

**IMAGINE SCHOOLS AT
SOUTH LAKE
(A Division of Educational
Charter Foundation of
Florida, Inc.)**

**Basic Financial Statements and
Supplemental Information**

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

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

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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, each major fund, and the aggregate remaining 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 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 August 26, 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.

August 26, 2013
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

Management's Discussion and Analysis

As management of Imagine Schools at South Lake (the "School"), a division of Educational Charter Foundation of Florida, Inc. (the "Charterholder"), and a component unit of the School Board of Lake County, Florida, 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 School's assets exceeded its liabilities at June 30, 2013 by \$763,604 (net position).
- The School's total net position increased by \$83,499.
- At June 30, 2013, the School's balance sheet reported an ending general fund balance of \$553,544.
- Total long-term liabilities decreased by \$39,641 in fiscal year 2013.

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.

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 transportation 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 Board of Lake County, Florida. The School Board of Lake 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 School maintains three individual government funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balances. The general fund and the capital outlay fund are considered to be the School's major funds.

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 note to these schedules have been provided to demonstrate compliance with these budgets 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 the School's financial position. In the case of the School, assets exceeded liabilities by \$763,604 and \$680,105, for the years ended June 30, 2013 and 2012, respectively.

At the end of the current fiscal year, the School reports positive balances in all categories of net position. A portion of the School's net position reflects its investment in capital assets (e.g., buildings and fixed equipment and furniture, fixtures and equipment, computer software and IT equipment). The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

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

Statement of Net Position			
	Governmental Activities		
	2013	2012	Variance
ASSETS			
Current and other assets	\$ 944,861	\$ 1,030,082	\$ (85,221)
Capital assets, net of accumulated depreciation	288,100	267,968	20,132
Total assets	1,232,961	1,298,050	(65,089)
LIABILITIES			
Current and other liabilities	403,091	510,084	(106,993)
Noncurrent liabilities	66,266	107,861	(41,595)
Total liabilities	469,357	617,945	(148,588)
NET POSITION			
Invested in capital assets	180,239	267,968	(87,729)
Unrestricted	583,365	412,137	171,228
Total net position	\$ 763,604	\$ 680,105	\$ 83,499

Current and other assets decreased by \$85,221, primarily as a result of a timing of inflows and outflows of cash. Capital assets, net of accumulated depreciation, and noncurrent liabilities were similarly impacted, decreasing due to depreciation and expense and principal repayment, respectively. Current and other liabilities decreased by \$106,993 due to a decrease in accrued payroll and related benefits compared to the prior year.

Governmental activities. Governmental activities increased the School's net position by \$83,499 and \$261,832, respectively, for the years ended June 30, 2013 and 2012.

The following table indicates the changes in net position for the School:

Statement of Activities			
	Governmental Activities		
Revenues:	2013	2012	Variance
Program revenues:			
Charges for services	\$ 382,814	\$ 351,931	\$ 30,883
Operating grants and contributions	487,074	595,259	(108,185)
Capital grants and contributions	-	19,775	(19,775)
General revenues			
State passed through local school district	5,954,384	5,833,643	120,741
Total revenues	6,824,272	6,800,608	23,664
Expenses:			
Basic instruction	2,934,749	2,974,945	(40,196)
Exceptional instruction	120,994	95,456	25,538
Health services	800	967	(167)
Media services	1,515	-	1,515
Staff development	2,466	666	1,800
Board of directors	12,835	15,500	(2,665)
School administration	1,441,198	1,358,629	82,569
Food services	168,146	226,778	(58,632)
Central services	91,384	49,798	41,586
Transportation	153,216	124,179	29,037
Operation of plant	1,644,180	1,586,874	57,306
Maintenance of plant	48,323	33,119	15,204
Community services	114,726	68,030	46,696
Interest on long-term liabilities	6,241	3,835	2,406
Total expenses	6,740,773	6,538,776	201,997
Change in net position	83,499	261,832	(178,333)
Net position - beginning	680,105	418,273	261,832
Net position - ending	\$ 763,604	\$ 680,105	\$ 83,499

The decrease in operating grants and contributions is due to the School receiving less in capital outlay funding. General revenues increased due to the following: (1) state passed through local school district funds increased, (2) contributions from the management company were not required for operating support due to the School's stronger financial position.

