

**IMAGINE SCHOOLS - NAU  
CAMPUS  
(A division of Imagine - St.  
Lucie County, LLC)**

**Basic Financial Statements and  
Supplemental Information**

**For the year ended  
June 30, 2013**

**BERMAN HOPKINS  
WRIGHT & LAHAM  
CPAS AND ASSOCIATES, LLP**

## TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	13
Notes to Financial Statements	14
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	27
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Capital Outlay Fund	28
Note to Required Supplemental Information	29
COMPLIANCE INFORMATION	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30
MANAGEMENT LETTER	32
FINDINGS, RECOMMENDATIONS, AND OTHER MATTERS	35

## INDEPENDENT AUDITORS' REPORT

To the Board of Managers  
Imagine - St. Lucie County, LLC  
Port St. Lucie, Florida

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities and each major fund information of Imagine Schools - Nau Campus (the "School"), a division of Imagine - St. Lucie County, LLC, (the "Charterholder") and a component unit of the School Board of St. Lucie County, Florida, 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 as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, 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 opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund information of the School, as of June 30, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A-1, the accompanying financial statements referred to above present only the financial position of Imagine Schools - Nau Campus at June 30, 2013, and the results of its operation for the year then ended, and is not intended to be a complete presentation of the Charterholder.

As discussed in Note A-14 to the financial statements, the School adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

### **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 September 12, 2013 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

September 12, 2013  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

## Management's Discussion and Analysis

As management of Imagine Schools - Nau Campus (the "School" which is a component unit of the School District of St. Lucie County, Florida), a division of Imagine - St. Lucie County, LLC, (the "Charterholder"), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2013 to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the School's financial activities, (c) identify changes in the School's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

Since the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the basic financial statements found starting on page 8.

### Financial Highlights

- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$38,471 (net position).
- The School's total net position increased by \$1,765.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$210,571.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$167,053.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements comprise 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 the School's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the School'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 the School is improving or deteriorating.

The statement of activities presents information showing how the School'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 (e.g., uncollected funding and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the School that are principally supported by district, state, and federal funding (governmental activities). Basic instruction, exceptional instruction, and school administration are examples of the School's governmental activities.

The government-wide financial statements include only the School itself, which is a component unit of the School District of St. Lucie County, Florida. The School District of St. Lucie County, Florida includes the operations of the School in their operational results.

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

**Fund financial statements.** A fund is a collection of related accounts grouped together to maintain control over resources that have been segregated for specific activities or objectives. The School, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the operations of the School are presented in governmental funds only.

**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 government's near-term financing requirements.

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 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 statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The general fund is considered to be the only major fund.

The basic governmental fund financial statements can be found on pages 10 through 13 of this report.

The School adopts an annual appropriated budget for its entire operations. Budgetary comparison schedules and notes to these schedules have been provided to demonstrate compliance with this budget and can be found on pages 27 through 29 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 starting on page 14 of this report.

## Government-Wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of a School's financial position. In the case of the School, for the years ended June 30, 2013 and 2012, assets exceeded liabilities by \$38,471 (net position) and \$36,706 (net position), respectively.

The largest portion of the School's net position is the investment in capital assets (e.g., leasehold improvements, buildings and fixed equipment, furniture, fixtures and equipment, audio visual materials, information technology equipment, and computer software). The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending. The investment in capital assets totaled \$232,785 at June 30, 2013.

Comparison of the condensed statement of net position and the statement of activities are provided below.

### Imagine Schools - Nau Campus Statement of Net Position

	<u>Governmental Activities</u>		
	<u>2013</u>	<u>2012</u>	<u>Variance</u>
<b>ASSETS</b>			
Current assets	\$ 610,151	\$ 506,593	\$ 103,558
Capital assets, net	232,785	298,052	(65,267)
Total assets	<u>842,936</u>	<u>804,645</u>	<u>38,291</u>
<b>LIABILITIES</b>			
Current liabilities	399,580	227,047	172,533
Noncurrent liabilities	404,885	540,892	(136,007)
Total liabilities	<u>804,465</u>	<u>767,939</u>	<u>36,526</u>
<b>NET POSITION</b>			
Invested in capital assets	232,785	298,052	(65,267)
Unrestricted deficit	(194,314)	(261,346)	67,032
Total net position	<u>\$ 38,471</u>	<u>\$ 36,706</u>	<u>\$ 1,765</u>

Current assets increased due to increased funds due from other schools, and capital assets decreased as a result of depreciation. Current liabilities increased during the current year as a result of increased accrued expenses, and noncurrent liabilities decreased due to a decrease in accrued rent at year end.

