

**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, 2010**

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

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Imagine Schools at South Lake (the "School"), a component unit of the School Board of Lake County, Florida and a division of Educational Charter Foundation of Florida, Inc. (the "Charterholder"), as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note A-1, the accompanying financial statements referred to above present only the financial position of the School at June 30, 2010, and the respective changes in financial position for the year then ended, and is not intended to be a complete presentation of the Charterholder.

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 aggregate remaining fund information of the School as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting standards generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2010 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, 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* and should be considered in assessing the results of our audit.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The accompanying supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

September 21, 2010  
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 component unit of the School Board of Lake County, Florida and a division of Educational Charter Foundation of Florida, Inc. (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, 2010 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.

Because 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 on pages 8 - 13.

### **Financial Highlights**

- The School's assets exceeded its liabilities at June 30, 2010 by \$388,251 (net assets).
- The School's total net assets increased by \$56,937.
- At June 30, 2010, the School's balance sheet reported an ending general fund balance of \$230,848.
- Total long-term liabilities decreased by \$60,980 in fiscal year 2010.

### **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 assets presents information on all of the School's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 grouping of related accounts that is used 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 for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The School maintains three individual government funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the capital outlay fund which are considered to be major funds.

The School adopts an annual appropriated operating budget for the school. Budgetary comparison statements have been provided to demonstrate compliance with these budgets and can be found on pages 26 and 27 of this report.

The basic governmental fund financial statements can be found on pages 10 - 13 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 earlier, net assets may serve over time as a useful indicator of the School's financial position. In the case of the School, assets exceeded liabilities by \$388,251 and \$331,314, respectively, for the years ended June 30, 2010 and 2009.

At the end of the current fiscal year, the School reports positive balances in all categories of net assets. A portion of the School's net assets reflects its investment in capital assets (e.g., furniture, fixtures, and equipment, computer software, information technology equipment, and vehicles). The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

	Statement of Net Assets		
	Governmental Activities		
	2010	2009	Variance
<b>ASSETS</b>			
Current and other assets	\$ 545,203	\$ 523,460	\$ 21,743
Capital assets, net of accumulated depreciation	162,822	187,393	(24,571)
Total assets	708,025	710,853	(2,828)
<b>LIABILITIES</b>			
Current and other liabilities	314,355	313,140	1,215
Noncurrent liabilities	5,419	66,399	(60,980)
Total liabilities	319,774	379,539	(59,765)
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	157,403	120,994	36,409
Unrestricted	230,848	210,320	20,528
Total net assets	\$ 388,251	\$ 331,314	\$ 56,937

**Governmental activities.** Governmental activities increased the School's net assets by \$56,937 and \$99,879, respectively, for the years ended June 30, 2010 and 2009.



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

### Statement of Activities

	<b>Governmental Activities</b>		
	<b>2010</b>	<b>2009</b>	<b>Variance</b>
Revenues:			
Program revenues:			
Charges for services	\$ 296,449	\$ 133,993	\$ 162,456
Operating grants and contributions	479,951	460,655	19,296
Capital grants and contributions	-	52,949	(52,949)
General revenues			
State passed through local school district	4,670,034	4,518,320	151,714
Other revenues	-	23,566	(23,566)
Total revenues	<u>5,446,434</u>	<u>5,189,483</u>	<u>256,951</u>
Expenses:			
Basic instruction	2,425,641	2,305,638	120,003
Exceptional instruction	72,877	126,117	(53,240)
Guidance services	53,847	-	53,847
Health services	1,249	362	887
Media services	1,028	34,191	(33,163)
Staff development	2,839	7,639	(4,800)
Board of directors	15,000	31,510	(16,510)
School administration	1,427,833	1,288,715	139,118
Food services	147,006	-	147,006
Central services	24,073	22,379	1,694
Transportation	150,778	147,152	3,626
Operation of plant	991,542	1,050,600	(59,058)
Maintenance of plant	27,327	16,484	10,843
Community services	43,771	47,268	(3,497)
Interest on long-term liabilities	4,686	11,549	(6,863)
Total expenses	<u>5,389,497</u>	<u>5,089,604</u>	<u>299,893</u>
Change in net assets	<u>56,937</u>	<u>99,879</u>	<u>(42,942)</u>
Net assets - beginning	<u>331,314</u>	<u>231,435</u>	<u>99,879</u>
Net assets - ending	<u>\$ 388,251</u>	<u>\$ 331,314</u>	<u>\$ 56,937</u>

The increase in revenues was primarily related to the increase in enrollment over previous years. Due to increased enrollment, higher expenses were incurred.