The decrease of \$40,196 in basic instruction is due to a decrease in School field trips and employee benefits. The increase of \$82,569 in school administration is due to an increase in salaries and management fees which are a direct result of the increase in general revenues. Food service expenses decreased by \$58,632 as there was limited accessibility to the kitchen due to repairs. The increase of \$57,306 in operation of plant is due to an increase in the School's facility rent. The increase in community services of \$46,696 is due to an increase in students served in the School's before and after care programs.

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.

The general fund is the main operating fund of the School. At the end of the current fiscal year, unassigned fund balance of the general fund was \$533,535. The fund balance of the School's general fund increased by \$7,115 during the current fiscal year.

General Fund Budgetary Highlights

The Board of Directors approved a budget for the general fund for fiscal year 2013. As a result, the general fund budgeted expenditures exceeded actual expenditures by \$54,343.

Capital Asset and Debt Administration

Capital Assets. The School's investment in capital assets, as of June 30, 2013, amounts to \$288,100 (net of accumulated depreciation). This investment in capital assets includes buildings and fixed equipment, furniture, fixtures and equipment, computer software and IT equipment. 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 \$107,861. 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 remain static at 1,011 students for the 2013/2014 school year.

Request for Information

This financial report is designed to provide a general overview of Imagine Schools at South Lake'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 office of the Principal at 2750 Hartwood Marsh Road, Clermont, FL 34711.

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

STATEMENT OF NET POSITION

June 30, 2013

	Governmental Activities
ASSETS	
CURRENT ASSETS	
Cash	\$ 547,636
Due from management company	370,109
Due from other agency	4,494
Due from local school district	554
Due from related schools	2,059
Prepaid expenses	20,009
Total current assets	<u>944,861</u>
CAPITAL ASSETS	
Capital assets, net of accumulated depreciation	
Buildings and fixed equipment	172,989
Furniture, fixtures, and equipment	37,380
Computer software	1,917
IT equipment	71,636
Vehicles	4,178
Total capital assets	<u>288,100</u>
Total assets	<u><u>\$ 1,232,961</u></u>
LIABILITIES	
Accounts payable	\$ 66,857
Accrued payroll and related benefits	294,639
Capital lease payable	
Due within one year	41,595
Due in more than one year	66,266
Total liabilities	<u>469,357</u>
NET POSITION	
Investment in capital assets, net of related debt	180,239
Unrestricted	583,365
Total net position	<u><u>\$ 763,604</u></u>

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

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

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	\$ 2,934,749	\$ 202,795	\$ 107,146	\$ -	\$ (2,624,808)
Exceptional instruction	120,994	-	20,235	-	(100,759)
Health services	800	-	-	-	(800)
Media services	1,515	-	-	-	(1,515)
Staff development	2,466	-	-	-	(2,466)
Board of directors	12,835	-	-	-	(12,835)
School administration	1,441,198	-	-	-	(1,441,198)
Food services	168,146	84,446	100,311	-	16,611
Central services	91,384	-	-	-	(91,384)
Transportation	153,216	-	-	-	(153,216)
Operation of plant	1,644,180	505	259,382	-	(1,384,293)
Maintenance of plant	48,323	-	-	-	(48,323)
Community services	114,726	95,068	-	-	(19,658)
Interest on long-term liabilities	6,241	-	-	-	(6,241)
Total governmental activities	<u>\$ 6,740,773</u>	<u>\$ 382,814</u>	<u>\$ 487,074</u>	<u>\$ -</u>	<u>(5,870,885)</u>
General revenues:					
State passed through local school district					<u>5,954,384</u>
Change in net position					<u>83,499</u>
Net position at July 1, 2012					<u>680,105</u>
Net position at June 30, 2013					<u>\$ 763,604</u>

