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February 1, 2013

Charter School Board
Imagine Indiana Life Sciences Academy East, Inc.
4352 N. Mitthoefer Rd.
Indianapolis, IN 46235-1224

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac LLC, Independent Public Accountants, for the period July 1, 2010 to June 30, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Imagine Indiana Life Sciences Academy East, Inc., as of June 30, 2012 and 2011, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report. Pages 22 through 25 contain three current audit findings. Pages 26 and 27 contain the status of three prior audit findings. Management's response is in Attachment A.

In addition to the report presented herein, a Supplemental Audit Report for Imagine Indiana Life Sciences Academy East, Inc., was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

State Board of Accounts

IMAGINE INDIANA LIFE SCIENCES
ACADEMY EAST, INC.

Financial Statements and Federal Single Audit Report

June 30, 2012 and 2011

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Imagine Indiana Life Sciences Academy East, Inc.

We have audited the accompanying statements of financial position of **Imagine Indiana Life Sciences Academy East, Inc.** (the "School") as of June 30, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Imagine Indiana Life Sciences Academy East, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2012 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 audits.

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Indianapolis, IN
November 13, 2012

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Statements of Financial Position

Assets	June 30	
	2012	2011
Current assets:		
Cash and cash equivalents	\$ 1,001,176	756,258
Accounts receivable:		
State education support	2,525,979	2,547,629
Grants	82,083	34,752
Other	-	2,889
Prepaid expenses	11,253	57,478
Total current assets	<u>3,620,491</u>	<u>3,399,006</u>
Property and equipment:		
Leasehold improvements	100,359	100,359
Furniture, fixtures, and equipment	1,381,127	1,371,216
Textbooks	90,813	90,813
Less: accumulated depreciation	<u>(1,326,219)</u>	<u>(1,037,830)</u>
Property and equipment, net	<u>246,080</u>	<u>524,558</u>
	<u>\$ 3,866,571</u>	<u>3,923,564</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses:		
Due to Imagine Schools, Inc.	\$ 262,836	295,434
Other	298,331	316,010
Current obligation under capital leases	-	131,610
Refundable advances	83,341	12,115
Total current liabilities	<u>644,508</u>	<u>755,169</u>
Accrued interest on Common School Fund loans	410,997	284,934
Notes payable	<u>3,151,568</u>	<u>3,151,568</u>
Total liabilities	<u>4,207,073</u>	<u>4,191,671</u>
Unrestricted net assets (deficiency)	<u>(340,502)</u>	<u>(268,107)</u>
	<u>\$ 3,866,571</u>	<u>3,923,564</u>

See accompanying notes to financial statements.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Statements of Activities

	Year Ended June 30	
	2012	2011
<u>Revenue, Gains and Support</u>		
State education support	\$ 5,051,925	5,096,938
Grant revenue	2,002,526	1,714,845
Student fees	20,173	33,350
Contributions	3,178	3,993
Other	8,663	74,672
Total revenue, gains and support	<u>7,086,465</u>	<u>6,923,798</u>
 <u>Expenses</u>		
Program services:		
Educational instruction	4,225,819	4,180,928
Education support	1,574,182	1,471,463
Administrative	1,358,859	1,389,154
Total expenses	<u>7,158,860</u>	<u>7,041,545</u>
 Decrease in net assets	(72,395)	(117,747)
 Net deficiency, beginning of year	<u>(268,107)</u>	<u>(150,360)</u>
 Net deficiency, end of year	<u>\$ (340,502)</u>	<u>(268,107)</u>

See accompanying notes to financial statements.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Statements of Cash Flows

	Year Ended June 30	
	2012	2011
<u>Operating Activities</u>		
Change in net assets	\$ (72,395)	(117,747)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	288,389	454,341
Change in:		
Accounts receivable	(22,792)	(246,271)
Prepaid expenses	46,225	(26,794)
Accounts payable and accrued expenses	75,786	32,303
Refundable advances	71,226	(34,487)
Net cash provided by operating activities	386,439	61,345
 <u>Investing Activities</u>		
Purchase of property and equipment	(9,911)	(174,298)
Net cash used by investing activities	(9,911)	(174,298)
 <u>Financing Activities</u>		
Proceeds from State of Indiana loans	-	392,780
Principal portion of capital lease payments	(131,610)	(235,812)
Net cash provided (used) by financing activities	(131,610)	156,968
 Net increase in cash	244,918	44,015
 Cash and cash equivalents, beginning of year	756,258	712,243
 Cash and cash equivalents, end of year	\$ 1,001,176	756,258
 Supplementary information:		
Cash payments for interest expense	\$ 5,759	38,926