### 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, unreserved 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 chief operating fund of the School. At the end of the current fiscal year, unreserved fund balance of the general fund was \$195,829. The fund balance of the School's general fund increased by \$20,528 during the current fiscal year.

### **General Fund Budgetary Highlights**

The final expenditure budget of the School is approximately 6% lower than the original budget. This change was primarily due to the expected decrease in other school services, salaries and benefits, direct educational, and general and administrative.

General fund expenditures for the School were overspent during the year ended June 30, 2010 by a total of \$310,658. This was a direct result of unexpected salaries and benefits, management fees and loss mitigation.

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

**Capital assets.** The School's investment in capital assets, before related debt, as of June 30, 2010, amounts to \$162,822 (net of accumulated depreciation). This investment in capital assets includes buildings and fixed equipment, furniture, fixtures and equipment, computer software, and vehicles. 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, 2010 totaled \$5,419. Current year activity represents payments towards the debt. Additional information on the School's long-term obligations can be found in Note D.

### **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 15220 Hartwood Marsh Road, Clermont, FL 34711.

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

**STATEMENT OF NET ASSETS**

**June 30, 2010**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 345,240
Due from other agency	1,392
Due from management company	161,493
Due from other schools	2,059
Prepaid insurance	35,019
Total current assets	<u>545,203</u>
<b>CAPITAL ASSETS</b>	
Capital assets, net of accumulated depreciation	
Buildings and fixed equipment	129,867
Furniture, fixtures and equipment	24,737
Vehicles	8,218
Total capital assets	<u>162,822</u>
Total assets	<u>708,025</u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
Accrued payroll and other expenses	298,884
Due to local school district	15,471
Noncurrent liabilities	
Due within one year	5,419
Total liabilities	<u>319,774</u>
<b>NET ASSETS</b>	
Investment in capital assets, net of related debt	157,403
Unrestricted	230,848
Total net assets	<u><u>\$ 388,251</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, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Basic instruction	\$ 2,425,641	\$ 112,257	\$ 81,297	\$ -	\$ (2,232,087)
Exceptional instruction	72,877	-	-	-	(72,877)
Guidance services	53,847	-	-	-	(53,847)
Health services	1,249	-	-	-	(1,249)
Media services	1,028	-	-	-	(1,028)
Staff development	2,839	-	-	-	(2,839)
Board of directors	15,000	-	-	-	(15,000)
School administration	1,427,833	-	-	-	(1,427,833)
Food services	147,006	122,496	24,510	-	-
Central services	24,073	-	-	-	(24,073)
Transportation	150,778	-	-	-	(150,778)
Operation of plant	991,542	277	374,144	-	(617,121)
Maintenance of plant	27,327	-	-	-	(27,327)
Community services	43,771	61,419	-	-	17,648
Interest on long-term liabilities	4,686	-	-	-	(4,686)
Total governmental activities	<u>\$ 5,389,497</u>	<u>\$ 296,449</u>	<u>\$ 479,951</u>	<u>\$ -</u>	<u>(4,613,097)</u>
General revenues					
State passed through local school district					<u>4,670,034</u>
Change in net assets					<u>56,937</u>
Net assets at July 1, 2009					<u>331,314</u>
Net assets at June 30, 2010					<u>\$ 388,251</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, 2010**

	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 345,240	\$ -	\$ -	\$ 345,240
Due from other agency	1,392	-	-	1,392
Due from management company	161,493	-	-	161,493
Due from other schools	2,059	-	-	2,059
Prepaid insurance	35,019	-	-	35,019
Total assets	<u>\$ 545,203</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 545,203</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accrued payroll and other expenses	\$ 298,884	\$ -	\$ -	\$ 298,884
Due to local school district	15,471	-	-	15,471
Total liabilities	<u>314,355</u>	<u>-</u>	<u>-</u>	<u>314,355</u>
<b>FUND BALANCES</b>				
Reserved for prepaid insurance	35,019	-	-	35,019
Unreserved	195,829	-	-	195,829
Total fund balances	<u>230,848</u>	<u>-</u>	<u>-</u>	<u>230,848</u>
Total liabilities and fund balances	<u>\$ 545,203</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 545,203</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 ASSETS**

