

**IMAGINE SCHOOLS AT  
TOWN CENTER  
(A division of Imagine School  
at Town Center, LLC)**

**Basic Financial Statements and  
Supplemental Information**

**For the year ended  
June 30, 2011**

**BERMAN HOPKINS  
WRIGHT & LAHAM**

**CPAS AND ASSOCIATES, LLP**

**Business Consultants • Tax Advisors • Assurance Services**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Imagine Schools at Town Center, LLC  
Palm Coast, Florida

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Imagine Schools at Town Center (the "School"), a division of Imagine School at Town Center, LLC, (the "Charterholder") and a component unit of the School Board of Flagler County, Florida, as of and for the year ended June 30, 2011, 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, 2011, and the respective changes in financial position for the year then ended, and is not intended to be a complete presentation of the Charterholder. The School is a component unit of the School Board of Flagler County, Florida.

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, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A-15 to the financial statements, the School adopted the provisions of Government Auditing Standard ("GASB") No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2011 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* 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.

September 14, 2011  
Melbourne, Florida

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

## Management's Discussion and Analysis

As management of Imagine Schools at Town Center (the "School"), a component unit of the School Board of Flagler County, Florida and a division of Imagine School at Town Center, LLC (the "Charterholder"), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2011 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 liabilities exceeded its assets at June 30, 2011 by \$48,062 (net deficit).
- The School's total net assets decreased by \$48,023.
- At June 30, 2011, the School's governmental fund balance sheet reported combined ending fund balance of \$10,963.

### 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 Flagler County, Florida. The School Board of Flagler 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 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 four 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 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 the schedules have been provided for the School to demonstrate compliance with this budget and can be found on pages 29 through 31 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 a government's financial position. In the case of the School, liabilities exceeded assets by \$48,062 at the close of the most recent fiscal year.

Condensed statement of net assets and the statement of activities are provided below.

### Statement of Net Assets

	Governmental Activities		
	2011	2010	Change
<b>ASSETS</b>			
Current assets	\$ 782,214	\$ 397,280	\$ 384,934
Capital assets, net of accumulated depreciation	113,641	140,791	(27,150)
Total assets	895,855	538,071	357,784
<b>LIABILITIES</b>			
Current and other liabilities	771,251	397,280	373,971
Long-term liabilities outstanding	172,666	140,830	31,836
Total liabilities	943,917	538,110	405,807
<b>NET ASSETS (DEFICIT)</b>			
Invested in capital assets, net of related debt	77,304	104,454	(27,150)
Restricted for:			
Lunch program	2,545	-	2,545
Unrestricted	(127,911)	(104,493)	(23,418)
Total net assets (deficit)	\$ (48,062)	\$ (39)	\$ (48,023)

Current assets increased as a result of an increase in the amounts due from other agencies and due from the school district for current year revenues received after year end. Current liabilities increased as a result of an increase in amounts due back to the school district for overpaid transportation costs.

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

**Statement of Activities**

	<b>Governmental Activities</b>		
	<b>2011</b>	<b>2010</b>	<b>Change</b>
Revenues:			
Program revenues:			
Charges for services	\$ 305,628	\$ 237,510	\$ 68,118
Operating grants and contributions	421,287	285,564	135,723
Capital grants and contributions	-	78,709	(78,709)
General revenues:			
State passed through local school district	3,405,196	2,986,418	418,778
Contributions	68,948	-	68,948
Other revenues	7,724	-	7,724
Total revenues	<u>4,208,783</u>	<u>3,588,201</u>	<u>620,582</u>
Expenses:			
Basic instruction	1,432,602	1,241,147	191,455
Exceptional instruction	80,351	69,905	10,446
Other instruction	85,084	53,945	31,139
Guidance services	-	703	(703)
Health services	31,673	26,613	5,060
Media services	-	68,106	(68,106)
Board of directors	12,500	17,625	(5,125)
School administration	976,422	861,916	114,506
Food services	156,725	106,592	50,133
Central services	36,241	34,786	1,455
Transportation	53,078	71,867	(18,789)
Operation of plant	1,328,583	1,238,433	90,150
Maintenance of plant	11,844	6,967	4,877
Community services	29,292	17,582	11,710
Interest on long-term debt	22,411	-	22,411
Total expenses	<u>4,256,806</u>	<u>3,816,187</u>	<u>440,619</u>
Change in net assets	(48,023)	(227,986)	179,963
Net assets - beginning	(39)	227,947	(227,986)
Net assets - ending	<u>\$ (48,062)</u>	<u>\$ (39)</u>	<u>\$ (48,023)</u>

The increase in program revenues in charges for services was a result of fundraising efforts. Operating grants and contributions increased due to the receipt of first time funding under education job funds and capital outlay, as well as increased food reimbursement under the national school lunch program. Capital grants and contribution declined because in the prior year a start-up grant was received and fully expended.