**Imagine Schools - Nau Campus**  
**Statement of Activities**

	<b>Governmental Activities</b>		
	<b>2013</b>	<b>2012</b>	<b>Variance</b>
Revenues:			
Program revenues:			
Charges for services	\$ 52,433	\$ 65,088	\$ (12,655)
Operating grants and contributions	142,747	-	142,747
Capital grants and contributions	-	-	-
General revenues:			
State passed through local school district	3,013,412	3,800,232	(786,820)
Other revenues	56,841	119,306	(62,465)
Contributions from operating company	433,750	158,000	275,750
Total revenues	<u>3,699,183</u>	<u>4,142,626</u>	<u>(443,443)</u>
Expenses:			
Basic instruction	1,291,346	1,642,140	(350,794)
Exceptional instruction	93,746	133,107	(39,361)
Prekindergarten	65,616	-	65,616
Student services	400	400	-
Health services	5,748	7,827	(2,079)
Media services	51,666	54,055	(2,389)
Curriculum development	12,100	47,416	(35,316)
Staff development	284	-	284
Board of managers	14,300	15,500	(1,200)
School administration	627,059	613,833	13,226
Food services	250	251	(1)
Transportation	180,658	235,660	(55,002)
Operation of plant	1,286,670	1,296,863	(10,193)
Maintenance of plant	20,478	12,471	8,007
Community services	22,365	57,922	(35,557)
Interest on long-term debt	24,732	25,255	(523)
Total expenses	<u>3,697,418</u>	<u>4,142,700</u>	<u>(445,282)</u>
Change in net position	1,765	(74)	1,839
Net position - beginning	<u>36,706</u>	<u>36,780</u>	<u>(74)</u>
Net position - ending	<u>\$ 38,471</u>	<u>\$ 36,706</u>	<u>\$ 1,765</u>

Revenues: The decrease in state passed through local school district resulted from the decrease in enrollment. This in turn affected the FTE Allocation per student which decreased as well.



Expenses: The decrease in enrollment had a similar effect on the School's expenses as well. The decrease in basic and exceptional instruction was directly related to decreases in salaries and benefits. Prekindergarten expenses increased as a result of adding new staff and related programming. As a result of the decrease in staff, curriculum development, transportation, and community services expenses also decreased.

**Financial Analysis of the Government's Funds:** As noted previously, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds:** The focus of the School's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the School's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a School's net resources available for spending at the end of the fiscal year. As of the current fiscal year, the School's governmental funds reported combined ending fund balance of \$210,571.

The general fund is the main operating fund of the School. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$167,053. The fund balance of the School's general fund decreased by \$68,975 during the current fiscal year.

**General Fund Budgetary Highlights:** Actual revenues trailed budgeted general fund revenues by \$72,703. The general fund actual expenditures were greater than budgeted expenditures by \$61,547. The budgetary information can be found on pages 27 through 28 of this report.

### **Capital Asset and Debt Administration**

**Capital Assets.** The School's investment in capital assets for its governmental type activities as of June 30, 2013, amounts to \$232,785. This investment in capital assets includes leasehold improvements, buildings and fixed equipment, furniture, fixtures and equipment, audio visual materials, information technology equipment, and computer software. Additional information on the School's capital assets can be found in Note C.

**Debt Administration.** The School's long-term liabilities at June 30, 2013 totaled \$404,885, a decrease of \$136,007 from 2012. Additional information on the School's long-term obligations can be found in Note D.

**Economic Factors:** A majority of the School's funding is determined by the number of enrolled students. The School is forecasting enrollment to decline from 559 students in the current year to 465 students for the 2013/2014 school year.

**Request for Information:** This financial report is designed to provide a general overview of the School'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 the Principal's office at 4402 SW Yamada Drive, Port St. Lucie, Florida 34953.

**Imagine Schools - Nau Campus**  
**(A division of Imagine - St. Lucie County, LLC)**

**STATEMENT OF NET POSITION**

**June 30, 2013**

	Governmental Activities
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 155,727
Due from operating company	410,906
Prepaid expenses	43,518
Total current assets	610,151
<b>CAPITAL ASSETS</b>	
Capital assets, net of accumulated depreciation	
Leasehold improvements	10,862
Buildings and fixed equipment	15,928
Furniture, fixtures and equipment	173,348
Audio visual materials	98
Information technology equipment	25,058
Computer software	7,491
Total capital assets	232,785
Total assets	842,936
<b>LIABILITIES</b>	
<b>LIABILITIES</b>	
Accounts payable	25,145
Accrued payroll and related benefits	181,882
Other liabilities	192,553
Noncurrent liabilities	
Due in one year	
Note payable	5,849
Accrued rent	172,507
Due in more than one year	
Note payable	226,529
Total liabilities	804,465
<b>NET POSITION</b>	
Investment in capital assets	232,785
Unrestricted deficit	(194,314)
Total net position	\$ 38,471