**June 30, 2010**

Fund balances - total governmental funds	\$ 230,848
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The net assets reported for governmental activities in the statement of net assets 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 of \$5,259 accumulated depreciation	\$ 129,867	
Furniture, fixtures and equipment, net of \$44,524 accumulated depreciation	24,737	
Vehicles, net of \$238,294 accumulated depreciation	<u>8,218</u>	
Total capital assets		162,822

Noncurrent liabilities (e.g. note payable) are not due and payable in the current period and therefore are not reported in the funds.	<u>(5,419)</u>
Total net assets of governmental activities	<u><u>\$ 388,251</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 REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS**

**For the year ended June 30, 2010**

	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Federal passed through state	\$ -	\$ -	\$ 24,510	\$ 24,510
State passed through local school district	4,751,331	374,144	-	5,125,475
Other revenues	173,953	-	122,496	296,449
Total revenues	4,925,284	374,144	147,006	5,446,434
<b>Expenditures</b>				
Current:				
Basic instruction	2,414,462	-	-	2,414,462
Exceptional instruction	72,877	-	-	72,877
Guidance services	53,847	-	-	53,847
Health services	1,249	-	-	1,249
Media services	1,028	-	-	1,028
Staff development	2,839	-	-	2,839
Board of directors	15,000	-	-	15,000
School administration	1,427,833	-	-	1,427,833
Food services	-	-	147,006	147,006
Central services	24,073	-	-	24,073
Transportation	101,476	-	-	101,476
Operation of plant	611,607	374,144	-	985,751
Maintenance of plant	27,327	-	-	27,327
Community services	43,771	-	-	43,771
Fixed capital outlay	41,701	-	-	41,701
Debt service:				
Principal	60,980	-	-	60,980
Interest	4,686	-	-	4,686
Total expenditures	4,904,756	374,144	147,006	5,425,906
Net change in fund balances	20,528	-	-	20,528
Fund balances at July 1, 2009	210,320	-	-	210,320
Fund balances at June 30, 2010	\$ 230,848	\$ -	\$ -	\$ 230,848

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, 2010**

Net change in fund balances - total government funds	\$	20,528
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The change in net assets reported for governmental activities  
in the statement of activities is different because:

Governmental funds report fixed 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	\$ 41,701		
Depreciation	<u>(66,272)</u>		(24,571)

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 assets.

Principal payment on note payable		<u>60,980</u>	
Change in net assets of governmental activities	\$	<u><u>56,937</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.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**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") which is 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. Financial information presented is that of the School only. The School's entire workforce is provided by the management company; therefore, all employee benefits are provided by the management 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 assets 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 assets, the difference between assets and liabilities, as presented in the statement of net assets, are subdivided into three categories: amounts invested in capital assets, restricted net assets, and unrestricted net assets. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

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

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

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 assets for the fiscal year. Direct expenses are those that are clearly identifiable to a specific function. 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 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 at South Lake**  
**(A division of Educational Charter Foundation of Florida, Inc.)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

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

Capital Outlay Fund - this 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 grants.

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

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 agencies, the local school district, 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

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

**7. Capital assets**

Capital assets are reported in the applicable 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 market values at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets 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 (years)</u>
Buildings and fixed equipment	40
Furniture, fixtures and equipment	5
Computer software	3
Vehicles	5

**8. Prepaid expenses**

Payments made to vendors for services that will benefit periods beyond June 30, 2010, are recorded as prepaid expenses in both government-wide and fund financial statement. Although a component of net current assets, a reserve for prepaids has been established for the fund financial statements as these funds do not constitute "available spendable resources".

**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 assets. In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources and payments of debt principal as other financing uses.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

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

**10. Revenue sources**

Revenues for current operations are received primarily from 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 designated FTE student survey periods.

The School receives federal and state start-up 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 requires generally accepted in the United States of America 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 a charter school under Educational Charter Foundation of Florida, Inc., which qualifies as a tax-exempt organization, and is, therefore, exempt from income tax. Accordingly, no tax provision has been made in the accompanying financial statements.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

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

**13. Insufficient funds**

In the event that the School does not maintain sufficient funds to pay operating expenses, the management company will deposit funds into the School's operating account. The School will reimburse the management company for these advances as soon as funds are available. If at the end of the fiscal year there are outstanding advances, the management company shall forgive the remaining outstanding balance. The management company reserves the right to include the unreimbursed operating advances in the calculation of the additional management fee (see Note F-1).