General revenues also increased, with state passed through local school district funds reflecting the increase in student enrollment; contributions from the management company declined due to the School's stronger fiscal position, and other revenues increased due to the receipt of school recognition funds.

Expenses increased for basic instruction, school administration, food services, and operation of plant as a direct reflection of increased school enrollment and the available revenues that resulted from the increase in head count. Media services declined because in the prior year the start-up grant funds were fully expended.

### **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 \$0 and the total fund balance for the School increased by \$8,418.

### **General Fund Budgetary Highlights**

The Board of Directors approved a budget for the general fund for fiscal year 2011. As a result, the general fund budget expenditures exceeded actual expenditures by \$116,367.

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

**Capital assets.** The School's investment in capital assets for its governmental activities as of June 30, 2011, totaled \$113,641 (net of accumulated depreciation). This investment in capital assets includes buildings and fixed equipment, and furniture, fixtures and equipment, leasehold improvements, and computer software. Additional information on the School's capital assets can be found in Note C.

**Debt Administration** The School's long-term liabilities at June 30, 2011 totaled \$172,666. 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 Town Center'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 Lisa O'Grady at 775 Town Center Blvd., Palm Coast, FL 32164.

**Imagine Schools at Town Center**  
**(a division of Imagine School at Town Center, LLC)**

**STATEMENT OF NET ASSETS**

**June 30, 2011**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 324,301
Due from other agencies	449,495
Prepaid expenses	8,418
Total current assets	<u>782,214</u>
<b>CAPITAL ASSETS</b>	
Capital assets, net of accumulated depreciation	
Buildings and fixed equipment	903
Furniture, fixtures and equipment	106,025
Leasehold improvements	3,443
Computer software	3,270
Total capital assets	<u>113,641</u>
Total assets	<u>895,855</u>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>	
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	18,574
Accrued payroll and other expenses	172,969
Due to management company	202,785
Due to the school district	354,512
Interest payable	22,411
Noncurrent liabilities:	
Due in one year:	
Capital lease	36,337
Accrued rent expense	68,164
Due in more than one year:	
Accrued rent expense	68,165
Total liabilities	<u>943,917</u>
<b>NET ASSETS (DEFICIT)</b>	
Investment in capital assets, net of related debt	45,476
Restricted for:	
Lunch program	2,545
Unrestricted	(96,083)
Total net assets (deficit)	<u>\$ (48,062)</u>

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

**Imagine Schools at Town Center**  
(a division of Imagine School at Town Center, LLC)

**STATEMENT OF NET ASSETS**

**June 30, 2011**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash	\$ 324,301
Due from other agencies	449,495
Prepaid expenses	<u>8,418</u>
Total current assets	<u>782,214</u>
<b>CAPITAL ASSETS</b>	
Capital assets, net of accumulated depreciation	
Buildings and fixed equipment	903
Furniture, fixtures and equipment	106,025
Leasehold improvements	3,443
Computer software	<u>3,270</u>
Total capital assets	<u>113,641</u>
Total assets	<u>895,855</u>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>	
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	18,574
Accrued payroll and other expenses	172,969
Due to management company	202,785
Due to the school district	354,512
Interest payable	22,411
Noncurrent liabilities:	
Due in one year:	
Capital lease	36,337
Accrued rent expense	68,164
Due in more than one year:	
Accrued rent expense	<u>68,165</u>
Total liabilities	<u>943,917</u>
<b>NET ASSETS (DEFICIT)</b>	
Investment in capital assets, net of related debt	45,476
Restricted for:	
Lunch program	2,545
Unrestricted	<u>(96,083)</u>
Total net assets (deficit)	<u>\$ (48,062)</u>

