

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

**Basic Financial Statements and
Supplemental Information**

**For the year ended
June 30, 2016**

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INDEPENDENT AUDITOR'S 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, each major fund, and the aggregate remaining 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, 2016, 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, major fund, and the aggregate remaining fund information of the School, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance 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, 2016, and the results of its operation for the year then ended, and is not intended to be a complete presentation of the Charterholder.

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 30, 2016 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 30, 2016
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, 2016 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 listed in the table of contents of this report.

Financial Highlights

- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$121,495 (net position).
- The School's total net position increased by \$66,952.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$306,689.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$271,790.

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, liabilities, and deferred outflows/inflows of resources with the difference 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 as listed on the table of content 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 the School'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 as listed on the table of content 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 as listed on the table of contents 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 as listed on the table of content 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, 2016 and 2015, assets exceeded liabilities by \$121,495 (net position) and \$54,543 (net position), respectively.

The largest portion of the School's net position is the net 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 net investment in capital assets totaled \$76,604 at June 30, 2016.

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>2016</u> | <u>2015</u> | <u>Variance</u> |
| ASSETS | | | |
| Current assets | \$ 478,513 | \$ 1,177,263 | \$ (698,750) |
| Capital assets, net | 76,604 | 135,294 | (58,690) |
| Total assets | <u>555,117</u> | <u>1,312,557</u> | <u>(757,440)</u> |
| LIABILITIES | | | |
| Current liabilities | 171,824 | 965,002 | (793,178) |
| Noncurrent liabilities | 261,798 | 293,012 | (31,214) |
| Total liabilities | <u>433,622</u> | <u>1,258,014</u> | <u>(824,392)</u> |
| NET POSITION | | | |
| Net investment in capital assets | 76,604 | 135,294 | (58,690) |
| Unrestricted | 44,891 | (80,751) | 125,642 |
| Total net position | <u>\$ 121,495</u> | <u>\$ 54,543</u> | <u>\$ 66,952</u> |

Total assets increased due to increased funds due from other schools, and capital assets decreased as a result of depreciation. Total liabilities increased during the current year as a result of increased amount due to a leasing company offset by a decrease in the payments for notes payable and rent.

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

| | Governmental Activities | | |
|--|--------------------------------|------------------|------------------|
| | 2016 | 2015 | Variance |
| Revenues: | | | |
| Program revenues: | | | |
| Charges for services | \$ 206,124 | \$ 149,787 | \$ 56,337 |
| Operating grants and contributions | 113,389 | 52,220 | 61,169 |
| General revenues: | | | |
| State passed through local school district | 2,987,617 | 2,317,689 | 669,928 |
| Other revenues | 79,761 | 120,911 | (41,150) |
| Contributions from operating company | 371,835 | 483,685 | (111,850) |
| Contributions from related party | 728,425 | 880,239 | (151,814) |
| Total revenues | <u>4,487,151</u> | <u>4,004,531</u> | <u>482,620</u> |
| Expenses: | | | |
| Basic instruction | 1,379,139 | 1,243,594 | 135,545 |
| Exceptional instruction | 125,954 | 101,710 | 24,244 |
| Prekindergarten | 98,625 | 77,068 | 21,557 |
| Student services | 1,368 | 400 | 968 |
| Health services | 224 | 69 | 155 |
| Media services | 34,826 | 48,700 | (13,874) |
| Curriculum development | 2,294 | 8,367 | (6,073) |
| Board of managers | 12,450 | 14,700 | (2,250) |
| School administration | 972,292 | 774,822 | 197,470 |
| Food services | 1,245 | 4,760 | (3,515) |
| Transportation | 170,889 | 167,465 | 3,424 |
| Operation of plant | 1,532,344 | 1,551,029 | (18,685) |
| Maintenance of plant | 20,688 | 22,831 | (2,143) |
| Community services | 45,072 | 45,557 | (485) |
| Interest on long-term debt | 22,789 | 23,505 | (716) |
| Total expenses | <u>4,420,199</u> | <u>4,084,577</u> | <u>335,622</u> |
| Change in net position | 66,952 | (80,046) | 146,998 |
| Net position - beginning | 54,543 | 134,589 | (80,046) |
| Net position - ending | <u>\$ 121,495</u> | <u>\$ 54,543</u> | <u>\$ 66,952</u> |