Section 4.9.3 of the School's charter agreement requires the School to maintain a total fund balance at a level equal to a minimum of four percent of the total annual expenditures and transfers. This fund balance shall be controlled solely by the School but proof of compliance with this section shall be provided to the District upon request. For the year ended June 30, 2010, based on the above, a contribution to the School was not considered necessary.

**NOTE B - CASH**

*Custodial credit risk* - The bank balance of the School's deposits were \$486,057 at June 30, 2010. 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE C - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance at July 1, 2009	Additions	Deletions	Balance at June 30, 2010
Capital assets depreciated:				
Buildings and fixed equipment	\$ 93,425	\$ 41,701	\$ -	\$ 135,126
Furniture, fixtures and equipment	69,261	-	-	69,261
Computer software	18,200	-	-	18,200
Vehicles	246,512	-	-	246,512
Total assets depreciated	<u>427,398</u>	<u>\$ 41,701</u>	<u>\$ -</u>	<u>469,099</u>
Less accumulated depreciation:				
Buildings and fixed equipment	2,141	\$ 3,118	\$ -	5,259
Furniture, fixtures and equipment	30,672	13,852	-	44,524
Computer software	18,200	-	-	18,200
Vehicles	188,992	49,302	-	238,294
Total accumulated depreciation	<u>240,005</u>	<u>\$ 66,272</u>	<u>\$ -</u>	<u>306,277</u>
Total governmental activities capital assets, net	<u>\$ 187,393</u>			<u>\$ 162,822</u>

Depreciation expense was charged to the functions of the School as follows:

Basic instruction	\$ 11,179
Operation of plant	5,791
Transportation	<u>49,302</u>
	<u>\$ 66,272</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE D - LONG-TERM LIABILITIES**

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

	Balance at July 1, 2009	Additions	Deductions	Balance at June 30, 2010	Due within one year
Note payable	<u>\$ 66,399</u>	<u>\$ -</u>	<u>\$ 60,980</u>	<u>\$ 5,419</u>	<u>\$ 5,419</u>

On September 6, 2006, the School entered into an unsecured note payable with the management company, retroactive to August 1, 2005, which bears interest at 12% per annum. The note is paid in monthly installments of \$5,472 from August 2005 through July 2010. During the year, \$60,980 of principal and \$4,686 of interest was paid towards this note. This note was entered into to purchase four buses for the School.

The annual principal and interest payment amounts on the note payable outstanding at June 30, 2010 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	<u>\$ 5,419</u>	<u>\$ 54</u>	<u>\$ 5,473</u>



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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**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	\$ 2,741,608
Exceptional student education guaranteed allocation	162,995
Supplemental academic instruction	171,287
Class size reduction	848,243
Discretionary local effort	266,700
Discretionary millage compression	56,166
Discretionary lottery	1,989
Instructional materials allocation	55,608
Library materials allocation	3,435
Student transportation	114,219
State stabilization allocation	243,045
Safe schools	15,432
Less: prior year adjustment	(10,693)
Subtotal	4,670,034
Merit pay allocation	28,534
School recognition funds	52,763
Charter school capital outlay	374,144
Total from School Board of Lake County, Florida	5,125,475
National School Lunch Program	24,510
Child care fees	61,419
Lunch revenues	122,496
Fundraising	14,177
Other local revenues	98,357
	<u>\$ 5,446,434</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**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 a 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 \$765,638.

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 \$821,136. 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.

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

	<u>Facilities</u>
2011	\$ 874,510
2012	931,353
2013	991,891
2014	<u>1,056,364</u>
	<u><u>\$ 3,854,118</u></u>

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**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 for the year ended June 30, 2010:

	Operating expenses	Management fees	Operating advances	Due to/(from) management company
Balance at July 1, 2009	\$ 66,982	\$ (99,855)	\$ (209,713)	\$ (242,586)
Invoiced	418,183	765,638	48,220	1,232,041
Payments	(485,165)	(665,783)	-	(1,150,948)
Balance at June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (161,493)</u>	<u>\$ (161,493)</u>

2. Note payable

On September 6, 2006, the School entered into an unsecured note payable with the management company. During the year, \$60,980 principal and \$4,686 of interest was paid towards this note (see Note D).

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, 2010 under these leases amounts to \$821,136.