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

**Imagine Schools - Nau Campus**  
**(A division of Imagine - St. Lucie County, LLC)**

**STATEMENT OF ACTIVITIES**

**For the year ended June 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Basic instruction	\$1,291,346	\$ -	\$ -	\$ -	\$ (1,291,346)
Exceptional instruction	93,746	-	-	-	(93,746)
Prekindergarten	65,616	47,358	-	-	(18,258)
Student services	400	-	-	-	(400)
Health services	5,748	-	-	-	(5,748)
Media services	51,666	-	-	-	(51,666)
Curriculum development	12,100	-	-	-	(12,100)
Staff development	284	-	-	-	(284)
Board of managers	14,300	-	-	-	(14,300)
School administration	627,059	-	-	-	(627,059)
Food services	250	-	-	-	(250)
Transportation	180,658	-	-	-	(180,658)
Operation of plant	1,286,670	1,640	142,747	-	(1,142,283)
Maintenance of plant	20,478	-	-	-	(20,478)
Community services	22,365	3,435	-	-	(18,930)
Interest on long-term debt	24,732	-	-	-	(24,732)
<b>Total governmental activities</b>	<b>\$3,697,418</b>	<b>\$ 52,433</b>	<b>\$ 142,747</b>	<b>\$ -</b>	<b>(3,502,238)</b>
General revenues:					
					3,013,412
					56,841
					433,750
					<u>3,504,003</u>
					1,765
					<u>36,706</u>
					<u>\$ 38,471</u>

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

**Imagine Schools at Nau Campus  
(A division of Imagine - St. Lucie County, LLC)**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2013**

	General Fund	Capital Outlay Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 155,727	\$ -	\$ 155,727
Due from operating company	410,906	-	410,906
Prepaid expenses	43,518	-	43,518
Total assets	\$ 610,151	\$ -	\$ 610,151
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 25,145	\$ -	\$ 25,145
Accrued payroll and benefits	181,882	-	181,882
Other liabilities	192,553	-	192,553
Total liabilities	399,580	-	399,580
<b>FUND BALANCE</b>			
Nonspendable			
Prepaid expenses	43,518		43,518
Unassigned	167,053	-	167,053
Total fund balance	210,571	-	210,571
Total liabilities and fund balance	\$ 610,151	\$ -	\$ 610,151

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

**Imagine Schools - Nau Campus**  
**(A division of Imagine - St. Lucie County, LLC)**

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**

**June 30, 2013**

Fund balances - total governmental funds \$ 210,571

The net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Those assets consist of:

Leasehold improvements, net	\$ 10,862	
Buildings and fixed equipment, net	15,928	
Furniture, fixtures and equipment, net	173,348	
Audio visual materials, net	98	
Information technology equipment, net	25,058	
Computer software, net	<u>7,491</u>	
Total capital assets		232,785

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Note payable	(232,378)	
Accrued rent	<u>(172,507)</u>	<u>(404,885)</u>
Total net position of governmental activities		<u>\$ 38,471</u>

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

**Imagine Schools - Nau Campus**  
**(A division of Imagine - St. Lucie County, LLC)**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS**

**For the year ended June 30, 2013**

	General Fund	Capital Outlay Fund	Total Governmental Funds
Revenues			
State passed through local school district	\$ 3,013,412	\$ 142,747	\$ 3,156,159
Contributions from operating company	433,750	-	433,750
Other revenues	105,839	-	105,839
Local revenues	3,435	-	3,435
Total revenues	3,556,436	142,747	3,699,183
Expenditures			
Current:			
Basic instruction	1,238,404	-	1,238,404
Exceptional instruction	93,746	-	93,746
Prekindergarten	65,616	-	65,616
Health services	5,748	-	5,748
Media services	26,840	-	26,840
Curriculum development	12,100	-	12,100
Staff development	284	-	284
Board of managers	14,300	-	14,300
School administration	627,059	-	627,059
Transportation	180,658	-	180,658
Operation of plant	1,269,066	142,747	1,411,813
Maintenance of plant	20,478	-	20,478
Community services	22,365	-	22,365
Fixed capital outlay	18,747	-	18,747
Debt service:			
Principal	5,268	-	5,268
Interest	24,732	-	24,732
Total expenditures	3,625,411	142,747	3,768,158
Net change in fund balances	(68,975)	-	(68,975)
Fund balances at July 1, 2012	279,546	-	279,546
Fund balances at June 30, 2013	\$ 210,571	\$ -	\$ 210,571

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

**Imagine Schools - Nau Campus**  
**(A division of Imagine - St. Lucie County, LLC)**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES**

**For the year ended June 30, 2013**

Net change in fund balances - total governmental funds	\$	(68,975)
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The change in net position reported for governmental activities in the statement of activities is different because:

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.