The significant changes in revenues are the increase in state passed through the local school district resulted from the increase in enrollment and capital outlay funding. This in turn affected the FTE allocation per student which increased as well. The contributions from the operating company decreased due to the decrease in contributions from the related party. As well, the contribution from the related party decreased as result of fewer contributions from other schools. On the other hand, expenses increased in school administration which related to increases in the management fee charged to the School and depreciation expense related to fixed assets.

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 \$306,689.

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 \$271,790. The School's ending general fund balance increased by \$94,428 during the current fiscal year.

General Fund Budgetary Highlights: Actual revenues and expenditures were less than final budget. The budgetary information can be found as listed on the table of content of this report.

Capital Outlay Fund Budgetary Highlights: Budgeted revenues and expenditures were equal to actuals.

Capital Asset and Debt Administration

Capital Assets. The School's net investment in capital assets for its governmental type activities as of June 30, 2016, amounts to \$76,604. 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, 2016 totaled \$261,798, a decrease of \$31,214 from 2015 due to principal payments and accrued rent paid. 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 increase from 446 students in the current year to 450 students for the 2016/2017 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, 2016

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| CURRENT ASSETS | |
| Cash | \$ 100,471 |
| Accounts receivable | 1,671 |
| Deposit | 40,701 |
| Due from operating company | 300,771 |
| Prepaid expenses | 34,899 |
| Total current assets | <u>478,513</u> |
| CAPITAL ASSETS | |
| Capital assets, net of accumulated depreciation | |
| Leasehold improvements | 5,191 |
| Buildings and fixed equipment | 30,470 |
| Furniture, fixtures and equipment | 23,512 |
| Audio visual materials | 5,738 |
| Information technology equipment | 10,738 |
| Computer software | 955 |
| Total capital assets, net of accumulated depreciation | <u>76,604</u> |
| Total assets | <u>555,117</u> |
| LIABILITIES | |
| LIABILITIES | |
| Accrued payroll and related benefits | 152,659 |
| Accrued expenses | 5,844 |
| Unearned revenue | 13,321 |
| Noncurrent liabilities | |
| Due in one year | |
| Note payable | 8,007 |
| Accrued rent | 48,975 |
| Due in more than one year | |
| Note payable | 204,816 |
| Total liabilities | <u>433,622</u> |
| NET POSITION | |
| Net investment in capital assets | 76,604 |
| Unrestricted | 44,891 |
| Total net position | <u>\$ 121,495</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 ACTIVITIES

For the year ended June 30, 2016

| 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 | \$1,379,139 | \$ - | \$ 48,533 | \$ - | \$ (1,330,606) |
| Exceptional instruction | 125,954 | - | - | - | (125,954) |
| Prekindergarten | 98,625 | 143,163 | - | - | 44,538 |
| Student services | 1,368 | - | - | - | (1,368) |
| Health services | 224 | - | - | - | (224) |
| Media services | 34,826 | - | - | - | (34,826) |
| Curriculum development | 2,294 | - | - | - | (2,294) |
| Board of managers | 12,450 | - | - | - | (12,450) |
| School administration | 972,292 | - | - | - | (972,292) |
| Food services | 1,245 | - | - | - | (1,245) |
| Transportation | 170,889 | - | - | - | (170,889) |
| Operation of plant | 1,532,344 | - | 64,856 | - | (1,467,488) |
| Maintenance of plant | 20,688 | - | - | - | (20,688) |
| Community services | 45,072 | 62,961 | - | - | 17,889 |
| Interest on long-term debt | 22,789 | - | - | - | (22,789) |
| Total governmental activities | \$4,420,199 | \$ 206,124 | \$ 113,389 | \$ - | \$ (4,100,686) |
| General revenues: | | | | | |
| | | | | | 2,987,617 |
| | | | | | 371,835 |
| | | | | | 728,425 |
| | | | | | 79,761 |
| | | | | | <u>4,167,638</u> |
| | | | | | 66,952 |
| | | | | | <u>54,543</u> |
| | | | | | <u>\$ 121,495</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, 2016