4. Due from other schools

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE G - RELATED PARTIES (continued)**

4. Due from other schools (continued)

The due from other schools activity consists of the following at June 30, 2010:

Imagine Schools at West Melbourne	\$ 2,059
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**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 2010. Settled claims resulting from the risks described above have not exceeded the insurance coverage during the previous three years.

**NOTE I - SUBSEQUENT EVENT**

1. Unsecured promissory note

On September 6, 2010, the School entered into an unsecured promissory note with the management company for \$862,000 at an interest rate of 3.25%. The terms of the agreement call for monthly payments of \$15,585 with the final payment being made no later than July 1, 2015.

2. Evaluation of subsequent events

The School has evaluated subsequent events through September 21, 2010 the date which the financial statements were issued.

## **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, 2010**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenue				
State & local revenue	\$ 4,805,376	\$ 4,885,980	\$ 4,751,331	\$ (134,649)
Supplemental fee revenue	239,300	75,873	173,953	98,080
Gross school revenue	5,044,676	4,961,853	4,925,284	(36,569)
Less: Non-profit expenditures	821,136	446,992	446,992	-
Net school operating revenue	4,223,540	4,514,861	4,478,292	(36,569)
Expenditures				
Salaries and benefits	2,561,658	2,501,871	2,709,321	(207,450)
Transportation	40,000	40,385	40,520	(135)
Other school services	300,096	178,110	175,876	2,234
Direct educational expenditures	217,626	196,726	198,412	(1,686)
General and administrative	375,581	335,296	338,917	(3,621)
Facility operating expenditures	210,470	187,091	187,092	(1)
Marketing and enrollment expenses	48,000	41,988	41,988	-
School operating expenditures	3,753,431	3,481,467	3,692,126	(210,659)
Management fees and loss mitigation	674,554	665,639	765,638	(99,999)
Total expenditures	4,427,985	4,147,106	4,457,764	(310,658)
Net changes in fund balances	(204,445)	367,755	20,528	(347,227)
Fund balances at July 1, 2009	210,320	210,320	210,320	-
Fund balances at June 30, 2010	<u>\$ 5,875</u>	<u>\$ 578,075</u>	<u>\$ 230,848</u>	<u>\$ (347,227)</u>

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, 2010**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenue				
State & local revenue	\$ 404,830	\$ 374,144	\$ 374,144	\$ -
Less: Non-profit expenditures	<u>404,830</u>	<u>374,144</u>	<u>374,144</u>	<u>-</u>
Net changes in fund balances	-	-	-	-
Fund balances at July 1, 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances at June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2010**

**NOTE A - BUDGETARY INFORMATION**

1. Budgetary basis of accounting

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. 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, 2010, 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.

2. Excess of actual expenditures over budgeted appropriations

The School's general fund expenditures exceeded budgeted appropriations by \$310,658. The over-expenditures are due to the School not amending the budget for the increase in the management fee. Additionally, the amended budget did not account for the year end payroll accrual.



## **SUPPLEMENTAL INFORMATION**

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

**SCHEDULE OF FUNCTIONAL EXPENDITURES - GENERAL FUND**

**For the year ended June 30, 2010**

	Basic Instruction	Exceptional Instruction	Guidance Services	Health Services	Media Services	Staff Development	Board of Directors	School Administration
Dues and fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,841
Electricity	-	-	-	-	-	-	-	-
Employee benefits	71,010	-	-	-	-	-	-	-
Food	-	-	-	-	-	-	-	2,236
Garbage	-	-	-	-	-	-	-	-
Gasoline	-	-	-	-	-	-	-	-
Group insurance	232,690	3,184	752	223	-	-	-	27,970
Insurance	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Management fee	-	-	-	-	-	-	-	765,638
Miscellaneous	-	-	-	-	-	-	-	8,709
Out of county travel	54,197	-	-	-	-	-	-	6,480
Printing	-	-	-	-	-	-	-	3,031
Professional services	-	32,455	-	-	-	2,839	15,000	157,677
Rentals	-	-	-	-	-	-	-	-
Repairs and maintenance	-	-	-	-	-	-	-	27,355
Salaries	1,810,977	34,772	49,423	-	-	-	-	243,202
Social security	129,431	2,466	3,672	-	-	-	-	21,372
Supplies	39,008	-	-	1,026	1,028	-	-	3,404
Telephone	-	-	-	-	-	-	-	41,988
Textbooks	74,434	-	-	-	-	-	-	-
Water and sewer	-	-	-	-	-	-	-	69,768
Buildings	-	-	-	-	-	-	-	-
Computer software	2,715	-	-	-	-	-	-	4,162
	<u>\$ 2,414,462</u>	<u>\$ 72,877</u>	<u>\$ 53,847</u>	<u>\$ 1,249</u>	<u>\$ 1,028</u>	<u>\$ 2,839</u>	<u>\$ 15,000</u>	<u>\$ 1,427,833</u>