Total fixed capital outlay	\$ 18,747		
Less: depreciation	<u>(84,014)</u>		(65,267)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Principal payments on long-term debt (note payable)		5,268
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Some expenses reported in the statement of activities did not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued rent		<u>130,739</u>
Change in net position of governmental activities	\$	<u><u>1,765</u></u>

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

**Imagine Schools - Nau Campus  
(A division of Imagine - St. Lucie County, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

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

1. Reporting entity

Imagine Schools - Nau Campus (the "School") is a division of Imagine - St. Lucie County, LLC (the "Charterholder") which is a Florida limited liability company whose sole member is Imagine School Non-Profit, Inc., a Virginia not-for-profit. The School provides education services to students in grades kindergarten through eighth. The governing body of the School is the Board of Managers (the "Board"), which is composed of three members. The financial information presented is that of Imagine School - Nau Campus only and is not intended to be a complete presentation of the Charterholder. The School's entire workforce is provided by the operating company; therefore, all benefits are provided by the operating company.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, which is the School District of St. Lucie County, Florida (the "District"). The current charter is effective until June 30, 2014 and may be renewed in increments of five years by mutual written agreement between the School and the District. At the end of the term of the charter, the District may choose not to renew the charter under the grounds specified in the charter agreement in which case the District 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 District may also terminate the charter if good cause is shown. Imagine Schools - Nau Campus is considered a component unit of the School Board of St. Lucie County, Florida.

2. Government-wide and fund financial statements

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements report information on all of the nonfiduciary activities of the School. As part of the consolidation process, all interfund activities are eliminated from these statements. Both statements report only the 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 invested in capital assets, restricted net assets, and unrestricted net assets. 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 and indirect 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.



**Imagine Schools - Nau Campus**  
**(A division of Imagine - St. Lucie County, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

2. Government-wide and fund financial statements (continued)

Indirect expenses are costs the School has allocated to various functions. 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 the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported as general revenues.

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. The School reports the general fund as its only major fund. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentation.

3. 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.

All government fund financial statements are reported using a current financial resources measurement focus on a 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 to finance expenditures of the current period. 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. However, principal and interest on general long-term debt are recorded as expenditures only when payment is due.

**Imagine Schools - Nau Campus  
(A division of Imagine - St. Lucie County, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

3. Measurement focus, basis of accounting, and financial statement presentation (continued)

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 equity, 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 reports the following major governmental funds:

General Fund - is the general operating fund of the School and is used to account for all financial resources not required to be accounted for in another fund.

Capital Outlay Fund - in accordance with guidelines established by the School District of St. Lucie County, Florida this fund accounts for all resources for the leasing or acquisition of capital facilities by the School to the extent funded by capital outlay funds.

4. Cash

Cash is made up of cash on hand at the School and a checking account held at a financial institution. The School does not have any cash equivalents.

5. Receivables

The School's receivables consist of amounts due from the operating company. The School's management determined that 100% of receivables are deemed to be fully collectible. Therefore, no allowance for doubtful accounts has been provided.

6. Prepaid expense

Payments made to vendors for services that will benefit periods beyond June 30, 2013, are recorded as prepaid expenses in both government-wide and fund financial statements.

**Imagine Schools - Nau Campus  
(A division of Imagine - St. Lucie County, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

7. Capital assets

Capital assets are reported in the governmental columns on the government-wide financial statements. Capital assets are defined by the School as assets with an initial individual cost of more than \$750 and an estimated useful life of more than two years. 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 repairs and maintenance that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the School are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Leasehold improvements	7
Buildings and fixed equipment	7
Furniture, fixtures and equipment	7
Audio visual materials	3
Information technology equipment	5
Computer software	5 - 7

8. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources and the repayment of debt principal as debt service expenditures.

9. Accrued rent

In the government-wide financial statements, accrued rent obligations are reported as liabilities in the statement of net position. At the end of the current fiscal year, the School had \$172,507 of accrued rent related to the facilities lease agreement.

**Imagine Schools - Nau Campus  
(A division of Imagine - St. Lucie County, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

10. Revenue sources

Revenues for current operations are received primarily from the State of Florida passed through the District 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 District.

Under the provisions of Section 1011.62, Florida Statutes, the District 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 the revised calculations by the FDOE under the Florida Education Finance Program and the actual weighted FTE students reported by the School during the designated FTE student survey periods.