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

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 547,636	\$ -	\$ -	\$ 547,636
Due from management company	370,109	-	-	370,109
Due from other funds	-	-	25,327	25,327
Due from other agency	-	-	4,494	4,494
Due from local school district	554	-	-	554
Due from related schools	2,059	-	-	2,059
Prepaid expenses	20,009	-	-	20,009
Total assets	<u>\$ 940,367</u>	<u>\$ -</u>	<u>\$ 29,821</u>	<u>\$ 970,188</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 66,857	\$ -	\$ -	\$ 66,857
Accrued payroll and related benefits	294,639	-	-	294,639
Due to other funds	25,327	-	-	25,327
Total liabilities	<u>386,823</u>	<u>-</u>	<u>-</u>	<u>386,823</u>
FUND BALANCES				
Nonspendable prepaid expenses	20,009	-	-	20,009
Reserved for:				
Lunch program	-	-	29,821	29,821
Unassigned	533,535	-	-	533,535
Total fund balances	<u>553,544</u>	<u>-</u>	<u>29,821</u>	<u>583,365</u>
Total liabilities and fund balances	<u>\$ 940,367</u>	<u>\$ -</u>	<u>\$ 29,821</u>	<u>\$ 970,188</u>

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

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

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

June 30, 2013

Fund balances - total governmental funds	\$ 583,365
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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:

Buildings and fixed equipment, net	\$ 172,989	
Furniture, fixtures and equipment, net	37,380	
Computer software, net	1,917	
Vehicles, net	71,636	
IT equipment, net	<u>4,178</u>	
Total capital assets		288,100

Noncurrent liabilities (e.g. note payable) are not due and payable in the current period and therefore are not reported in the funds.

Total net position of governmental activities	<u><u>\$ 763,604</u></u>
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The accompanying notes are an integral part of this financial statement.

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

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

For the year ended June 30, 2013

	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Federal passed through state	\$ -	\$ -	\$ 100,311	\$ 100,311
Federal passed through local school district	-	-	20,235	20,235
State passed through local school district	6,061,530	259,382	-	6,320,912
Other revenues	298,368	-	84,446	382,814
Total revenues	6,359,898	259,382	204,992	6,824,272
Expenditures				
Current:				
Basic instruction	2,861,978	-	-	2,861,978
Exceptional instruction	106,139	-	14,701	120,840
Health services	800	-	-	800
Media services	1,515	-	-	1,515
Staff development	2,466	-	-	2,466
Board of directors	12,835	-	-	12,835
School administration	1,441,198	-	-	1,441,198
Food services	-	-	168,146	168,146
Central services	91,384	-	-	91,384
Transportation	152,664	-	-	152,664
Operation of plant	1,378,120	259,382	-	1,637,502
Maintenance of plant	48,323	-	-	48,323
Community services	114,726	-	-	114,726
Fixed capital outlay	94,753	-	5,534	100,287
Debt service:				
Principal	39,641	-	-	39,641
Interest	6,241	-	-	6,241
Total expenditures	6,352,783	259,382	188,381	6,800,546
Net change in fund balances	7,115	-	16,611	23,726
Fund balances at July 1, 2012	546,429	-	13,210	559,639
Fund balances at June 30, 2013	\$ 553,544	\$ -	\$ 29,821	\$ 583,365

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

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

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 government funds	\$ 23,726
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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 outlay 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	\$ 100,287	
Less: depreciation	<u>(80,155)</u>	
		20,132

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.

Payments on long-term debt	<u>39,641</u>
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Change in net position of governmental activities	<u><u>\$ 83,499</u></u>
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The accompanying notes are an integral part of this financial statement.

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Imagine Schools at South Lake, (the "School") is a division of Educational Charter Foundation of Florida, Inc. (the "Charterholder"), a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act, and Section 1002.33, Florida Statutes. The School provides educational services to students in grades K-8. The governing body of the School is the Board of Directors, which is comprised of five 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 employee benefits are provided by the operating company.

The general operating authority of Imagine Schools at South Lake is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, which is the School Board of Lake County, Florida (the "District") which was renewed and effective July 1, 2009. The current charter is effective until June 30, 2014. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter 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 at South Lake is considered a component unit of the School Board of Lake 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 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, is subdivided into three categories: amounts invested in capital assets, restricted net position, and unrestricted net position. Amounts invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when constraints are imposed on the use of the amounts either externally by creditors, grantors, contributors, 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 at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

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 that 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 and capital outlay funds as major funds. 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 governmental 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.

