	241
General administration	451,049	-	-	451,049
School administration	323,076	-	-	323,076
Food services	-	-	145,857	145,857
Transportation	27,484	-	-	27,484
Plant	861,757	108,233	-	969,990
Maintenance of plant	96,522	-	-	96,522
Before/after care	35,258	-	-	35,258
Debt service:				
Principal	16,676	-	-	16,676
Interest	2,585	-	-	2,585
Capital outlay	42,272	-	-	42,272
Total expenditures	<u>3,113,115</u>	<u>108,233</u>	<u>145,857</u>	<u>3,367,205</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(276,067)</u>	<u>-</u>	<u>2,742</u>	<u>(273,325)</u>
Other financing sources (uses)				
Transfers in	2,742	-	-	2,742
Transfers out	-	-	(2,742)	(2,742)
Total other financing sources (uses)	<u>2,742</u>	<u>-</u>	<u>(2,742)</u>	<u>-</u>
Net change in fund balances	<u>(273,325)</u>	<u>-</u>	<u>-</u>	<u>(273,325)</u>
Fund balances, beginning of year	273,325	-	-	273,325
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**IMAGINE - LEON COUNTY, LLC
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

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

Net change in fund balances-total governmental funds (page 11)	\$ (273,325)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	7,591
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt.	16,676
Change in net position of governmental activities (page 9)	<u><u>\$ (249,058)</u></u>

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

IMAGINE - LEON COUNTY, LLC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies:

The following is a summary of the more significant accounting policies of Imagine - Leon County, LLC (the "School"), which affect significant elements of the accompanying basic financial statements:

(a) **Reporting entity**—Imagine - Leon County, LLC was created on July 11, 2007, to operate a public charter school in Florida to serve educational and charitable purposes and qualify for derivative exempt status as a disregarded entity within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986 or a related section of a successor statute (the "Code") by virtue of its relationship with its single member Imagine Schools Non-Profit, Inc., a Virginia nonstock corporation (the "Member"). The School also qualifies through its exempt status relationship derived from its Member as an educational organization for purposes of receiving deductible gifts and grants within the meaning of Section 170(b)(1)(A)(ii) of the Code, and to engage in any lawful act or activity for which limited liability companies may be organized under Florida law.

The School entered into a contract with the School Board of Leon County, Florida ("Sponsor") to provide an educational program for elementary and middle school students in grades pre-kindergarten through eighth. The School receives a majority of its funding through the Sponsor based on a formula of student attendance which is identical to that of other Leon County, Florida public pre-kindergarten, elementary and middle schools. The current charter is effective until June 30, 2013 and is being renewed for an additional 2 ½ years through December 31, 2015, based on academic performance, by mutual agreement between the School and the Sponsor. At the end of the term of the charter, the Sponsor may choose not to renew the charter under grounds specified in the charter, in which case the Sponsor is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the Sponsor may also terminate the charter if good cause is shown. Imagine - Leon County, LLC is considered a component unit of the School Board of Leon County, Florida.

(b) **Government-wide and fund financial statements**—The government-wide financial statements consist of the Statement of Net Position and the Statement of Activities. These statements report information on all of the activities of the School. Both statements report only governmental activities as the School does not engage in any business type activities.

Net position, the difference between assets and liabilities, as presented in the Statement of Net Position, are subdivided into three categories: amounts net investment in capital assets; restricted net position; and unrestricted net position. Net position is reported as restricted when constraints are imposed on the use of the amounts either externally by creditors, grantors, contributors, or laws or regulations of other governments, or enabling legislation.

The Statement of Activities presents a comparison between the direct expenses of a given function and its program revenues, and displays the extent to which each function contributes to the change in net position for the fiscal year. Direct expenses are those that are clearly identifiable to a specific function. Program revenues consist of charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to amounts received from those who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment. Grants and contributions consist of revenues that are restricted to meeting operational or capital requirements of a particular function. Revenues not classified as program revenues are reported as general revenues.