| | General Fund | Capital Outlay Fund | Other Governmental Fund | Total Governmental Funds |
|--|--------------|------------------------|-------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash | \$ 100,471 | \$ - | \$ - | \$ 100,471 |
| Accounts receivable | 1,671 | - | - | 1,671 |
| Deposits receivable | 40,701 | - | - | 40,701 |
| Due from operating company | 300,771 | - | - | 300,771 |
| Prepaid expenses | 34,899 | - | - | 34,899 |
| Total assets | \$ 478,513 | \$ - | \$ - | \$ 478,513 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accrued payroll and related benefits | 152,659 | - | - | 152,659 |
| Unearned revenue | 13,321 | - | - | 13,321 |
| Accrued expenses | 5,844 | - | - | 5,844 |
| Total liabilities | 171,824 | - | - | 171,824 |
| FUND BALANCE | | | | |
| Nonspendable | | | | |
| Prepaid expenses | 34,899 | - | - | 34,899 |
| Unassigned | 271,790 | - | - | 271,790 |
| Total fund balance | 306,689 | - | - | 306,689 |
| Total liabilities and fund balance | \$ 478,513 | \$ - | \$ - | \$ 478,513 |

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, 2016

Fund balances - total governmental funds \$ 306,689

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 | \$ 5,191 | |
| Buildings and fixed equipment, net | 30,470 | |
| Furniture, fixtures and equipment, net | 23,512 | |
| Audio visual materials, net | 5,738 | |
| Information technology equipment, net | 10,738 | |
| Computer software, net | <u>955</u> | |
| Total capital assets, net of accumulated depreciation | | 76,604 |

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

| | | |
|---|------------------|-------------------|
| Accrued rent | (48,975) | |
| Note payable | <u>(212,823)</u> | <u>(261,798)</u> |
| Total net position of governmental activities | | <u>\$ 121,495</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, 2016

| | General Fund | Capital Outlay Fund | Other Governmental Fund | Total Governmental Funds |
|--|-------------------|------------------------|-------------------------------|--------------------------------|
| Revenues | | | | |
| Federal passed through local school district | \$ - | \$ - | \$ 48,533 | \$ 48,533 |
| State passed through local school district | 2,987,617 | 64,856 | - | 3,052,473 |
| Contributions from operating company | 371,835 | - | - | 371,835 |
| Contributions from related party | 728,425 | - | - | 728,425 |
| Other revenues | 222,924 | - | - | 222,924 |
| Local revenues | 62,961 | - | - | 62,961 |
| Total revenues | <u>4,373,762</u> | <u>64,856</u> | <u>48,533</u> | <u>4,487,151</u> |
| Expenditures | | | | |
| Current: | | | | |
| Basic instruction | 1,267,554 | - | 48,533 | 1,316,087 |
| Exceptional instruction | 125,954 | - | - | 125,954 |
| Prekindergarten | 98,625 | - | - | 98,625 |
| Health services | 224 | - | - | 224 |
| Media services | 34,826 | - | - | 34,826 |
| Curriculum development | 2,294 | - | - | 2,294 |
| Board of managers | 12,450 | - | - | 12,450 |
| School administration | 968,932 | - | - | 968,932 |
| Food services | 673 | - | - | 673 |
| Transportation | 170,889 | - | - | 170,889 |
| Operation of plant | 1,475,114 | 64,856 | - | 1,539,970 |
| Maintenance of plant | 20,688 | - | - | 20,688 |
| Community services | 45,072 | - | - | 45,072 |
| Fixed capital outlay | 26,039 | - | - | 26,039 |
| Debt service: | | | | |
| Principal | 7,211 | - | - | 7,211 |
| Interest | 22,789 | - | - | 22,789 |
| Total expenditures | <u>4,279,334</u> | <u>64,856</u> | <u>48,533</u> | <u>4,392,723</u> |
| Net change in fund balances | 94,428 | - | - | 94,428 |
| Fund balances at July 1, 2015 | 212,261 | - | - | 212,261 |
| Fund balances at June 30, 2016 | <u>\$ 306,689</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 306,689</u> |