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.

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

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)

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 it is used to account for all financial resources not required to be accounted for in another fund.

Capital Outlay Fund - is a special revenue fund used in accordance with guidelines established by the School Board of Lake 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 consists of cash on hand at the School and a checking account held at a financial institution. The School has no cash equivalents.

5. Receivables

The School's receivables typically consist of amounts due from other schools and the management company. After reviewing the individual account balances, the School's management has determined that 100% of receivables are fully collectible. Therefore, no allowance for doubtful accounts has been provided.

6. Interfund receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/due from other funds. At June 30, 2013 \$25,327 was due from the general fund to the lunch program.

7. Capital assets

Capital assets are reported in the governmental columns on the government-wide financial statements. The School defines capital assets 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 values at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Capital assets (continued)

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 (years)</u>
Buildings and fixed equipment	10 - 40
Furniture, fixtures and equipment	5
Computer software	3
IT equipment	3
Vehicles	5

8. Prepaid expenses

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. Although a component of net position, a reserve for prepaids has been established for the fund financial statements as these funds do not constitute "available spendable resource."

9. 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 as debt service expenditures.

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 revised calculations by the FDOE under the Florida Education Finance Program and actual weighted FTE students reported by the School during the designated FTE student survey periods.

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Revenue sources (continued)

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 awards may have eligibility requirements whereby the issuance of grant funds is withheld until such eligible expenditures are incurred. Revenues for these awards are recognized only to the extent that eligible expenditures have been incurred.

Additionally, other revenues may be derived from various fundraising activities, interest on bank accounts, student activities and certain other programs.

11. 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.

12. 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 at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 in nonspendable form (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 by 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 Directors). To be reported as committed, amounts cannot be used for any other purpose unless the School takes the same highest level 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. 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.

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 their effects on a government's net position. The provisions of this Statement will be effective for the fiscal year ending June 30, 2013.

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

NOTES TO FINANCIAL STATEMENTS

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 bank balance of the School's deposits was \$ 642,084 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, none of the School's balances held in banks was exposed to custodial credit risk.

NOTE C - CAPITAL ASSETS

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

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
Capital assets depreciated:				
Buildings and fixed equipment	\$ 141,527	\$ 51,236	\$ -	\$ 192,763
Furniture, fixtures and equipment	72,600	38,787	-	111,387
Computer software	21,200		-	21,200
IT equipment	183,394	5,534	-	188,928
Vehicles	246,512	4,730	-	251,242
Total assets depreciated	665,233	\$ 100,287	\$ -	765,520
Less accumulated depreciation:				
Buildings and fixed equipment	12,941	\$ 6,833	\$ -	19,774
Furniture, fixtures and equipment	63,523	10,484	-	74,007
Computer software	18,283	56,540	-	74,823
IT equipment	56,006	5,746	-	61,752
Vehicles	246,512	552	-	247,064
Total accumulated depreciation	397,265	\$ 80,155	\$ -	477,420
Total governmental activities capital assets, net	<u>\$ 267,968</u>			<u>\$ 288,100</u>

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE C - CAPITAL ASSETS (continued)

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

Basic instruction	\$ 72,771
Exceptional instruction	154
Operation of plant	6,678
Transportation	<u>552</u>
	<u>\$ 80,155</u>

NOTE D - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities are as follows:

	Balance at July 1, 2012	Additions	Deductions	Balance at June 30, 2013	Due within one year
Capital lease payable	<u>\$ 147,502</u>	<u>\$ -</u>	<u>\$ 39,641</u>	<u>\$ 107,861</u>	<u>\$ 41,595</u>

On July 1, 2011, the School entered into a capital lease agreement with the management company for IT equipment. The lease has a term of 48 months with monthly payments of \$3,824. During the year, \$39,641 of principal and \$6,241 of interest was paid towards this note (see Note G -2).