Central Services	Transportation	Operation of Plant	Maintenance of Plant	Community Services	Fixed Capital Outlay	Debt Service	Total
\$ -	\$ 135	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,976
-	-	56,092	-	-	-	-	56,092
-	-	-	-	-	-	-	71,010
-	-	-	-	-	-	-	2,236
-	-	8,331	-	-	-	-	8,331
-	17,425	-	-	-	-	-	17,425
-	766	413	-	1,331	-	-	267,329
-	-	9,705	-	-	-	-	9,705
-	-	-	-	-	-	4,686	4,686
-	-	-	-	-	-	-	765,638
-	10,852	-	-	-	-	-	19,561
-	-	-	-	-	-	-	60,677
-	-	-	-	-	-	-	3,031
24,073	-	3,540	-	-	-	-	235,584
-	-	446,992	-	-	-	60,980	507,972
-	-	69,513	26,931	-	-	-	123,799
-	55,070	4,691	396	9,361	-	-	2,207,892
-	5,120	359	-	670	-	-	163,090
-	12,108	-	-	32,409	-	-	88,983
-	-	9,379	-	-	-	-	51,367
-	-	-	-	-	-	-	74,434
-	-	2,592	-	-	-	-	72,360
-	-	-	-	-	41,701	-	41,701
-	-	-	-	-	-	-	6,877
<u>\$ 24,073</u>	<u>\$ 101,476</u>	<u>\$ 611,607</u>	<u>\$ 27,327</u>	<u>\$ 43,771</u>	<u>\$ 41,701</u>	<u>\$ 65,666</u>	<u>\$ 4,904,756</u>

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

**SCHEDULE OF FUNCTIONAL EXPENDITURES - CAPITAL OUTLAY FUND**

**For the year ended June 30, 2010**

	Operation of Plant
Rental	<u>\$ 374,144</u>

**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 the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Imagine Schools at South Lake (the "School"), a component unit of the School Board of Lake County, Florida and a division of Educational Charter Foundation of Florida, Inc. (the "Charterholder") as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 21, 2010. 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.

Internal Control Over Financial Reporting

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

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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We identified certain deficiencies in internal control over financial reporting, described in the accompanying management letter at 10-02 and 10-04 that we consider to be material weaknesses, as defined above. Additionally, we identified the deficiency in internal control over financial reporting, as described in the accompanying management letter at 10-03 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or 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.

### 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 accounts. 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 also noted certain matters that we reported to management of the School in the management letter dated September 21, 2010.

The School's response to our findings identified in our audit is described in the accompanying letter of management response. We did not audit the School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Imagine Schools at South Lake's management, regulatory agencies of federal and state governments, the School Board of Lake County, Florida, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

September 21, 2010  
Melbourne, Florida

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

## MANAGEMENT LETTER

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

We have audited the financial statements of the Imagine Schools at South Lake (the "School"), a component unit of the School Board of Lake County, Florida and a division of Educational Charter Foundation of Florida, Inc. (the "Charterholder") as of and for the year ended June 30, 2010, and have issued our report thereon dated September 21, 2010.

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 Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in that report, which are dated September 21, 2010, 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 the charter school and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- 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 actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted below under the heading Prior Year Findings and Recommendations.
- 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. See the attached list for any such recommendations.
- Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements that is less than material but more than inconsequential. See the attached list for any such violations.

- Section 10.854(1)(e)5., Rules of the Auditor General provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. See the attached list for any such recommendations.
- Section 10.854(1)(e)6, Rules of the Auditor General, requires the name or official title of the school. The official title of the School is *Imagine Schools at South Lake*, which is a division of The Educational Charter Foundation of Florida Inc., which is 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.
- Section 10.854(1)(e)2., Rules of the Auditor General, requires a statement be included as to whether or not the school has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Pursuant to Sections 10.854(1)(e)7.a. and 10.855(10), 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.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the School's management, the Educational Charter Foundation of Florida, Inc., School Board of Lake County, Florida, the State of Florida Office of the Auditor General and other regulatory agencies of federal and state governments and is not intended to be and should not be used by anyone other than these specified parties.