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, 2016

Net change in fund balances - total governmental funds \$ 94,428

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 | \$ 26,039 | |
| Less: depreciation | <u>(84,729)</u> | |
| | | (58,690) |

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) | | 7,211 |
|---|--|-------|

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>24,003</u> |
| Change in net position of governmental activities | | <u>\$ 66,952</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, 2016

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 grade. The governing body of the School is the Board of Directors (the "Board"), which is composed of three members. The financial information presented is that of the School 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, 2018 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. The School 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, liabilities, and deferred outflows/inflows of resources, as presented in the statement of net position, are subdivided into three categories: net investment 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, 2016

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 and capital outlay as a 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, 2016

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, this fund accounts for all resources for the leasing and 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

Receivables consist of due from other agencies and management company. Based on prior experience, the School's management considers 100% of receivables fully collectible, based on prior experience. 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, 2016, 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, 2016

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 \$48,975 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, 2016

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. The assessment of the technical merits of a tax position is a matter of judgment. The School believes that all of 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 three years after a return was due or filed.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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), through constitutional provisions, or enabling legislation.

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 Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned fund balance - amounts that are available for any purpose. No other fund except the General Fund can report positive amounts of unassigned fund balance.

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, 2016

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 \$146,525 at June 30, 2016. The deposits are insured by the FDIC up to \$250,000 per financial institution. 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, 2016, 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, 2016

NOTE C - CAPITAL ASSETS

Changes in capital assets activity are as follows:

| | Balance at July 1, 2015 | Additions | Transfers | Balance at June 30, 2016 |
|---|-------------------------------|------------------|-------------|--------------------------------|
| Capital assets depreciated: | | | | |
| Leasehold improvements | \$ 21,081 | \$ - | \$ - | \$ 21,081 |
| Buildings and fixed equipment | 39,312 | 20,280 | - | 59,592 |
| Furniture, fixtures and equipment | 401,308 | 1,781 | - | 403,089 |
| Audio visual materials | 14,751 | 3,978 | - | 18,729 |
| Information technology equipment | 129,260 | - | - | 129,260 |
| Computer software | 16,915 | - | - | 16,915 |
| Total capital assets depreciated | <u>622,627</u> | <u>\$ 26,039</u> | <u>\$ -</u> | <u>648,666</u> |
| Less accumulated depreciation: | | | | |
| Leasehold improvements | 13,214 | \$ 2,676 | \$ - | 15,890 |
| Buildings and fixed equipment | 15,040 | 14,082 | - | 29,122 |
| Furniture, fixtures and equipment | 322,052 | 57,525 | - | 379,577 |
| Audio visual materials | 8,833 | 4,158 | - | 12,991 |
| Information technology equipment | 113,698 | 4,824 | - | 118,522 |
| Computer software | 14,496 | 1,464 | - | 15,960 |
| Total accumulated depreciation | <u>487,333</u> | <u>\$ 84,729</u> | <u>\$ -</u> | <u>572,062</u> |
| Total governmental activities capital assets, net | <u>\$ 135,294</u> | | | <u>\$ 76,604</u> |