The School receives federal awards for the enhancement of various educational programs. This assistance is generally based on applications submitted to and approved by various granting agencies. These federal awards may have requirements whereby the issuance of grant funds is withheld until qualifying eligible expenditures are incurred. Revenues for these awards are recognized only to the extent that eligible expenditures have been incurred.

Additionally, other revenues are derived from various fundraising activities and other miscellaneous items.

11. Income taxes

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

The School recognizes the financial statement effects from a tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the School and various positions related to the potential sources of unrelated business taxable income (UBIT). The assessment of the technical merits of a tax position is a matter of judgment. The School believes that all its tax positions are more likely than not to be sustained upon examination.

The School files Form 990 in the U.S. federal jurisdiction. The School is generally no longer subject to examination by the Internal Revenue Service for years ending before June 30, 2010.

**Imagine Schools - Nau Campus**  
**(A division of Imagine - St. Lucie County, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

12. 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.

13. Fund balance classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable fund balance - amounts that are not spendable (such as inventory and prepaid expense) or are required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government),

Committed fund balance - amounts constrained to specific purposes by the School itself, using its highest level of decision-making authority (i.e., Board of Managers). To be reported as committed, amounts cannot be used for any other purpose unless the School takes the same highest level of action to remove or change the constraint.

Assigned fund balance - amounts the School intends to use for a specific purpose. Intent can be expressed by the Board of Managers or by an official or body to which the Board of Managers delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in 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.

**Imagine Schools - Nau Campus  
(A division of Imagine - St. Lucie County, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

14. New accounting pronouncements

GASB Statement No. 63 - In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources as defined by GASB's Concepts Statement No. 4. It also amends the net asset reporting requirements in Statement no. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows and deferred inflows of resources into the definition of net assets and by renaming it as net position, rather than net assets. The requirements of this Statement will improve financial reporting by standardizing the presentation and its effects on a government's net position. The provisions of this Statement will be effective for the fiscal year ending June 30, 2013.

**NOTE B - CASH**

*Custodial Credit Risk* - Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned to it. The School does not have a formal policy regarding custodial credit risk. The bank balance of the School's deposits was \$155,727 at June 30, 2013. The deposits are insured by the FDIC up to \$250,000 per entity. Monies invested in amounts greater than the insurance coverage are secured by the qualified public depositories pledging securities with the State Treasurer in such amounts required by the Florida Security for Public Deposits Act. In the event of a default or insolvency of a qualified public depositor, the State Treasurer will implement procedures for payment of losses according to the validated claims of the School pursuant to Section 280.08, Florida Statutes. As of June 30, 2013, the School's bank balance was not exposed to custodial credit risk.

**Imagine Schools - Nau Campus  
(A division of Imagine - St. Lucie County, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE C - CAPITAL ASSETS**

Changes in capital assets activity were as follows:

	Balance at July 1, 2012	Additions	Transfers	Balance at June 30, 2013
Capital assets depreciated:				
Leasehold improvements	\$ 16,434	\$ 2,247	\$ -	\$ 18,681
Buildings and fixed equipment	1,755	16,500	-	18,255
Furniture, fixtures and equipment	382,150	-	-	382,150
Audio visual materials	4,254	-	-	4,254
Information technology equipment	105,206	-	-	105,206
Computer software	16,915	-	-	16,915
	<u>526,714</u>	<u>\$ 18,747</u>	<u>\$ -</u>	<u>545,461</u>
Total assets depreciated				
Less accumulated depreciation:				
Leasehold improvements	5,150	\$ 2,669	\$ -	7,819
Buildings and fixed equipment	732	1,595	-	2,327
Furniture, fixtures and equipment	154,209	54,593	-	208,802
Audio visual materials	2,838	1,318	-	4,156
Information technology equipment	59,107	21,041	-	80,148
Computer software	6,626	2,798	-	9,424
	<u>228,662</u>	<u>\$ 84,014</u>	<u>\$ -</u>	<u>312,676</u>
Total accumulated depreciation				
Total governmental activities capital assets, net	<u>\$ 298,052</u>			<u>\$ 232,785</u>

Depreciation expense for the year ended June 30, 2013 was charged to functions of the School as follows:

Basic instruction	\$ 52,942
Student services	400
Media services	24,826
Food services	250
Operation of plant	5,596
	<u>\$ 84,014</u>

**Imagine Schools - Nau Campus  
(A division of Imagine - St. Lucie County, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE D - LONG-TERM LIABILITIES**

1. Changes in long-term liabilities:

	Balance at July 1, 2012	Additions	Reductions	Balance at June 30, 2013	Due within one year
Note payable	\$ 237,646	\$ -	\$ 5,268	\$ 232,378	\$ 5,849
Accrued rent	303,246	-	130,739	172,507	-
<b>Total</b>	<b>\$ 540,892</b>	<b>\$ -</b>	<b>\$ 136,007</b>	<b>\$ 404,885</b>	<b>\$ 5,849</b>

2. Note payable

Prior to July 1, 2009, the School entered into a promissory note agreement with the operating company to cover costs associated with opening the School for \$250,000. The payments are \$2,500 per month starting September 30, 2009 for a term of 20 years. The interest rate on the note is calculated at 10.5%. During the year ended June 30, 2013, the School made payments of principal and interest toward the note of \$5,268 and \$24,732, respectively.