September 21, 2010  
Melbourne, Florida

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



## **Prior Year Findings and Recommendations - Corrected**

### **06-04 Insurance requirements**

#### **Criteria:**

##### ***Workers Compensation***

The charter school agreement requires that the School obtain Worker's Compensation/Employers' Liability Insurance with a minimum limit of \$1,000,000 per occurrence and \$2,000,000 annual aggregate.

##### ***General Liability***

Additionally, the charter school agreement requires a deductible for property damage liability of \$1,000 per occurrence.

##### ***Errors and Omissions***

The charter school agreement requires that the School obtain School Leader's Errors and Omissions Insurance with a maximum deductible not to exceed \$5,000.

Status as of June 30, 2009:

#### **Condition:**

##### ***Workers Compensation***

The School's current Worker's Compensation/Employers' Liability Insurance limit is \$1,000,000 per occurrence and \$1,000,000 annual aggregate; however the School's umbrella policy insurance limit is \$10,000,000 per occurrence and \$10,000,000 annual aggregate. Therefore, it appears that the School is in compliance in regards to Workers Compensation.

##### ***General Liability***

The School's current deductible for property damage liability is \$25,000 per occurrence.

##### ***Errors and Omissions***

The School's current deductible is \$25,000 per occurrence.

**Cause:** The School hasn't changed the policy limits or amended the charter agreement as of date of the auditors' report.

**Auditors' recommendation:** We recommend the School carry appropriate coverage for insurance purposes. Additionally, we recommend that the School regularly review its agreements to ensure that they remain in compliance.

The above issue has been resolved as of June 30, 2010, except for as described in the Current Year Management Recommendations, comment 10-01.

## Prior Year Findings and Recommendations - Corrected (continued)

### 06-12 General ledger review

#### *Material Weakness*

Criteria: A timely review of the general ledger is required to identify and correct discrepancies that may occur from error.

Status as of June 30, 2009:

Condition: While the School did perform monthly reviews and identified various discrepancies in the general ledger the discrepancies were not investigated up and corrected.

Cause: The school did not investigate the discrepancies noted during the monthly review and correct the error.

Effect: The lack of follow-up caused the need for material adjustments to be made.

Auditors' recommendation: We recommend that the School institute policies to ensure that when a discrepancy is found in the monthly review of the general ledger that it is investigated and if necessary corrected.

The above issue has been resolved as of June 30, 2010.

### 08-06 Proper period recording

#### *Significant Deficiency*

Criteria: A reconciliation of accounts payable from the general ledger to the outstanding accounts payable register should be prepared to determine that all additions to, and payments of, accounts payable are correctly recorded and to determine whether there are any disputed items.

Status as of June 30, 2009:

Condition: During the course of our audit we noted that there was one unprocessed invoice for \$18,868 was not properly recorded in the accounts payable ledger.

Cause: A review of the accounts payable listing and the outstanding accounts payable register is not being performed in a timely manner.

Effect: The School's trial balance had to be materially adjusted to reconcile these errors.

Auditors' recommendation: A benefit of monthly reviews is that errors do not accumulate but can be identified and attributed to a particular period. In order to make the financial reports generated by the accounting system as meaningful as possible, we recommended the School reviews the aforementioned account on a monthly basis.

The above issue has been resolved as of June 30, 2010, except for as described in the Current Year Management Recommendations, comment 10-02.

## Current Year Management Recommendations

### 10-01 Insurance requirements

Criteria: The charter school agreement requires a deductible for property damage liability of \$1,000 per occurrence.

Condition: The School's current deductible for property damage liability is \$25,000 per occurrence.

Cause: The School has not changed the policy limits or amended the charter agreement as of the date of the Auditor's Report.

Effect: The School is not in compliance with the charter agreement.

Auditors' recommendation: We recommend the School carry the appropriate coverage for insurance purposes. Additionally, we recommend that the School regularly review its agreements to ensure that they remain in compliance.

***Management's response:*** Imagine Schools at South Lake renewed its agreement with Lake County School District. The new contract is effective as of July 1, 2009. The insurance requirements have been amended by the school so that we are in compliance with Lake County requirement. Imagine Schools Corporate Office has an umbrella policy that is a first dollar policy which extends to the school. All limits are covered under this policy.