See accompanying notes to financial statements.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Notes to Financial Statements

June 30, 2012 and 2011

(1) Summary of Significant Accounting Policies

General

Imagine Indiana Life Sciences Academy East, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates a public charter school established under Indiana Code 20-24-3-1 and is sponsored by Ball State University. The School commenced operations as of July 1, 2008. The School has entered into a service agreement with Imagine Schools, Inc., an organization incorporated in the State of Virginia, to provide curriculum, managerial, legal, and financial services.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition

Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in equal monthly installments in January through December following the start of the school year. Revenue is recognized in the year in which the educational services are rendered.

A portion of the School's revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in relation to costs and expenses at the time they are incurred.

Reclassifications

Certain figures for 2011 that were previously reported have been reclassified for comparative purposes.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Accounts Receivable

Accounts receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Taxes on Income

Imagine Indiana Life Sciences Academy East, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2012 and 2011, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending 2011, 2010 and 2009 are open to audit for both federal and state purposes.

Property and Equipment

Purchases of these assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than \$1,000 are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives are as follows:

Leasehold improvements.....	5 years
Furniture, fixtures, and equipment	3 to 5 years
Textbooks	5 years

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

The School evaluated subsequent events through November 13, 2012, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

(2) Accounts Receivable

Accounts receivable for state education support as of June 30, 2012 and 2011 represent amounts due relating to the following sources:

	<u>2012</u>	<u>2011</u>
Tuition support	\$2,441,814	2,463,264
Special education grant	<u>84,165</u>	<u>84,365</u>
	<u>\$2,525,979</u>	<u>2,547,629</u>

Tuition support is determined by state law and is dependent upon the geographic location of the school. The tuition is also indexed for poverty data of the enrolled students. The payment schedule is likewise determined by state law, with tuition support payable in equal monthly installments in the calendar year following the start of school. Upon revocation or termination of the charter, the payment streams will cease and any unpaid amounts will be applied to the unpaid balance of notes from the Indiana Common School Fund (see Note 3).

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Notes to Financial Statements

(3) Notes Payable

Notes payable at June 30, 2012 and 2011 represent four loans from the Indiana Common School Fund. The notes require semi-annual payments of principal and interest over periods of 15 and 20 years, with interest at 4% per annum. In 2011, the Indiana Common School Fund granted a second moratorium on loan payments. Payments are scheduled to commence again on July 1, 2013. The last note matures January 1, 2033. The notes are secured by unpaid tuition support distributions (see Note 3).

Principal maturities under the loan agreements are as follows:

Year Ended June 30:

2013	\$ -
2014	195,144
2015	195,144
2016	195,144
2017	195,144
Thereafter	<u>2,370,992</u>
	<u>\$3,151,568</u>

(4) Leases

The School leased textbooks, furniture and equipment from Imagine Schools, Inc. under capital lease agreements. Imagine Schools, Inc. is under contract to operate and manage the School. At June 30, 2011, the cost and accumulated depreciation relating to these assets were \$686,626 and \$628,777, respectively. These leases were fully repaid during the year ended June 30, 2012.

The School leases the school facility and certain items of equipment under operating leases. The school facility is leased from Imagine Schools, Inc., which is also under contract to operate and manage the School. The school facility lease will continue so long as the operating agreement is in effect (see Note 5). The equipment lease provides for monthly lease payments through July 2014. Lease expense under operating leases for the years ended June 30, 2012 and 2011 was \$1,096,925 and \$1,028,680, respectively.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Notes to Financial Statements

(4) Leases, Continued

Future minimum lease obligations are as follows:

Year Ended June 30:

2013	\$1,122,468
2014	16,668
2015	16,668
2016	16,668
2017	15,279

(5) Commitments

The School has executed an operating agreement with Imagine Schools, Inc., whereby Imagine Schools, Inc. provides management, administrative, and educational programming services. This agreement remains in effect so long as the School maintains its charter, but may be terminated by either party with appropriate advance notice. Under terms of the agreement, the School has agreed to pay an amount equal to 12% of revenues, as defined, for such services. Aggregate payments to Imagine Schools, Inc. under this agreement were \$586,032 and \$591,225 for the years ended June 30, 2012 and 2011, respectively.