The following is a schedule of future minimum payment for the fiscal years ending June 30,

	Principal	Interest	Total
2014	\$ 5,849	\$ 24,151	\$ 30,000
2015	6,495	23,505	30,000
2016	7,211	22,789	30,000
2017	8,007	21,993	30,000
2018	8,890	21,110	30,000
2019-2023	61,517	88,483	150,000
2024-2028	103,818	46,182	150,000
2029-2030	30,591	1,909	32,500
	<b>\$ 232,378</b>	<b>\$ 250,122</b>	<b>\$ 482,500</b>

3. Accrued rent

In the governmental financial statements stated on a full accrual basis of accounting, GASB 13 requires that escalating leases be calculated on a straight line basis. Terms of the lease (see Note F-2) specify base rental payments of \$68,760 monthly, in addition to a CPI plus 2% annual increase beginning on July 1, 2012. Since the lease is contingent on renewal of the School's charter agreement, the straight line lease is calculated over the life of the current charter, which expires June 30, 2014 (see Note A-1).



**Imagine Schools - Nau Campus  
(A division of Imagine - St. Lucie County, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE D - LONG-TERM LIABILITIES (continued)**

3. Accrued rent (continued)

The annual activity for the accrued rent balance is as follows for the fiscal years ended June 30,

	Full Accrual Basis - Rent Expense	Modified Accrual Basis - Rent Expense	Change in Outstanding Liability
2014	\$ 1,004,196	\$ 1,176,703	\$ (172,507)

**NOTE E - CONCENTRATIONS**

Revenue sources

As stated in Note A-10, the School receives revenues for current operations primarily from the State of Florida through the District. The following is a schedule of revenue sources and amounts:

Sources	Amounts
School Board of St. Lucie County, Florida	
Base funding	\$ 2,102,832
ESE guaranteed allocation	36,478
Supplemental academic instruction	133,601
Class size reduction	661,780
Safe schools	11,359
Discretionary local effort	161,093
Discretionary millage	61,094
Proration to funds available	(10,217)
Prior year repayments	(165,162)
Instructional materials	41,807
Student transportation	51,450
Administration fee withheld	(72,703)
Total School Board of St. Lucie County, Florida	3,013,412
Contributions from operating company	433,750
Capital outlay fund	142,747
Other revenues	105,839
Local revenues	3,435
Total revenues	\$ 3,699,183

**Imagine Schools - Nau Campus  
(A division of Imagine - St. Lucie County, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE F - COMMITMENTS AND CONTINGENCIES**

1. Operating agreement

The School entered into an operating agreement with the management company on May 11, 2008. This agreement calls for an indirect cost allocation equal to 12% of the per-pupil funding provided by state and local governments. The total allocation charged to operations for the year ended June 30, 2013 was \$387,463. The operating agreement further specifies that the School may request operating capital advances to pay for operating expenses of the School referred to as "Operating Capital Advances." The operating company shall be reimbursed for such advances on the first day of each month in which the funds reside in the School's operating account for which not otherwise reserved by the operating budget. The operating company agrees to contribute 90% of any outstanding Operating Capital Advances at the end of the current fiscal year that are in excess of \$250,000 or 90% of the cumulative loss in excess of \$500,000.

In consideration of the operating company's commitment to make loss mitigation contributions, the School entered into an agreement to pay the operating company a "Loss Mitigation Allocation" of 2% of total revenues for the first year of operations. Until June 30, 2029, the School shall pay the operating company fees ranging from 1% to 3% of revenues. The total loss mitigation allocation charged to operations for the year ended June 30, 2013 was \$72,703.

2. Facilities expense

The School has committed to pay a facility allocation fee to Schoolhouse Finance, LLC, for the building where the School is located. The agreement commenced in March 2009 and is effective through the length of the School's charter (see Note A-1). Terms of the agreement specify that the lease shall be paid in monthly installments of \$68,760 to be increased by 2% over the Consumer Price Index (CPI) annually, beginning on July 1, 2012. Current year facility lease expense charged to operations totaled \$1,134,935.