IMAGINE - LEON COUNTY, LLC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) **Summary of Significant Accounting Policies:** (Continued)

(b) **Government-wide and fund financial statements** (Continued)

Separate fund financial statements report detailed information about the School's governmental funds. The focus of the governmental fund financial statements is on major funds. Therefore, major funds are reported in separate columns on the fund financial statements. Reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentation.

(c) **Measurement focus, basis of accounting, and financial statement presentation**—The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

All governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues, except for certain grant revenues, are recognized in the accounting period in which they become both measurable and available. Available means collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, state, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recorded when the related fund liability is incurred. The principal exceptions to this are: principal and interest on general long-term debt, which are recorded as expenditures only when payment is due.

The School's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Accordingly, the financial statements are organized on the basis of funds. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund balance, revenues, expenditures, and other financing sources and uses.

Resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled.

The School uses the following governmental funds:

General Fund—The general fund is used to record the general operations of the School pertaining to education and those operations not provided for in other funds.

Special Revenue Funds—The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Projects Fund—The capital projects fund is used to account for financial resources to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and major maintenance projects.

IMAGINE - LEON COUNTY, LLC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) **Summary of Significant Accounting Policies:** (Continued)

(c) **Measurement focus, basis of accounting, and financial statement presentation**
(Continued)

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

(d) **Budgetary data**—The budgetary process is prescribed by provisions of the laws of Florida and requires the governing board to adopt an operating budget each year. The School's governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major function at year end.

(e) **Cash and cash equivalents**—Cash and cash equivalents include amounts in demand deposits as well as investments that are readily convertible to known amounts of cash. Investments with original maturities of three months or less are considered to be cash equivalents.

(f) **Income taxes**— The School qualifies through its exempt status relationship derived from its Member as an educational organization for purposes of receiving deductible gifts and grants within the meaning of Section 170(b)(1)(A)(ii) of the Code.

The School files income tax returns in the U.S. Federal jurisdiction. The School's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

The School has reviewed and evaluated the relevant technical merits of each of its tax positions in accordance with accounting principles generally accepted in the United States of America for accounting for uncertainty in income taxes, and determined that there are no uncertain tax positions that would have a material impact on the financial statements of the School.

(g) **Capital assets**—Capital assets are defined by the School as assets with an initial individual cost of \$1,000 or more and an estimated useful life of more than one year. Such assets are recorded at historical cost. Donated capital assets are recorded at their estimated fair market values at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Property, plant and equipment of the School is depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Technology equipment	5
Furniture, fixtures and equipment	4 – 10
Transportation	5 – 10

IMAGINE - LEON COUNTY, LLC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) **Summary of Significant Accounting Policies:** (Continued)

(h) **Revenue sources**—Revenues for current operations are received primarily from the School Board of Leon County, Florida pursuant to the funding provisions included in the School’s charter. In accordance with the funding provisions of the charter and Section 1002.33(17), Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the School Board of Leon County, Florida. Under the provisions of Section 1011.62, Florida Statutes, the School Board of Leon County, Florida reports the number of FTE students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted FTE students reported by the School during designated FTE student survey periods.

(i) **Use of estimates**—The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(j) **Receivables**—Receivables are stated at the amount management expects to collect from balances outstanding at year-end. Based on management’s assessment of the history with the funding providers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

(k) **Fund balance**— The School follows GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, which provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a school’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance—includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The School had nonspendable resources of \$11,024 for prepaid items as of June 30, 2013.

Restricted fund balance—includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School did not have any restricted resources as of June 30, 2013.

Committed fund balance—includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the School’s Board. These amounts cannot be used for any other purpose unless the School’s Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2013.

IMAGINE - LEON COUNTY, LLC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) **Summary of Significant Accounting Policies:** (Continued)

(k) **Fund Balance** (Continued)

Assigned fund balance—includes amounts that are constrained by the School’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the School’s Board or through the School’s Board delegating this responsibility to the Principal through the budgetary process. The School did not have any assigned resources as of June 30, 2013.