The assets acquired through the capital lease are as follows:

Asset:	
IT equipment	\$ 166,619
Less: accumulated depreciation	<u>(111,080)</u>
Total	<u>\$ 55,539</u>

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

	<u>Capital Lease</u>
2014	\$ 41,595
2015	43,644
2016	<u>22,622</u>
	<u>\$ 107,861</u>

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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 Lake County, Florida	
Base funding	\$ 3,936,607
Exceptional student education guaranteed allocation	
Class size reduction	1,165,073
Supplemental academic instruction	237,408
Discretionary local effort	287,921
Discretionary millage compression	83,441
Declining enrollment	19,634
Instructional materials allocation	70,107
Library materials allocation	4,359
State stabilization allocation	166,221
Pro-ration to available funds	<u>(16,387)</u>
Subtotal	5,954,384
IDEA funds	20,235
Education jobs fund	94,972
Lead teacher	12,174
Charter school capital outlay	<u>259,382</u>
Total from School Board of Lake County, Florida	6,341,147
National school lunch program	100,311
Lunch revenues	84,446
Child care fees	115,648
Fundraising	84,687
Other local revenues	<u>98,033</u>
Total revenues	<u><u>\$ 6,824,272</u></u>

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE F - COMMITMENTS AND CONTINGENCIES

1. Management service contract

The School entered into a service agreement which commenced in February 2005 and was amended in December 2005, with the management company. The contract is for management services through the duration of the School's charter, and may be cancelled or terminated pursuant to the terms and conditions as set forth in the agreement.

Under the agreement, the management company will manage and operate the School for an annual fee to cover the indirect costs, as defined in the operating agreement, of the management company. This cost is allocated on an equitable per student basis among all of the management company's schools and is payable monthly.

Additionally, the School's management agreement allows for additional management fees made solely from any revenues less operating expenses greater than zero remaining at the end of the fiscal year. This fee is based on various unreimbursed advances and a percentage of surplus revenues.

Current year management fees under this agreement charged to operations totaled \$742,054.

2. Facilities

In October 2005, the School entered into an agreement to pay a facility allocation to an affiliated company of the management company for the building where the School is located. Current year facilities expense charged to operations totaled \$1,396,496, of which \$259,382 was covered by current year capital outlay funding. Terms of the lease require an annual payment of \$699,990 per year subject to an annual increase equal to the lesser of 1.5% over the overall CPI increase for the immediately preceding calendar year as reported by the Bureau of Labor Statistics or the maximum amount permitted by law and extends through the length of the School's charter. Effective October 1, 2010 the annual lease rent was increased to \$1,355,520, with an annual increase at July 1 of the lesser of the consumer price index or 1.50%.

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

	<u>Facilities</u>
2014	<u>\$ 1,417,443</u>

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE F - COMMITMENTS AND CONTINGENCIES (continued)

3. Federal grants

The School participates in federal and state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2013 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE G - RELATED PARTIES

1. Due (to)/from management company

The School has entered into multiple agreements with the management company. The management company is responsible for organizing, developing, managing, staffing, and operating the School. During the current year, the management company charged fees to the School for management services and certain equipment as described in Note F. The due (to)/from management company also reflects activity for operating advances and certain expenses paid on behalf of the School.

The due (to)/from management company activity consists of the following as of and for the year ended June 30, 2013:

	Operating expenses	Management fees	Operating advances/ Contribution	Due (to)/from management company
Balance at July 1, 2012	\$ -	\$ -	\$ 491,603	\$ 491,603
Invoiced	(316,098)	(742,054)	-	(1,058,152)
Payments	271,998	664,660	-	936,658
Loss mitigation credit	-	-	-	-
Balance at June 30, 2013	<u>\$ (44,100)</u>	<u>\$ (77,394)</u>	<u>\$ 491,603</u>	<u>\$ 370,109</u>

2. Capital lease payable

As previously mentioned on July 1 2011, the School entered into a capital lease agreement with the management company for IT equipment. The lease has a term of 48 months with monthly payments of \$3,824. During the year, \$39,641 of principal and \$6,241 of interest was paid towards this note (see Note D).

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE G - RELATED PARTIES (continued)

3. Operating lease

Schoolhouse Finance, LLC owns property which is leased to the School (see Note F-2). Presently, this company is wholly owned by the School's management company. Total rent payments charged to the School for the year ended June 30, 2013 under these leases amounts to \$1,396,496.