The future minimum lease payments for the year ended June 30, 2014 is \$1,176,703.

**Imagine Schools - Nau Campus  
(A division of Imagine - St. Lucie County, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2013**

**NOTE G - RELATED PARTIES**

1. Due from/(due to) operating company

The School has entered into multiple agreements with the operating company (see Note F-1). Due from/(due to) operating company activity consists of the following:

	Management fees	Operating expenses	Receivable	Operating advances / Contributions	Total
Balance at					
June 30, 2012	\$ -	\$ (3,620)	\$ 513	\$ 221,822	\$ 218,715
Invoiced	(387,463)	(186,425)	7,092	433,750	(133,046)
Payments	186,002	146,327	(7,092)	-	325,237
Balance at					
June 30, 2013	<u>\$ (201,461)</u>	<u>\$ (43,718)</u>	<u>\$ 513</u>	<u>\$ 655,572</u>	<u>\$ 410,906</u>

2. Facilities expense

The School has committed to pay a facility allocation fee to Schoolhouse Finance, LLC, which is a related party to the operating company, for the building where the School is located (see Note F-2). The agreement commenced in March 2009 and is effective through the length of the School's charter. Current year facilities expense charged to operations totaled \$1,134,935 and there are no amounts outstanding as of June 30, 2013.

3. Note payable

As described in Note D, the School has entered into a note payable agreement with the operating company in order to cover costs associated with opening the School. Current year principal and interest payment were \$5,268 and \$24,732, respectively with \$232,378 in principal outstanding as of June 30, 2013.

**NOTE H - 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; and natural disasters for which the School carries commercial insurance. Under the property insurance policy, the School has no liability per occurrence. There have been no significant reductions in insurance coverage during fiscal year 2013. Settled claims resulting from the risks described above have not exceeded the insurance coverage since the School's inception.

**NOTE I - SUBSEQUENT EVENTS**

The School has evaluated subsequent events through September 12, 2013, the date which the financial statements were available for issuance.

**REQUIRED SUPPLEMENTAL INFORMATION**

**Imagine School - Nau Campus**  
**(A division of Imagine - St. Lucie County, LLC)**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND**

**For the year ended June 30, 2013**

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
State passed through local school district	\$ 3,326,516	\$ 3,086,115	\$ 3,013,412	\$ (72,703)
Contributions from operating company	646,000	433,750	433,750	-
Other revenues	75,305	105,839	105,839	-
Local revenues	5,961	3,435	3,435	-
<b>Total revenues</b>	<b>4,053,782</b>	<b>3,629,139</b>	<b>3,556,436</b>	<b>(72,703)</b>
<b>Expenditures</b>				
Salaries and benefits	1,611,941	1,537,674	1,537,677	(3)
Direct educational	38,408	37,413	20,846	16,567
Facility operating	132,480	116,335	70,476	45,859
General and administrative	293,648	321,898	331,636	(9,738)
Marketing and enrollment	7,618	5,916	-	5,916
School services	345,610	360,983	320,392	40,591
School operating expenses	2,429,705	2,380,219	2,281,027	99,192
Facility use fee	1,134,935	861,449	992,188	(130,739)
Imagine start-up costs	30,000	-	30,000	(30,000)
Loss mitigation	392,276	387,463	387,463	-
Indirect costs	66,530	-	-	-
<b>Total expenditures</b>	<b>4,053,446</b>	<b>3,629,131</b>	<b>3,690,678</b>	<b>(61,547)</b>
Change in net position (budgetary basis)	336	8	(134,242)	(134,250)
<b>Adjustments to conform with GAAP:</b>				
Capital outlay expenditures	-	-	(18,747)	(18,747)
Depreciation expense	-	-	84,014	84,014
Net change in fund balances (GAAP basis)	336	8	(68,975)	(68,983)
Fund balances at July 1, 2012	279,546	279,546	279,546	-
Fund balances at June 30, 2013	<b>\$ 279,882</b>	<b>\$ 279,554</b>	<b>\$ 210,571</b>	<b>\$ (68,983)</b>

See accompanying notes to required supplemental information.

**Imagine School - Nau Campus**  
**(A division of Imagine - St. Lucie County, LLC)**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - BUDGET AND ACTUAL - CAPITAL OUTLAY FUND**

**For the year ended June 30, 2013**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State passed through local school district	\$ 157,389	\$ 142,747	\$ 142,747	\$ -
Total revenues	157,389	142,747	142,747	-
Expenditures				
Facility use fee	142,747	142,747	142,747	-
Total expenditures	142,747	142,747	142,747	-
Change in net position (budgetary basis)	14,642	-	-	-
Net change in fund balances (GAAP basis)	14,642	-	-	-
Fund balances at July 1, 2012	-	-	-	-
Fund balances at June 30, 2013	<u>\$ 14,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to required supplemental information.