Unassigned fund balance—includes the residual fund balances for the General fund.

The School would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

(2) **Reconciliation of Government-Wide and Fund Financial Statements:**

A. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$7,591 difference are as follows:

Capital outlay	\$ 42,272
Depreciation expense	(34,681)
Net adjustment to increase <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ 7,591

IMAGINE - LEON COUNTY, LLC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(2) **Reconciliation of Government-Wide and Fund Financial Statements:** (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (Continued)

Another element of the reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on fund balance.” The detail of this \$16,676 difference is as follows:

Principal repayments:		
Payments on capital lease		\$ 16,676

(3) **Interfund transfers:**

The following is a summary of interfund transfers reported in the governmental fund financial statements:

	Interfund	
	Transfers In	Transfers Out
Funds:		
General	\$ 2,742	\$ -
Other governmental funds	-	2,742
Total	\$ 2,742	\$ 2,742

The transfers are used to move unrestricted revenues to finance various programs that must be accounted for in other funds.

(4) **Concentrations:**

The more significant concentrations of credit risk are as follows:

- (a) **Demand Deposits**—The School has demand deposits with one bank. The School has no policy requiring collateral or other security to support its deposits, although all demand and time deposits with banks are federally insured up to Federal Depository Insurance Corporation limits.
- (b) **Receivables**—The School’s receivables are primarily for amounts due under contracts with the Leon County School Board and reimbursements from Imagine Schools North Florida Region. The School has no policy requiring collateral or other security to support its receivables.

IMAGINE - LEON COUNTY, LLC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(5) **Capital Assets:**

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
Capital assets, being depreciated:				
Technology equipment	\$ 74,870	\$ -	\$ -	\$ 74,870
Furniture, fixtures and equipment	76,548	42,272	-	118,820
Motor vehicles	29,554	-	-	29,554
Total capital assets, being depreciated	<u>180,972</u>	<u>42,272</u>	<u>-</u>	<u>223,244</u>
Less accumulated depreciation:				
Technology equipment	(42,543)	(14,974)	-	(57,517)
Furniture, fixtures and equipment	(43,755)	(16,245)	-	(60,000)
Motor vehicles	(12,462)	(3,462)	-	(15,924)
Total accumulated depreciation	<u>(98,760)</u>	<u>(34,681)</u>	<u>-</u>	<u>(133,441)</u>
Capital assets, being depreciated, net	<u>\$ 82,212</u>	<u>\$ 7,591</u>	<u>\$ -</u>	<u>\$ 89,803</u>

Capital assets are used by multiple functions within the School and depreciation expense of \$34,681 was charged to governmental functions as follows:

Basic instruction	\$ 10,568
General administration	20,651
Transportation	3,462
	<u>\$ 34,681</u>

(6) **Operating Lease:**

The school leases building space under an operating leases expiring in 2023. Rent expense related to the operating lease for the year ended June 30, 2013 amounted to \$886,167. Minimum future rental payments under the non-cancelable operating lease, having remaining terms in excess of one year, as of June 30, 2013 are:

<u>Year</u>	<u>Amount</u>
2014	\$ 945,000
2015	965,033
2016	982,159
2017	1,003,766
2018	1,028,377
Thereafter	5,347,532
Total minimum future rental payments	<u>\$ 10,271,867</u>

IMAGINE - LEON COUNTY, LLC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(7) **Long-Term Debt:**

Long-term liability activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Capital lease	\$ 16,676	\$ —	\$ 16,676	\$ —	\$ —

(8) **Significant Funding Source:**

The School receives a substantial amount of its funding from the School Board of Leon County, Florida. A significant reduction in the level of this funding, if this were to occur, could have an adverse effect on the School's programs and activities.

(9) **Risk Management:**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Loss mitigation is provided through purchased commercial insurance. Settled claims resulting from insurance coverage above have not exceeded purchased insurance coverage for the past three fiscal years.