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

**Imagine Schools at Town Center**  
(a division of Imagine School at Town Center, LLC)

**STATEMENT OF ACTIVITIES**

For the year ended June 30, 2011

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	\$ 1,432,602	\$ 75,853	\$ 86,220	\$ -	\$ (1,270,529)
Exceptional instruction	80,351	-	-	-	(80,351)
Other instruction	85,084	74,740	-	-	(10,344)
Health services	31,673	-	-	-	(31,673)
Board of directors	12,500	-	-	-	(12,500)
School administration	976,422	-	-	-	(976,422)
Food services	156,725	40,309	118,961	-	2,545
Central services	36,241	-	-	-	(36,241)
Transportation	53,078	-	-	-	(53,078)
Operation of plant	1,328,583	1,800	216,106	-	(1,110,677)
Maintenance of plant	11,844	-	-	-	(11,844)
Community services	29,292	112,926	-	-	83,634
Interest on long-term debt	22,411	-	-	-	(22,411)
Total governmental activities	<u>\$ 4,256,806</u>	<u>\$ 305,628</u>	<u>\$ 421,287</u>	<u>\$ -</u>	<u>(3,529,891)</u>
General revenues:					
State passed through local school district					3,405,196
Contribution					68,948
Other revenues					<u>7,724</u>
Total general revenues					<u>3,481,868</u>
Change in net assets					(48,023)
Net assets (deficit) at July 1, 2010					<u>(39)</u>
Net assets (deficit) at June 30, 2011					<u>\$ (48,062)</u>

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

**Imagine Schools at Town Center**  
(a division of Imagine School at Town Center, LLC)

**BALANCE SHEET - GOVERNMENTAL FUNDS**

June 30, 2011

	General Fund	Capital Outlay	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 324,301	\$ -	\$ -	\$ 324,301
Due from general fund	-	-	2,545	2,545
Due from other agencies	449,495	-	-	449,495
Prepaid expenses	8,418	-	-	8,418
Total assets	<u>\$ 782,214</u>	<u>\$ -</u>	<u>\$ 2,545</u>	<u>\$ 784,759</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 18,574	\$ -	\$ -	\$ 18,574
Accrued payroll and other expenses	172,969	-	-	172,969
Due to management company	202,785	-	-	202,785
Due to other funds	2,545	-	-	2,545
Due to the school district	354,512	-	-	354,512
Interest payable	22,411	-	-	22,411
Total liabilities	<u>773,796</u>	<u>-</u>	<u>-</u>	<u>773,796</u>
<b>FUND BALANCES</b>				
Nonspendable prepaid expenses	8,418	-	-	8,418
Restricted for:				
Lunch program	-	-	2,545	2,545
Unassigned	-	-	-	-
Total fund balances	<u>8,418</u>	<u>-</u>	<u>2,545</u>	<u>10,963</u>
Total liabilities and fund balances	<u>\$ 782,214</u>	<u>\$ -</u>	<u>\$ 2,545</u>	<u>\$ 784,759</u>

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

**Imagine Schools at Town Center**  
**(a division of Imagine School at Town Center, LLC)**

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

**June 30, 2011**

Fund balances - total governmental funds \$ 10,963

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	\$ 903	
Furniture, fixtures and equipment, net	106,025	
Leasehold improvements, net	3,443	
Computer software, net	<u>3,270</u>	
Total capital assets		113,641

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

Capital lease obligation	(36,337)	
Accrued rent	<u>(136,329)</u>	
Total net assets (deficit) of governmental activities		<u>\$ (48,062)</u>

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

**Imagine Schools at Town Center**  
(a division of Imagine School at Town Center, LLC)

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

For the year ended June 30, 2011

	General Fund	Capital Outlay	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Federal passed through local school district	\$ -	\$ -	\$ 86,220	\$ 86,220
Federal passed through state	-	-	118,961	118,961
State passed through local school district	3,405,196	216,106	-	3,621,302
Contribution from management company	68,948	-	-	68,948
Local sources	273,043	-	40,309	313,352
Total revenues	<u>3,747,187</u>	<u>216,106</u>	<u>245,490</u>	<u>4,208,783</u>
<b>Expenditures</b>				
<b>Current:</b>				
Basic instruction	1,308,306	-	86,220	1,394,526
Exceptional instruction	80,351	-	-	80,351
Other instruction	85,084	-	-	85,084
Health services	30,842	-	-	30,842
Board of directors	12,500	-	-	12,500
School administration	976,422	-	-	976,422
Food services	-	-	156,725	156,725
Central services	36,241	-	-	36,241
Transportation	52,050	-	-	52,050
Operation of plant	1,079,465	216,106	-	1,295,571
Maintenance of plant	11,844	-	-	11,844
Community services	29,292	-	-	29,292
Fixed capital outlay	13,961	-	-	13,961
<b>Debt service:</b>				
Interest	22,411	-	-	22,411
Total expenditures	<u>3,738,769</u>	<u>216,106</u>	<u>242,945</u>	<u>4,197,820</u>
Net change in fund balances	8,418	-	2,545	10,963
Fund balances at July 1, 2010	-	-	-	-
Fund balances at June 30, 2011	<u>\$ 8,418</u>	<u>\$ -</u>	<u>\$ 2,545</u>	<u>\$ 10,963</u>