**Imagine Schools - Nau Campus**  
**(A division of Imagine - St. Lucie County, LLC)**

**NOTE TO REQUIRED SUPPLEMENTAL INFORMATION**

**June 30, 2013**

**NOTE A - BUDGETARY INFORMATION**

Budgetary basis of accounting

The School's annual budget is adopted for the entire operations at the combined governmental level and may be amended by the Board. Since the budgetary basis differs from accounting principles generally accepted in the United States (GAAP), budget and actual amounts in the accompanying required supplementary information are presented on the budgetary basis. A reconciliation to change in net position is presented in conformity with GAAP is set forth in the adjustments to the required supplementary information.

Although budgets are adopted for the entire operation, a budgetary comparison has been presented for the general fund for which a legally adopted budget exists.

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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND ON OTHERS MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Managers  
Imagine - St. Lucie County, LLC  
Port St. Lucie, Florida

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 and each major fund of Imagine Schools - Nau Campus (the "School"), a division of Imagine - St. Lucie County, LLC, (the "Charterholder") and a component unit of the School Board of St. Lucie County, 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 September 12, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

September 12, 2013  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

## MANAGEMENT LETTER

To the Board of Managers  
Imagine - St. Lucie County, LLC  
Port St. Lucie, Florida

We have audited the financial statements of Imagine Schools - Nau Campus, a division of Imagine - St. Lucie County, LLC, (the "Charterholder") and a component unit of the School Board of St. Lucie County, Florida, as of and for the fiscal year ended June 30, 2013, and have issued our report thereon dated September 12, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 on 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 September 12, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General, which governs 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 auditors' 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 findings and recommendations made in the preceding annual financial audit report.
- 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 in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that Imagine Schools - Nau Campus 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.

- 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 that is less than material but which warrants the attention of those charged with governance. There were no findings and recommendations made in the current annual financial audit report.
- Section 10.854(1)(e)6., Rules of the Auditor General, requires the name or official title of the school. The official title of the school is Imagine Schools - Nau Campus, a division of Imagine - St. Lucie County, LLC which is a Florida limited liability company.
- 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 Imagine Schools - Nau Campus' financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.
- Pursuant to the St. Lucie County Public Schools: School Board Policy 3.90(15)(c) we are required to specifically comment that:
  - i. The School has established proper internal controls. We considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting.
  - ii. Appropriate financial records have been kept, to the extent noted during our auditing procedures.
  - iii. The School tagged all of its physical assets to the extent noted during our auditing procedures.
  - iv. The Schools' contracts and commercial transactions are commercially reasonable to the extent noted during our auditing procedures.
  - v. The School's governing board meets its fiduciary responsibility with regards to public funds to the extent noted during our auditing procedures.
  - vi. The School's governing board exercises continuing oversight over charter school operations in accordance with Section 1002.33(9)(j), Florida Statutes to the extent noted during our auditing procedures.
  - vii. The School's contracts are entered and commercial transactions are conducted at arm's length and based on performance to the extent noted during our auditing procedures.
  - viii. Due diligence has been conducted by the governing board of the School when entering to contracts and commercial transactions to the extent noted during our auditing procedures.
  - ix. The School's contract for transactions did not demonstrate any potential conflict of interest to the extent noted during our auditing procedures.
  - x. No related party transaction or series of transactions had a material effect on the safety of the Schools operations or its financial wellbeing to the extent noted during our auditing procedures.

- xi. The School complied with all applicable Internal Revenue Service Regulations to the extent noted during our auditing procedures.
- xi. The School demonstrated proper risk management to the extent noted during our auditing procedures.
- xii. The School's financial records that comprise its accounting system are maintained in accordance with Section 1002.33(9)(h), Florida Statutes.
- xiii. All members of the School's governing board have completed governance training as required by Fla. Admin Code Rule 6A-6.0784 to the extent noted during our auditing procedures.
- xiv. The School is not in a state of financial emergency within the meaning of Section 218.503, Florida statutes.
- xv. There were no noted material subsequent events that occurred after the financial statement date.

Our management letter is intended solely for the information and use of the School's management, Board of Managers, others within the School Board of St. Lucie County, Florida, the State of Florida Office of the Auditor General, Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

September 12, 2013  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

**Prior Year Findings, Recommendations and Other Matters - Corrected**

For the year ended June 30, 2012, there were no findings, recommendations or other matters.

### **Current Year Findings, Recommendations and Other Matters**

For the year ended June 30, 2013, there are no findings, recommendations or other matters.