(10) **Defined Contribution Plan:**

The School is a single employer that contributes to individual employee retirement plans, which are defined contribution pension plans. Eligible employees include all regular full-time employees with at least one full year of service. Contributions to the retirement program may vary annually as provided by the School's Board of Directors and are included in the budget and contractual agreement with each employee. School contributions to the retirement program for the year ending June 30, 2013, were \$17,109.

(11) **Related Party Transactions:**

(a) **Indirect Cost Allocation**—The School has entered into an indirect cost allocation agreement, commencing on July 16, 2007 and amended July 1, 2009. Under the indirect cost allocation agreement, the management company will provide on-going operational and financial support to the School. The indirect cost allocation is equal to 12% of the per-pupil funding provided by state and local governments during the fiscal year, plus a monthly administrative fee of two thousand five hundred and no/100 dollars (\$2,500) for the first two hundred forty (240) months of School operation. The indirect cost allocation shall be paid monthly. On or before August 31 of each year the management company shall provide to the School a reconciliation of actual per-pupil funding provided by state and local governments for the immediately preceding fiscal year. Any shortfall of indirect cost allocation shall be immediately paid to the management company. Any overpayment of the indirect cost allocation for the immediately preceding fiscal year shall be applied first to repayment of any operating capital advances made by the management company to the School and next to the indirect cost allocation due for the then current fiscal year. Current year indirect cost allocation charged under this agreement totaled \$328,795.

IMAGINE - LEON COUNTY, LLC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(11) **Related Party Transactions:** (Continued)

(b) **Operating Expenses**—The School has entered into an operating expense agreement, commencing on July 16, 2007. Under the operating expense agreement, the School shall reimburse the management company on a dollar for dollar basis for any operating expenses of the School, including school site employee salary and benefits expenses, incurred by the management company on behalf of the School. Operating expenses paid on the School’s behalf totaled \$44,276.

(c) **Building Rental Agreement** - The School has entered into a building lease agreement with Schoolhouse Finance, LLC, a real estate subsidiary of the management company, commencing on August 1, 2008. Under the building lease agreement, the School shall pay a base rent for the use of the buildings for fifteen years. Current year building lease agreement payments made under this agreement totaled \$885,129.

(d) **Contribution** - In the Statements of Activities, \$246,947 is included as a contribution from the Member. The entire \$246,947 is included in accounts receivable at year-end.

(12) **Due From / To Management Company:**

The School has entered into multiple agreements with the management company (See Note 11). The management company is responsible for organizing, developing, managing, staffing, and operating the School. During the current year, the management company charged fees to the School for these multiple agreements. Due from / to management company activity consisted of the following for the year ended June 30, 2013:

	Due From Management Company	Due To Management Company
	<hr/>	<hr/>
Indirect cost allocation	\$ —	\$ 9,388
Equipment lease buy-out	—	42,272
Operating Advance	—	89,000
Contribution	246,947	
Operating expenses and contributions	4,200	4,735
Total	<hr/> \$ 251,147 <hr/>	<hr/> \$ 145,395 <hr/>

IMAGINE - LEON COUNTY, LLC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(13) New GASB Pronouncement:

In March 2012, the Government Accounting Standards Board (GASB) issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON 4. Based on those definitions, GASB 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, GASB 65 recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. The requirements of GASB 65 are effective for fiscal year 2014.