### 10-02 Proper period reconciliation

#### *Material Weakness*

Criteria: Generally accepted accounting principals require that revenues be recorded in the period in which they were earned.

Condition: During the course of the audit, it was noted that \$12,100 of revenues relating to the National School Lunch Program were not recorded in the correct period.

Cause: A review of the accounts receivable listing and the subsequent receivable register is not being performed in a timely manner.

Effect: The School's trial balance had to be material adjusted to reconcile these errors.

Auditor's recommendation: A benefit of monthly reviews is that errors do not accumulate but can be identified and attributed to a particular period. In order to make the financial reports generated by the accounting system as meaningful as possible, we recommended the School review the general ledger on a monthly basis.

***Management's response:*** The 2009-10 year was the first year the school participated in the NSLP. When the revenues were received in July they were inadvertently posted in July rather than June. The school will be more diligent in verifying the correct period for the revenue upon receipt and will post it accordingly going forward

## Current Year Management Recommendations (continued)

### 10-03 Capitalization of fixed assets

#### *Significant Deficiency*

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: There was an instance where the capitalization policy was not followed. Upon review of a repairs and maintenance account, it was noted that a capital item, with a cost of \$41,701, was improperly expensed and should have been capitalized.

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.

***Management's response:*** The addition and repairs to the sidewalks at the school were originally posted to repairs and maintenance rather than being capitalized. All future repairs will be examined closely to see if they meet the capital item criteria. All fixed asset and potential fixed asset additions will be reviewed to ensure that the school is following its capitalization policy.

### 10-04 Reconcile accounts to supporting documents

#### *Material Weakness*

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

Condition: During the course of the audit, it was noted that account balances related to accounts payable, due to management company and equity were not reconciled on a monthly basis.

Cause: A review of the balance sheet accounts are not occurring in a timely manner.

Effect: The School's trial balance had to be materially adjusted by \$111,549 to reconcile errors.

Auditors' recommendation: A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations. In order to make the financial reports generated by the accounting system as meaningful as possible, it is our recommendation that the School reconcile the aforementioned accounts to supporting documentation on a monthly basis.

***Management's response:*** The schools balance sheet accounts are reconciled on a monthly basis. The entries that are being referred to are directly related to previous operating advances from the management company to the school. The school, in making a payment towards that debt inadvertently posted the payment to the liability account rather than the expense account in the month of June. Going forward all payments will be posted correctly.

## Current Year Management Recommendations (continued)

### 10-05 Student attendance

Criteria: Florida Statute 1003.23 requires that students be counted in attendance for the school day only if they are actually present at school or are away from school and are engaged in an educational activity which constitutes a part of the school-approved instructional program for the student.

Condition: Of the 16 students sampled, there was 1 instance where the School incorrectly reported a student record to the District whereas the School reported the child as tardy when in fact the child was absent.

Cause: Proper reconciliations from the sign in/out sheets to the District report were not correctly performed.

Effect: The School is not in compliance with state statutes attendance record keeping requirements.

Auditors' recommendation: We recommend the School perform various inspections of its student attendance record keeping throughout the year to ensure that its policies and procedures are being followed.

***Management's response:*** The school will establish and implement a review policy to ensure that student attendance and record keeping throughout the year is accurate. This will ensure that the schools policies and procedures are being adhered to.

### 10-06 Budget Amendments

Criteria: Section 1002.33(9)i of the Florida Statutes requires that the governing body of the charter school adopt an annual budget. This budget should be amended if management believes expenditures will exceed actual appropriations.

Condition: During the current year, actual expenditures exceeded final budgeted appropriations of the general fund by \$310,658.

Cause: The School did not amend the budget to reflect additional expenditures incurred after the final amendment.

Effect: The School's actual expenditures exceeded budgeted appropriations.

Auditors' recommendation: It is our recommendation that the School amend their budget to ensure that the School's actual expenditures do not exceed the budget. The School has the ability to amend their budget within 60 days after the fiscal year end.

***Management's response:*** The school recognizes the necessity for accounting for all expenses within the budget. Although the school did do a budget amendment in the later part of the year an additional amendment should have been done to include the additional expenditures that occurred after the final amendment was done. Going forward the school will ensure that the expenditures do not exceed the budget.