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

**Imagine Schools at Town Center**  
**(a division of Imagine School at Town Center, LLC)**

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

**For the year ended June 30, 2011**

Net change in fund balances - total government funds \$ 10,963

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	\$ 13,961	
Depreciation expense	<u>(41,111)</u>	(27,150)

Some of the expenses reported in the statement of activities  
do not require the use of current financial resources and,  
therefore, are not reported as expenditures in governmental  
funds

Change in accrued rent		<u>(31,836)</u>
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Change in net assets of governmental activities		<u>\$ (48,023)</u>
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The accompanying notes are an integral part of this financial statement.

**Imagine Schools at Town Center**  
**(A division of Imagine School at Town Center, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

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

1. Reporting entity

Imagine Schools at Town Center, (the "School") is a division of Imagine School at Town Center, LLC (the "Charterholder") which is a Florida limited liability company whose sole member is Imagine School Non-Profit, Inc., a Virginia not-for-profit. The governing body of the School is the Board of Directors, which is comprised of three 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 the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the School Board of Flagler, Florida (the "District"). The current charter is effective through June 30, 2013. 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 Town Center is considered a component unit of the School Board of Flagler 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 the 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, net of related debt; 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, or laws or regulations of other governments or enabling legislation.

The statement of activities presents a comparison between the direct and indirect expenses of a given function and its program revenues, and displays the extent to which each function contributes to the change in net assets for the fiscal year. Direct expenses are those that are clearly identifiable to a specific function.

**Imagine Schools at Town Center  
(A division of Imagine School at Town Center, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**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 fund and capital outlay fund as the major funds. Reconciliations are provided that convert 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.

**Imagine Schools at Town Center**  
**(A division of Imagine School at Town Center, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**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 fund:

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

Capital Outlay Fund - in accordance with guidelines established by the Flagler County District School Board, 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 and cash equivalents

Cash consists of a checking account held at a financial institution. The School has no cash equivalents.

5. Receivables

The School's receivables consist of amounts due from other agencies. After reviewing the individual account balance, 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, 2011 \$2,545 was due from the general fund to the lunch program, which represents the lunch program's deferred revenue.

**Imagine Schools at Town Center**  
**(A division of Imagine School at Town Center, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

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

7. Prepaid expense

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are recorded as prepaid expenses in both government-wide and fund financials statements.

8. Leased assets and obligations

All non-capital leases, including that related to the facilities, are "operating leases" and the annual rentals are charged to operation of plant expense in the statements of activities on a straight-line basis over the term of the lease.

9. Capital assets

Capital assets are reported in the governmental columns on the government-wide financial statements. Capital assets are defined by the School as assets with an initial individual cost of more than \$500 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 its useful life, 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	3
Furniture, fixtures and equipment	3-7
Leasehold improvements	5-7
Computer software	5

10. Deferred revenues

Deferred revenues include amounts collected before the revenue recognition criteria are met under both the modified and full accrual basis of accounting. The deferred items consist of grant revenues not expended.

**Imagine Schools at Town Center  
(A division of Imagine School at Town Center, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

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

**11. 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 repayments of debt principal as debt service expenditures.

**12. 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 (DOE) for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the DOE under the Florida Education Finance Program and the actual weighted FTE students reported by the School during the designated FTE student survey periods.

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

Additionally, other revenues are derived from various fundraising activities and certain other programs.

**13. 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, actual results could differ from estimated amounts.

**14. Income taxes**

The School is a charter school under a division of Imagine School at Town Center, LLC, a Florida limited liability company whose sole member is Imagine School Non-Profit, Inc., which is a Virginia not-for-profit, and is, therefore, exempt from income tax. Accordingly, no tax provision has been made in the accompanying financial statements.