Depreciation expense for the year ended June 30, 2016 was charged to functions of the School as follows:

| | |
|-----------------------|------------------|
| Basic instruction | \$ 63,052 |
| Student services | 1,368 |
| Food services | 572 |
| School administration | 3,360 |
| Operation of plant | 16,377 |
| | <u>\$ 84,729</u> |

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE D - LONG-TERM LIABILITIES

1. Changes in long-term liabilities:

Changes in long-term liabilities are as follows:

| | Balance at July 1, 2015 | Additions | Reductions | Balance at June 30, 2016 | Due within one year |
|--------------|-------------------------------|-------------|------------------|--------------------------------|------------------------|
| Note payable | \$ 220,034 | \$ - | \$ 7,211 | \$ 212,823 | \$ 8,007 |
| Accrued rent | 72,978 | - | 24,003 | 48,975 | 48,975 |
| Total | \$ 293,012 | \$ - | \$ 31,214 | \$ 261,798 | \$ 56,982 |

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, 2016, the School made payments of principal and interest toward the note of \$7,211 and \$22,789, respectively.

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

| | Principal | Interest | Total |
|-----------|-------------------|-------------------|-------------------|
| 2017 | \$ 8,007 | \$ 21,993 | \$ 30,000 |
| 2018 | 8,890 | 21,110 | 30,000 |
| 2019 | 9,871 | 20,129 | 30,000 |
| 2020 | 10,960 | 19,040 | 30,000 |
| 2021 | 12,170 | 17,830 | 30,000 |
| 2022-2026 | 84,210 | 65,790 | 150,000 |
| 2027-2030 | 78,715 | 13,785 | 92,500 |
| | \$ 212,823 | \$ 179,677 | \$ 392,500 |

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE D - LONG-TERM LIABILITIES (continued)

3. Accrued rent

In the governmental financial statements stated on a full accrual basis of accounting, GASB Statement No. 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 \$98,059 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 agreement, which was renewed in 2013 for five years, expiring June 30, 2018 (see Note A-1). As of June 30, 2016, there was a reduction of accrued rent in the amount of \$24,003.

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 |
|------|---|---|---------------------------------------|
| 2017 | 1,236,728 | 1,248,728 | (12,000) |
| 2018 | 1,236,729 | 1,273,703 | (36,974) |
| | \$ 2,473,457 | \$ 2,522,431 | \$ (48,974) |

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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 | \$ 1,966,846 |
| Class size reduction | 521,584 |
| Declining enrollment | 1,218 |
| Digital classrooms allocation | 9,621 |
| Discretionary lottery | 149,692 |
| Discretionary millage | 43,651 |
| ESE guaranteed allocation | 37,549 |
| Instructional materials | 32,816 |
| Reading allocation | 20,210 |
| Safe schools | 8,701 |
| Supplemental academic instruction | 104,016 |
| Student transportation | 61,070 |
| Administration fee withheld | (157,298) |
| Proration to funds available | (5,605) |
| Total School Board of St. Lucie County, Florida | 2,794,071 |
| Capital outlay funding | 64,856 |
| Contributions from operating company | 371,835 |
| Contributions from related party | 728,425 |
| Other revenues | 322,133 |
| Title one funding | 48,533 |
| Total revenues cash basis | 4,329,853 |
| Adjustments to reconcile cash basis to accrual basis - administration fee withheld | 157,298 |
| Total revenues | \$ 4,487,151 |

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F - COMMITMENTS AND CONTINGENCIES

1. Operating agreement

The School entered into an operating agreement with the operating 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, 2016 was \$341,835. 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.

2. Facilities expense

The School has committed to pay a facility allocation fee to a lessor, who is a related party to the operating company, 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 \$1,224,725.