4. Shared employees expense

The School shares employees with other schools operated by the same management company. A portion of their salaries are allocated to each School on a cost reimbursement basis. During the year, \$46,672 was charged to the School for shared expenses. At June 30, 2013, there is an outstanding receivable from related schools of \$2,059.

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; general liabilities; and natural disasters for which the School carries commercial insurance. Under the plan for property insurance, the School's liability is \$25,000 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 during the previous three years.

NOTE I - SUBSEQUENT EVENT

The School has evaluated subsequent events through August 26, 2013 the date on 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 SUPPLEMENTAL INFORMATION

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

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

For the year ended June 30, 2013

	Budgeted Amounts		
	Original and Final	Actual	Variance with Final Budget
Revenue			
State & local revenue	\$ 5,860,057	\$ 6,061,530	\$ 201,473
Supplemental fee revenue	217,333	298,368	81,035
Total revenues	6,077,390	6,359,898	282,508
Expenditures			
Not-for-profit expenditures			
Facility fee	1,075,360	1,137,114	(61,754)
Net school operating revenue	5,002,030	5,222,784	220,754
Expenses			
Salaries and benefits	3,237,235	3,350,961	(113,726)
Other school services	514,105	323,193	190,912
Direct educational expenditures	50,800	160,872	(110,072)
General and administrative	286,776	306,110	(19,334)
Facility operating expenditures	275,967	229,237	46,730
Marketing and enrollment expenses	-	13,103	(13,103)
School operating expenditures	4,364,883	4,383,476	(18,593)
Equipment use fee	45,888	39,641	6,247
Management fees and loss mitigation	838,743	772,054	66,689
Total expenses	5,249,514	5,195,171	54,343
Change in net position (budgetary basis)	\$ (247,484)	27,613	\$ 275,097
Adjustments to conform with GAAP:			
Capital outlay expenditures		(94,753)	
Depreciation expense		74,255	
Excess of revenue over expenditures (GAAP basis)		7,115	
Fund balance at July 1, 2012		546,429	
Fund balance at June 30, 2013		\$ 553,544	

See accompanying note to required supplemental information.

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

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

For the year ended June 30, 2013

	Budgeted Amounts		
	Original and Final	Actual	Variance with Final Budget
Revenue			
State & local revenue	\$ 321,136	\$ 259,382	\$ (61,754)
Expenditures			
Not-for-profit expenditures			
Facility fee	321,136	259,382	61,754
Net changes in fund balances	-	-	-
Fund balance at July 1, 2012	-	-	-
Fund balance at June 30, 2013	\$ -	\$ -	\$ -

See accompanying note to required supplemental information.

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

NOTE TO REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2013

NOTE A - BUDGETARY INFORMATION

The School's annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles generally accepted in the United States of America. Annual budgets are adopted for the entire operations at the combined governmental level and may be amended by the Board of Directors (the "Board"). The budgets presented for fiscal year ended June 30, 2013, have been amended according to Board procedures.

Although budgets are adopted for the entire operation, budgetary comparisons have been presented for the general fund and each major special revenue fund for which a legally adopted budget exists.

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

BERMAN HOPKINS WRIGHT & LAHAM

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

To the Board of Directors
Educational Charter Foundation of Florida, Inc.
Clermont, 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 remaining fund information of Imagine Schools at South Lake (the "School"), a division of Educational Charter Foundation of Florida, Inc. (the "Charterholder"), and a component unit of the School Board of Lake 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 and have issued our report thereon dated August 26, 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

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*.

We noted certain matters that we reported to management of the School in the accompanying management letter dated August 26, 2013.

The School's response to the findings, identified in the audit are described in the section titled Management's Response, as listed in the table of contents. We did not audit the School's response and accordingly, we express no opinion on it.

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.