**Imagine Schools at Town Center**  
**(A division of Imagine School at Town Center, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

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

15. Fund balance classification

For the year ending June 30, 2011, the School implemented Government Auditing Standard ("GASB") No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*. 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.

**Imagine Schools at Town Center**  
**(A division of Imagine School at Town Center, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**NOTE B - CASH AND CASH EQUIVALENTS**

*Custodial Credit Risk* - Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned to it. The School does not have a formal policy regarding custodial credit risk. All funds in a "noninterest-bearing transaction account" are insured in full by the Federal Deposit Insurance Corporation ("FDIC") from December 31, 2010 through December 31, 2012. This temporary unlimited coverage is in addition to, and separate from the coverage of at least \$250,000 available to depositors under the FDIC's general deposit insurance rules. At June 30, 2011, all of the Schools accounts were in noninterest-bearing transaction accounts and thus fully insured.

**NOTE C - CAPITAL ASSETS**

Changes in capital assets activity were as follows:

	Balance at July 1, 2010	Additions	Deletions	Balance at June 30, 2011
Capital assets depreciated:				
Buildings and fixed equipment	\$ 2,500	\$ -	\$ -	\$ 2,500
Furniture, fixtures and equipment	197,738	6,850	-	204,588
Leasehold improvements	-	3,786	-	3,786
Computer software	-	3,325	-	3,325
Total assets depreciated	<u>200,238</u>	<u>\$ 13,961</u>	<u>\$ -</u>	<u>214,199</u>
Less accumulated depreciation:				
Buildings and fixed equipment	764	\$ 833	\$ -	1,597
Furniture, fixtures and equipment	58,683	39,880	-	98,563
Leasehold improvements	-	343	-	343
Computer software	-	55	-	55
Total accumulated depreciation	<u>59,447</u>	<u>\$ 41,111</u>	<u>\$ -</u>	<u>100,558</u>
Total governmental activities capital assets, net	<u>\$ 140,791</u>			<u>\$ 113,641</u>

Depreciation expense for the year ended June 30, 2011 was charged to functions of the School as follows:

Basic instruction	\$ 38,076
Health services	831
Transportation	1,028
Operation of plant	1,176
	<u>\$ 41,111</u>

**Imagine Schools at Town Center**  
**(A division of Imagine School at Town Center, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**NOTE D - LONG-TERM LIABILITIES**

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

1. Changes in long term liabilities

	Balance at July 1, 2010	Additions	Deductions	Balance at June 30, 2011	Due within one year
Capital lease	\$ 36,337	\$ -	\$ -	\$ 36,337	\$ 36,337
Accrued rent	104,493	31,836	-	136,329	68,164
Total	<u>\$ 140,830</u>	<u>\$ 31,836</u>	<u>\$ -</u>	<u>\$ 172,666</u>	<u>\$ 104,501</u>

2. Capital lease

On January 1, 2009, the School entered into a lease agreement with the management company for equipment and textbooks. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of its inception. The original cost of the equipment was \$415,889 and following a contribution from the management company of \$179,011, the principal amount of the lease was \$236,878 with an interest rate of 15%.

The original lease terms called for monthly principal and interest payments ranging from \$6,267 to \$6,842 over a 39 month period with a final payment for the equipment at an amount not to exceed 15% of the original equipment cost or \$62,383. In addition to the above terms, during the first six months of the lease, the School may elect to prepay all or a portion of the lease for months 25 through 36 and be entitled to a discount of the interest expense. During the year ended June 30, 2009, the School elected to pay \$225,000 towards the lease, which included a principal payment of \$200,541 and interest expense of \$25,182. As a result of the prepayment, the School does not have to make a principal payment until year ended June 30, 2012.

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments:

Year ended June 30, 2012	\$ 72,159
Less amount representing interest	<u>35,822</u>
Present value of future minimum lease payments	<u>\$ 36,337</u>

**Imagine Schools at Town Center**  
**(A division of Imagine School at Town Center, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

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

3. Accrued rent

In the governmental financial statements stated on a full accrual basis of accounting, GASB 13 requires that escalating leases be calculated on a straight line basis. Terms of the lease (see Note F-2) specify base rental payments of \$100,000 monthly, and escalating payments equal to the lesser of 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 thereafter beginning on July 1, 2012. Since the lease is contingent on renewal of the School's charter agreement, the straight line lease is calculated over the life of the current charter, which expires June 30, 2013 (see Note A 1).