REQUIRED SUPPLEMENTARY INFORMATION

IMAGINE - LEON COUNTY, LLC
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental				
Florida education finance program	\$ 3,166,200	\$ 2,417,547	\$ 2,417,056	\$ (491)
Federal through state	55,000	-	-	-
Local	161,620	147,696	419,992	272,296
Total revenues	<u>3,382,820</u>	<u>2,565,243</u>	<u>2,837,048</u>	<u>271,805</u>
Expenditures				
Basic instruction	1,529,579	1,223,847	1,244,452	(20,605)
Exceptional instruction	40,080	25,238	11,632	13,606
Health services	400	-	111	(111)
Media services	-	-	241	(241)
General administration	529,606	77,021	451,049	(374,028)
School administration	301,087	319,920	323,076	(3,156)
Transportation	38,880	8,000	27,484	(19,484)
Plant	875,598	868,079	861,757	6,322
Maintenance of plant	98,308	96,764	96,522	242
Before/after care	34,546	38,314	35,258	3,056
Debt service:				
Principal	-	-	16,676	(16,676)
Interest	-	-	2,585	(2,585)
Capital outlay	-	-	42,272	(42,272)
Total expenditures	<u>3,448,084</u>	<u>2,657,183</u>	<u>3,113,115</u>	<u>(455,932)</u>
Deficiency of revenues under expenditures	<u>(65,264)</u>	<u>(91,940)</u>	<u>(276,067)</u>	<u>(184,127)</u>
Other financing uses				
Transfers in	-	-	2,742	2,742
Net change in fund balance	<u>(65,264)</u>	<u>(91,940)</u>	<u>(273,325)</u>	<u>(181,385)</u>
Fund balance, beginning of year	273,325	273,325	273,325	-
Fund balance, end of year	<u>\$ 208,061</u>	<u>\$ 181,385</u>	<u>\$ -</u>	<u>\$ (181,385)</u>

The accompanying notes to required supplementary information is an integral part of this schedule.

IMAGINE - LEON COUNTY, LLC
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

(1) **Summary of Significant Accounting Policies:**

The Statements of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual is presented using the School’s budget format for all major governmental funds.

(2) **Budgetary Basis of Accounting:**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual budgets are adopted for the entire operations at the combined governmental level and may be amended by the Board of Directors. The budget presented for fiscal year ended June 30, 2013, has been amended according to Board procedures.

Budgets are presented on the modified accrual basis of accounting. The legal level of budgetary control is the fund level.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

**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**

To the Board of Directors,
Imagine - Leon County, LLC:

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 the governmental activities, each major fund, and the aggregate remaining fund information of Imagine - Leon County, LLC, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated August 2, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Imagine - Leon County, LLC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Imagine - Leon County, LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of Imagine - Leon County, LLC'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

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Compliance and Other Matters

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

Purpose of this Report

Pursuant to Chapter 119, Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that the purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James Moore & Co., P.L.C.

Tallahassee, Florida
August 2, 2013

**INDEPENDENT AUDITORS' MANAGEMENT LETTER REQUIRED BY CHAPTER 10.850,
RULES OF THE STATE OF FLORIDA, OFFICE OF THE AUDITOR GENERAL**

To the Board of Directors,
Imagine - Leon County, LLC:

We have audited the financial statements of Imagine - Leon County, LLC, as of and for the fiscal year ended June 30, 2013, and have issued our report thereon dated August 2, 2013.

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. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated August 2, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.850, Rules of the Auditor General, which govern the conduct of charter school and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's report.

- Section 10.854 (1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no such findings in the previous year.
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the school has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Imagine - Leon County, LLC did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

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- Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements which warrants the attention of those charged with governance. In addition, the auditor may, based on professional judgment, report the following matters that do not warrant the attention of those charged with governance: 1) fraud, noncompliance with provisions of laws or regulations and contracts or grant agreements, or abuse and 2) internal control deficiencies that are not material weaknesses or significant deficiencies. In connection with our audit, we did not have any such findings.
- Section 10.854(1)(e)5, Rules of the Auditor General, requires the name or official title of the school. The official title of the school is Imagine - Leon County, LLC.
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the school has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Imagine - Leon County, LLC did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Pursuant to Sections 10.854(1)(e)6.a. and 10.855(11), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Imagine - Leon County, LLC's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by the same.

Pursuant to Chapter 119, Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, Leon County District School Board, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

James Moore & Co., P.L.C.

Tallahassee, Florida
August 2, 2013