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

| | |
|-------|---------------------|
| 2017 | \$ 1,248,728 |
| 2018 | <u>1,273,703</u> |
| Total | <u>\$ 2,522,431</u> |

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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 | Working Capital / Accumulated Contribution | Total |
|----------------------------|---------------------|-----------------------|------------------|---|-------------------|
| Balance at | | | | | |
| June 30, 2015 | \$ (482,765) | \$ (297,221) | \$ 5,833 | \$ 1,833,805 | \$ 1,059,652 |
| Reclassified of receivable | - | - | - | (765,587) | (765,587) |
| Invoiced | (371,835) | (9,729) | 40,000 | (2,732) | (344,296) |
| Payments | - | - | (20,833) | - | (20,833) |
| Contributions | 371,835 | - | - | - | 371,835 |
| Balance at | | | | | |
| June 30, 2016 | <u>\$ (482,765)</u> | <u>\$ (306,950)</u> | <u>\$ 25,000</u> | <u>\$ 1,065,486</u> | <u>\$ 300,771</u> |

2. Facilities expense

The School has committed to pay a facility allocation fee to a lessor, who 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 \$1,224,725 and there are no amounts outstanding as of June 30, 2016.

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 \$7,211 and \$22,789, respectively with \$212,823 in principal outstanding as of June 30, 2016.

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 2016. Settled claims resulting from the risks described above have not exceeded the insurance coverage since the School's inception.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE I - SUBSEQUENT EVENTS

The School has evaluated subsequent events through September 30, 2016, the date which the financial statements were available for issuance, and has determined that no material events occurred that would require additional disclosure in the financial statements.

REQUIRED SUPPLEMENTARY 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, 2016

| | Budgeted Amounts | | | Variance with Final Budget |
|--|-------------------|-------------------|-------------------|----------------------------------|
| | Original | Final | Actual | |
| Revenues | | | | |
| State passed through local school district | \$ 2,608,734 | \$ 2,999,902 | \$ 2,987,617 | \$ (12,285) |
| Contributions from operating company | 1,513,571 | 371,835 | 371,835 | - |
| Contributions from related party | - | 728,425 | 728,425 | - |
| Other revenues | 138,220 | 237,699 | 222,924 | (14,775) |
| Local revenues | 40,000 | 48,186 | 62,961 | 14,775 |
| Total revenues | 4,300,525 | 4,386,047 | 4,373,762 | (12,285) |
| Expenditures | | | | |
| Salaries and benefits | 1,828,351 | 1,770,671 | 1,829,249 | (58,578) |
| Direct educational | 89,160 | 82,701 | 7,059 | 75,642 |
| Facility operating | 172,180 | 151,895 | 241,078 | (89,183) |
| Equipment use | - | 2,940 | - | 2,940 |
| General and administrative | 284,985 | 371,606 | 285,108 | 86,498 |
| Marketing and enrollment | 14,520 | 32,366 | - | 32,366 |
| School services | 350,326 | 372,704 | 335,094 | 37,610 |
| School operating expenses | 2,739,522 | 2,784,883 | 2,697,588 | 87,295 |
| Facility use fee | 1,224,243 | 1,183,872 | 1,183,872 | - |
| Imagine start-up costs | 30,000 | - | 30,000 | (30,000) |
| Indirect costs | 336,760 | 341,835 | 341,835 | - |
| Total expenditures | 4,330,525 | 4,310,590 | 4,253,295 | 57,295 |
| Change in net position (budgetary basis) | (30,000) | 75,457 | 120,467 | 45,010 |
| Adjustments to conform with GAAP: | | | | |
| Capital outlay expenditures | - | - | (26,039) | (26,039) |
| Net change in fund balances (GAAP basis) | (30,000) | 75,457 | 94,428 | 18,971 |
| Fund balances at July 1, 2015 | 212,261 | 212,261 | 212,261 | - |
| Fund balances at June 30, 2016 | \$ 182,261 | \$ 287,718 | \$ 306,689 | \$ 18,971 |