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

	Full Accrual Basis - Rent Expense	Modified Accrual Basis Rent Expense	Change in Outstanding Liability
2012	\$ 1,200,000	\$ 1,131,836	\$ 68,164
2013	1,200,000	1,131,835	68,165
	\$ 2,400,000	\$ 2,263,671	\$ 136,329

**Imagine Schools at Town Center**  
**(A division of Imagine School at Town Center, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**NOTE E - CONCENTRATIONS**

Revenue sources

As stated in Note A-12, 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:

<u>Sources</u>	<u>Amounts</u>
School Board of Flagler County, Florida	
Base funding	\$ 2,437,756
Supplemental academic instruction	115,813
Class size reduction	621,411
Safe schools	82,485
School recognition	34,614
Discretionary lottery	1,393
Instructional materials allocation	43,348
Student transportation	60,875
Florida teachers lead	6,844
IDEA funds	657
Subtotal	3,405,196
Capital outlay	216,106
Education jobs fund	86,220
Total from School Board of Flagler County, Florida	3,707,522
Other revenues	
Contribution from management company	68,948
National school lunch program	118,961
Local sources	313,352
	<u>\$ 4,208,783</u>

**Imagine Schools at Town Center**  
**(A division of Imagine School at Town Center, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**NOTE F - COMMITMENTS AND CONTINGENCIES**

1. Management service contract

The School entered into an operating agreement with the management company on June 20, 2008. This agreement calls for an indirect cost allocation equal to 12% of the per-pupil funding provided by state and local governments less the administrative fee held by the District. The total allocation charged to operations for the year ended June 30, 2011 was \$418,981.

The operating agreement further specifies that the School may request operating capital advances to pay for operating expenses of the School referred to as "Operating Capital Advances". The management company shall be reimbursed for such advances on the first day of each month in which the funds reside in the School's operating account for which not otherwise reserved by the operating budget. The management company agrees to contribute 90% of any outstanding Operating Capital Advances at the end of the current fiscal year that are in excess of \$250,000 or 90% of the cumulative loss in excess of \$500,000. During the year, \$68,948 was contributed to the School under this program.

In consideration of the management company's commitment to make Loss Mitigation Contributions, the School will pay the management company a Loss Mitigation Allocation of 2% of total revenues. For future years of operation, the School shall pay the management company fees ranging from 1% to 3% for the Loss Mitigation Allocation. The total allocation charged to operations for the year ended June 30, 2011 was \$87,288.

The operating agreement includes an administrative fee of \$2,500 per month for the first 240 months of operation to be retroactive to July 1, 2008. The total allocation charged to operations for the year ended June 30, 2011 was \$30,000.

2. Facility lease

The School has committed to pay a facility allocation to an affiliated company of the management company for the building where the School is located. The school entered into the lease agreement in October 2008. The lease is effective through the length of the School's charter (see Note A-1).

Terms of the lease were amended on July 1, 2009 to require an annual base rent of \$1,000,000 in 2010 and escalating payments thereafter. Commencing July 1, 2012 and on July 1 of each year thereafter, the base rent per year is subject to an annual increase equal to the lesser of 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 lessor also changed in February of 2010, and honors the amended agreement terms.

**Imagine Schools at Town Center  
(A division of Imagine School at Town Center, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2011

**NOTE F - COMMITMENTS AND CONTINGENCIES (continued)**

2. Facility lease (continued)

Current year facilities expense charged to operations totaled \$1,100,000. On the government-wide statements the School has recorded an accrued rent expense of \$136,329 as of June 30, 2011 for the facility use fee.

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

	<u>Facilities</u>
2012	\$ 1,200,000
2013	1,200,000
	<u>\$ 2,400,000</u>

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, 2011 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.

**Imagine Schools at Town Center  
(A division of Imagine School at Town Center, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

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

1. Due to/(from) management company (continued)

The due to/(from) management company activity consists of the following for the year ended June 30, 2011:

	Operating expenses	Management fees	Advances/ Contributions	Due to/(from) management company
Balance at July 1, 2010	\$ 7,267	\$ 35,289	\$ 66,581	\$ 109,137
Advanced	-	-	218,000	218,000
Invoiced	207,027	536,269	-	743,296
Payments	(211,360)	(526,340)	(61,000)	(798,700)
Contribution	-	-	(68,948)	(68,948)
Balance at June 30, 2011	<u>\$ 2,934</u>	<u>\$ 45,218</u>	<u>\$ 154,633</u>	<u>\$ 202,785</u>

2. Facility lease

Schoolhouse Finance, LLC owned property which was leased to the School (see Note F 2). On February 11, 2010, Schoolhouse Finance, LLC transferred ownership to an unaffiliated lessor.