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. The charter remains in effect until June 30, 2013, and is renewable thereafter by mutual consent. Payments under this charter agreement were \$146,479 and \$149,372 for the years ended June 30, 2012 and 2011, respectively.

(6) Refundable Advances

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2012 and 2011, the School had refundable grant advances in excess of expenditures of \$83,341 and \$12,115, respectively.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Notes to Financial Statements

(7) Retirement Plan

The School participates in a Section 401(k) retirement plan sponsored by Imagine Schools, Inc. for the benefit of its employees. Under the plan, the School will match 100% of employee contributions not to exceed 5% of compensation for the plan year. Additional contributions may be made to the plan at the discretion of the board of directors. No discretionary contributions were made in 2012 or 2011. Retirement plan expense for the years ended June 30, 2012 and 2011 was \$27,370 and \$37,779, respectively.

(8) Risks and Uncertainties

The School began operations in July 2008. Prior to that, the School was in a start-up phase, which included such activities as securing a school facility, hiring personnel, marketing, and recruitment and admissions. For the year ended June 30, 2012, the School incurred an operating loss of \$72,395, increasing its accumulated deficit to \$340,502 as of June 30, 2012. Management believes that as enrollment increases and costs are stabilized, the School will be able to eliminate the losses. Until such time, adequate sources of lending have been obtained to enable the School to continue to operate.

The School provides educational instruction services to families residing in Marion and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2012, substantially all of the accounts receivable balance was due from the State of Indiana. In addition, deposits maintained at JP Morgan Chase Bank generally exceed the FDIC insurance limit.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Notes to Financial Statements

(9) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and services benefited. Following is a summary of expenses comprising each program and/or service for the years ended June 30, 2012 and 2011:

	<u>2012</u>		
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages.....	\$1,550,277	371,054	183,417
Employee benefits	486,055	118,298	46,633
Professional services	302,518	7,631	55,046
Staff development and recruitment.....	-	42,939	-
Academic services	-	-	586,032
Authorizer oversight fee.....	-	-	146,479
Food costs.....	-	426,578	-
Transportation service	11,868	379,704	-
Property rental	1,082,100	-	83,076
Information technology	14,648	-	39,767
Classroom, kitchen and office supplies.....	173,880	28,354	35,848
Occupancy	315,601	179,938	-
Depreciation	288,389	-	-
Interest	-	-	131,822
Other	<u>483</u>	<u>19,686</u>	<u>50,739</u>
	<u>\$4,225,819</u>	<u>1,574,182</u>	<u>1,358,859</u>

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Notes to Financial Statements

(9) Functional Expense Reporting, Continued

	<u>2011</u>		
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages.....	\$1,531,960	505,149	215,553
Employee benefits	410,983	119,934	41,037
Professional services	124,475	-	66,612
Staff development and recruitment.....	-	28,455	-
Academic services	-	-	591,225
Authorizer oversight fee.....	-	-	149,372
Food costs.....	-	429,989	-
Transportation service.....	-	308,685	-
Property rental	1,004,659	2,077	10,953
Information technology	-	-	47,367
Classroom, kitchen and office supplies.....	110,607	4,151	27,688
Occupancy	543,903	49,955	-
Depreciation	454,341	-	-
Interest	-	-	154,515
Other	-	23,068	84,832
	<u>\$4,180,928</u>	<u>1,471,463</u>	<u>1,389,154</u>

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Schedule of Expenditures of Federal Awards

Years Ended June 30, 2012 and 2011

Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title	Federal	Pass-Through	Total Federal	
	CFDA Number	Entity Identifying Number	Awards Expended 2012	2011
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		152,128	129,510
National School Lunch Program	10.555		303,244	292,496
Summer Food Service Program for Children	10.559		-	7,206
Total for cluster			<u>455,372</u>	<u>429,212</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-through Indiana Department of Education				
Title I, Part A Cluster				
Grants to Local Educational Agencies	84.010		712,569	454,067
ARRA--Grants to Local Educational Agencies	84.389		12,050	181,830
Total for cluster			<u>724,619</u>	<u>635,897</u>
Special Education Cluster				
Special Education - Grants to States	84.027	14212-552-PN01	250,438	81,408
ARRA--Special Education - Grants to States	84.391	33310-202-SN01	68,350	39,233
Total for cluster			<u>318,788</u>	<u>120,641</u>
Charter Schools Program	84.282		225,896	252,960
English Language Acquisition Grants	84.365		7,239	-
Improving Teacher Quality State Grants	84.367		46,299	72,990
Total for federal grantor agency			<u>1,322,841</u>	<u>1,082,488</u>
Total federal awards expended			<u>\$ 1,778,213</u>	<u>1,511,700</u>

See accompanying Independent Auditors' Report.
See accompanying notes to this schedule.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Notes to the Schedule of Expenditures of Federal Awards

Years Ended June 30, 2012 and 2011

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Imagine Indiana Life Sciences Academy East, Inc. (the "School") under programs of the federal government for the years ended June 30, 2012 and 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

The Board of Directors
Imagine Indiana Life Sciences Academy East, Inc.