See accompanying notes to required supplementary 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, 2016

| | Budgeted Amounts | | | Variance with Final Budget |
|--|------------------|-----------|-----------|----------------------------------|
| | Original | Final | Actual | |
| Revenues | | | | |
| State passed through local school district | \$ - | \$ 64,856 | \$ 64,856 | \$ - |
| Total revenues | - | 64,856 | 64,856 | - |
| Expenditures | | | | |
| Facility use fee | - | 64,856 | 64,856 | - |
| Total expenditures | - | 64,856 | 64,856 | - |
| Change in net position (budgetary basis) | - | - | - | - |
| Net change in fund balances (GAAP basis) | - | - | - | - |
| Fund balances at July 1, 2015 | - | - | - | - |
| Fund balances at June 30, 2016 | \$ - | \$ - | \$ - | \$ - |

See accompanying notes to required supplementary information.

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

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

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.

COMPLIANCE INFORMATION

INDEPENDENT AUDITOR'S 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, each major fund, and the aggregate 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, as of and for the year ended June 30, 2016, 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 30, 2016.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which is described in the accompanying Management Findings, Recommendations, and Responses as item 2016-001.

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 30, 2016
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

Report on the Financial Statements

We have audited the financial statements 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 fiscal year ended June 30, 2016, and have issued our report thereon dated September 30, 2016.

Auditor's Responsibility

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; and Chapter 10.850, Rules of the Auditor General.

Other Reports and Schedules

We have issued our Independent Auditor's 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 this report, which is dated September 30, 2016, should be considered in conjunction with this management letter.

Prior Audit Findings

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 finding or recommendations made in the preceding annual financial report.

Official Title

Section 10.854(1)(e)5., Rules of the Auditor General, requires the name or official title of the entity. 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.

Financial Condition

Section 10.854(1)(e)2., Rules of the Auditor General, requires that we report the results of our determination 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 School 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(12), Rules of the Auditor General, we applied financial condition assessment procedures for the School. It is management's responsibility to monitor the School'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 same.

Transparency

Sections 10.854(1)(e)7 and 10.855(13), Rules of the Auditor General, require that we report the results of our determination as to whether the School maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

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, refer to finding 2016-001, documented in Management Findings, Recommendations, and Responses.

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. In connection with our audit, we did not have any such findings.

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 School's 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 School's 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.
- xii. The School demonstrated proper risk management to the extent noted during our auditing procedures.
- xiii. The School's financial records that comprise its accounting system are maintained in accordance with Section 1002.33(9)(h), Florida Statutes.
- xiv. All members of the School's governing board have completed governance training as required by Florida. Admin Code Rule 6A-6.0784 to the extent noted during our auditing procedures.
- xv. The School is not in a state of financial emergency within the meaning of Section 218.503, Florida statutes.

There were no noted material subsequent events that occurred after the financial statement date.

Purpose of this Letter

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

September 30, 2016
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

MANAGEMENT FINDINGS, RECOMMENDATIONS, AND RESPONSES

Current Year Management Findings, Recommendations, and Responses

2016-001 Payroll Accrual

Condition: During testing of the School's salaries and benefit accrual, it was discovered that medical benefits for contracted employees was omitted in the payroll accrual.

Criteria: Generally accepted accounting principles in the United States of America, require expenses to be recorded in the period in which the obligation is incurred.

Cause of Condition: The omission of medical benefits resulted in the payroll accrual and related expenses to be understated and net position and fund balance to be overstated.

Recommendation: We recommend the School implement a review process to ensure all payroll obligations are properly reported at fiscal yearend.

Management Response: We have reviewed the underlining transactions of this finding and determined that human error was the cause of the discrepancies. The School is implementing a process to ensure that the end of year accrual for payroll and benefits is accurately calculated including the salaries through the end of the contract and also all the benefits.

Prior Year Management Findings, Recommendations, and Responses

For the year ended June 30, 2015, there were no audit findings or recommendations.