3. Capital lease

The school maintains a capital lease, which is with the management company (see Note D). During the year, \$0 of principal and \$22,411 of interest was accrued towards this agreement. The School is not obligated to make payments on this lease until year ended June 30, 2012.

4. Shared employee expenses

The School shares employees with other schools operated by the same management company. A portion of their salary is allocated to the School on a cost reimbursement basis. The total amount allocated in the current year was \$17,940.

**Imagine Schools at Town Center  
(A division of Imagine School at Town Center, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**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 the fiscal year 2011. Settled claims resulting from the risks described above have not exceeded the insurance coverage since the School's inception.

**NOTE I - DUE TO THE SCHOOL DISTRICT**

During the year the school district overpaid on transportation cash receipts in their calculation of students transported on school buses. The District allocated transportation revenue based on the full FTE count instead of only the students who rode on the bus. The balance in this account in the prior year was \$114,180 and was increased by \$237,552 in the current year, which accounts for the balance of \$351,732 at June 30, 2011.

**NOTE J - SUBSEQUENT EVENTS**

1. Expansion project

The School is currently undergoing an expansion project to add a 2 story building to the campus. This will impact the lease rate for the year ending June 30, 2012. The School will also be entering into equipment use agreements with BB&T bank for all of the furniture, fixture and equipment needs for the new building.

2. Subsequent evaluation

The School has evaluated subsequent events through September 14, 2011, the date which the financial statements were available for issuance.

**REQUIRED SUPPLEMENTAL INFORMATION**

**Imagine Schools at Town Center**  
(a division of Imagine School at Town Center, LLC)

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

For the year ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenue				
Federal, state & local revenue	\$ 3,413,343	\$ 3,368,897	\$ 3,405,196	\$ 36,299
Contribution from management company	-	197,458	68,948	(128,510)
Local sources	203,108	271,664	273,043	1,379
Gross school revenue	3,616,451	3,838,019	3,747,187	(90,832)
Expenditures				
Not-for-profit expenditures				
Facility fee	815,460	883,894	883,894	-
Accrued rent expense	28,088	31,836	31,836	-
Total not-for-profit expenditures	843,548	915,730	915,730	-
Expenses				
Salaries and benefits	1,785,494	1,856,302	1,767,270	89,032
Other school service expense	26,250	21,844	21,844	-
Direct educational expense	67,392	108,353	116,935	(8,582)
General and administrative	280,888	298,725	270,811	27,914
Marketing and enrollment	-	3,777	3,777	-
Facility operating expense	166,440	181,215	163,283	17,932
School operating expenses	3,170,012	3,385,946	3,259,650	126,296
Payback for Imagine contribution	33,000	-	-	-
Loss mitigation	66,698	85,576	87,288	(1,712)
Indirect costs	400,189	410,764	418,981	(8,217)
Total expenditures	3,669,899	3,882,286	3,765,919	116,367
Change in net assets	\$ (53,448)	\$ (44,267)	(18,732)	\$ (207,199)
Adjustments to conform with GAAP:				
Capital outlay expenditures			(13,961)	
Depreciation expense			41,111	
Excess of revenue over expenditures (GAAP basis)			8,418	
Fund balances at July 1, 2010			-	
Fund balances at June 30, 2011			\$ 8,418	

See accompanying note to required supplemental information.

**Imagine Schools at Town Center**  
(a division of Imagine School at Town Center, LLC)

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

For the year ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Federal, state & local revenue	\$ 284,540	\$ 216,106	\$ 216,106	\$ -
Expenditures				
Not-for-profit expenditures	284,540	216,106	216,106	-
Net change in fund balances	-	-	-	-
Fund balances at July 1, 2010	-	-	-	-
Fund balances at June 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying note to required supplemental information.

**Imagine Schools at Town Center**  
**(A division of Imagine School at Town Center, LLC)**

**NOTE TO REQUIRED SUPPLEMENTAL INFORMATION**

**June 30, 2011**

**NOTE A - BUDGETARY INFORMATION**

1. Budgetary basis of accounting

The School's annual budgets are adopted for the entire operations at the combined governmental level and may be amended by the Board of Directors. The budgets presented for fiscal year ended June 30, 2011, have been amended according to Board procedures. Since the budgetary basis differs from accounting principles generally accepted in the United States (GAAP), budget and actual amounts in the accompanying required supplemental information are presented on the budgetary basis. A reconciliation to the net change in fund balances presented in conformity with GAAP is set forth in the adjustments to the required supplementary information.