August 26, 2013
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

BERMAN HOPKINS WRIGHT & LAHAM

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MANAGEMENT LETTER

To the Board of Directors
Educational Charter Foundation of Florida, Inc.
Clermont, Florida

We have audited the financial statements of Imagine Schools at South Lake (the "School"), a division of Educational Charter Foundation of Florida, Inc. (the "Charterholder"), and a component unit of the School Board of Lake County, Florida, as of and for the fiscal year ended June 30, 2013, and have issued our report thereon dated August 26, 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 August 20, 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. Corrective action has been taken to address findings and recommendations made in the preceding 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 the School 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 identified the recommendations as listed under **Current Year Findings and 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. In connection with our audit, we did not have any such findings.
- Section 10.854(1)(e)5., Rules of the Auditor General, requires the official title of the entity. The official title of the entity is Imagine Schools at South Lake.
- Pursuant to Sections 10.854(1)(e)6.a. and 10.855(11), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the 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.

The School's response to the findings identified in the audit are described in the section titled Management's Response, as listed in the table of contents. We did not audit the School's response and accordingly, we express no opinion on it.

Our management letter is intended solely for the information and use of the School's management, Board of Directors, others within the School, the School Board of Lake 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.

August 26, 2013
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

MANAGEMENT RECOMMENDATIONS AND MANAGEMENTS' RESPONSE

June 30, 2013

Prior Year Findings and Recommendations - Corrected

12-01 Payroll Reconciliation

Material Weakness

Criteria: It is the School's policy to reconcile all balance sheet accounts on a monthly basis.

Condition: During the course of our audit, it was noted that the account balances related to accrued payroll liabilities required an adjustment for proper reconciliation to the payroll liability outstanding at year ended June 30, 2012.

Cause: An accurate reconciliation of the accrued payroll liabilities accounts to known accrued payroll expenses did not occur.

Effect: Both the School's accrued payroll liability and payroll expense were overstated, by approximately \$70,000.

Auditors' recommendation: It is our recommendation that the School reconcile their payroll accounts to transactions on a monthly basis.

Managements' comments: The School will ensure that going forward the year end accrual agrees to the actual liability amounts.

Status at June 30, 2013: The above comment has been cleared.

12-02 Revenue Recognition

Material Weakness

Criteria: It is the School's policy to reconcile the FEFP Revenue Worksheet from the School Board on a monthly basis.

Condition: During the course of our audit, it was noted that the account balances related to FEFP revenue required a material adjustment of approximately \$31,000.

Cause: The School did not appropriately reconcile their monthly FEFP revenue worksheet from the School Board regarding funds provided, in order to ensure that all revenues had been accounted for in their records. The School Board purchased, on behalf of the School, capital assets and instructional materials valued at approximately \$19,000 and \$12,000 respectively. This transaction was not recognized as revenue, capitalized assets or expenditures as was appropriate.

Effect: The School understated their revenues for IDEA funding, their expense for instructional materials, as well as their capitalized fixed assets.

**Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)**

MANAGEMENT RECOMMENDATIONS AND MANAGERMENTS' RESPONSE

June 30, 2013

Prior Year Findings and Recommendations - Corrected (continued)

12-02 Revenue Recognition (continued)

Auditor's recommendations: We recommend that the School reconcile their monthly FEFP revenues worksheet from the School Board regarding funds provided and ensure all revenues have been accounted for in their records. In addition, at year end the School should verify from the School Board that there are no other transactions made on their behalf that needs to be accounted for in the School's financial records. All such transactions require supporting documentary evidence for record keeping purposes.

Status at June 30, 2013: The above comment has been cleared.

Imagine Schools at South Lake
(A division of Educational Charter Foundation of Florida, Inc.)

MANAGEMENT RECOMMENDATIONS AND MANAGER'S RESPONSE

June 30, 2013

Current Year Findings and Recommendations

13-01 Capitalization of fixed assets

Criteria: The School defines capital assets as assets with an initial individual cost of more than \$750 and an estimated useful life of more than two years.

Condition: Although the School included all the capital assets on their fixed asset schedule, approximately \$39,000 were expensed instead of being recorded in their capital accounts.

Cause: A review of the general ledger is not occurring in a timely manner.

Effect: The School was overstating their expenses and understating their fixed assets for the government-wide financial statements.

Auditor's recommendations: We recommend that management review all potential fixed asset additions and ensure that the School's capitalization policy is being followed.