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

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

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

To the Board of Directors  
Imagine Schools at Town Center, LLC  
Palm Coast, Florida

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Imagine Schools at Town Center (the "School"), a division of Imagine School at Town Center, LLC (the "Charterholder") and a component unit of the School Board of Flagler County, Florida, as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 14, 2011. 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

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

This report is intended solely for the information and use of the School's management, Board of Directors, others within the entity, the School Board of Flagler County, the State of Florida Office of the Auditor General and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

September 14, 2011  
Melbourne, Florida

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

## MANAGEMENT LETTER

To the Board of Directors  
Imagine Schools at Town Center, LLC  
Palm Coast, Florida

We have audited the financial statements of Imagine Schools at Town Center (the "School"), a division of Imagine School at Town Center, LLC (the "Charterholder") and a component unit of the School Board of Flagler County, Florida, as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated September 14, 2011.

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 Compliance and Other Matters. Disclosures in that report, which is dated September 14, 2011, 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 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.
- Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address violations of 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 more than inconsequential. In connection with our audit, we did not have any such findings.

- 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 statement considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- 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 Town Center, a division of Imagine School at Town Center, LLC which is a Florida limited liability company.
- 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 management, and the Florida Auditor General and other regulatory agencies federal and state governments, and is not intended to be and should not be used by anyone other than these specified parties.

September 14, 2011  
Melbourne, Florida

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

## Prior Year Management Recommendations - Cleared

### 09-1 Maintaining Records on the Accrual or Modified Accrual Basis of Accounting

Criteria: Generally accepted accounting principals require government's to maintain their records on the accrual or modified accrual basis of accounting.

Condition: The School's records were not consistent with either of the accrual basis or modified basis of accounting for the School's long-term liabilities. The School did not record the capital lease nor the deferred rent expense with the operating company on the Statement of Net Assets, rather these items were expensed on the Statement of Activities.

Effect: Various adjustments were required at year-end to record and adjust capital lease and the deferred rent expense. Furthermore, financial information provided to the Board and externally during the year did not reflect the complete effects of the School's transactions for the period presented.

Recommendation: We recommend the School record the necessary adjustments to ensure the records are on the accrual basis of accounting for the School's long-term liabilities.

Status as of June 30, 2010: The School did not record \$76,405 of deferred rent expense which is not in accordance with the accrual basis of accounting for the School's long-term liabilities.

Status as of June 30, 2011: The above recommendation has been cleared.

### 09-2 Proper period recording

#### *Material Weakness*

Criteria: Generally accepted accounting principals require that expenses be recorded in the period in which the expense was incurred.

Condition: During the course of our audit, approximately \$35,000 in earned management fees were under accrued. We also noted that the School improperly recorded two invoices totaling \$54,500 as accounts payable.

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

Auditors' recommendation: In order to make the financial reports generated by the accounting system as meaningful as possible, we recommended the School establish monitoring procedures over the aforementioned accounts to ensure proper recording of accruals.

Status as of June 30, 2010: The School did not properly accrue an invoice totaling \$21,400 as accounts payable.

Status as of June 30, 2011: The above recommendation has been cleared.

## Prior Year Management Recommendations - Cleared (continued)

### 10-1 Management Fees Calculation

Criteria: Management fees are expensed to the School by the management company and calculated as a percentage of revenue from the School Board of Flagler County, Florida which is based on the management agreement.

Condition: The School did not accurately calculate the management fees in the current year.

Cause: The School received funding for transportation that will be returned and has been recorded as due to the school district. The management fees were calculated at the revenue amount before the adjustment for transportation. This error was not identified because the calculation was not reconciled to the management agreement and revenue stream at fiscal year end.

Effect: The School over expensed \$15,985 in management fees in the current year. An adjustment was made to correct the balance.

Auditors' recommendation: We recommend that the School reconciles the management fees calculation to the management agreement and revenue stream to ensure that the proper expense is being recorded.

Status as of June 30, 2011: The above recommendation has been cleared.

### Current Year Management Recommendation

There are no findings or recommendations for the current year.