We have audited the financial statements of **Imagine Indiana Life Sciences Academy East, Inc.** (the "School") as of and for the years ended June 30, 2012 and 2011 and have issued our report thereon dated November 13, 2012. 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 opinion 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. However, we identified one deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency in internal control over financial reporting. This item is identified as 2012-1. *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 financial statements of the School are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 2012-2 and 2012-3.

This report is intended for the information of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Raymond J. Francis". The signature is written in a cursive style with a slanted baseline.

Indianapolis, IN
November 13, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors
Imagine Indiana Life Sciences Academy East, Inc.

Compliance

We have audited the compliance of **Imagine Indiana Life Sciences Academy East, Inc.** (the "School") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the years ended June 30, 2012 and 2011. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

As described in items 2012-2 and 2012-3 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding eligibility determination and verification that are applicable to the Child Nutrition Program. Compliance with such requirements is necessary, in our opinion, for the School to assure the appropriate provision of benefits applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2012 and 2011.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs identified as items 2012-2 and 2012-3 to be significant deficiencies.

The School's response to the findings identified in our audit is included with this report as an attachment. We did not audit the School's response and, accordingly, express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alzmond / Isaac

Indianapolis, IN
November 13, 2012

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	Yes
Noncompliance noted which is material to financial statements:	No

Federal Awards

Internal control over major programs:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	Yes
Type of auditors' report issued on compliance for major programs:	Qualified
Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	Yes

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

I. Summary of Auditors' Results, Continued

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553	Child Nutrition Cluster
10.555	
10.559	
84.010	Title I Grants to Local Educational Agencies Cluster
84.389	
84.027	Special Education Cluster
84.391	
84.282	Charter Schools Program

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee: No

II. Financial Statement Findings

FINDING NO. 2012-1 ELIGIBILITY

As discussed at Findings 2012-2 and 2012-3, eligibility records could not be produced for the year ended June 30, 2011 to assure that income eligibility applications were obtained, eligibility status correctly determined and certified by a School official, income verified, and students correctly assigned meal benefits. The absence of appropriate documentation of income eligibility could result in a federal program supporting students that do not qualify for benefits and/or eligible students being denied benefits. A methodical process for determination and documentation of income eligibility should be established and monitored for compliance.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

III. Federal Award Findings and Questioned Costs

Questioned
Costs

FINDING NO. 2012-2 ELIGIBILITY

Federal Agency: U.S. Department of Agriculture
Pass-Through Agency: Indiana Department of Education
Federal Program: Child Nutrition Cluster
CFDA Number: 10.553, 10.555 and 10.559
Award Year: FY 2010-11

Condition

School officials were unable to produce student applications as evidence of proper determination of eligibility for program benefits. A total of 720 students received benefits in the 2010-11 fiscal year. Eligibility applications for the 2011-12 fiscal year were available for audit.

Criteria

7 CFR 245.6 requires the School to determine household eligibility for free or reduced price meals either through direct certification or the application process.

In addition OMB Circular A-110, part ____.53 requires that financial records, supporting documents, statistical records, and all other records pertinent to an award be retained for a period of three years from the date of submission of the final expenditure report.

Cause

For the 2010-11 school year, there was a lack of compliance with established School procedures regarding the processing of applications for free or reduced-price meals.

Effect

The failure to properly document income eligibility could result in either (1) students being denied eligible benefits, or (2) the improper expenditure of federal funds.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

III. Federal Award Findings and Questioned Costs, Continued

FINDING NO. 2012-2 ELIGIBILITY, Continued

Questioned
Costs

Context

Due to the absence of eligibility applications, it was not practicable to determine the dollar value of potential errors.

\$ -0-

Recommendation

The School should establish a methodical process for the determination and documentation of eligibility for free or reduced price meals that would address the issues noted above. Internal monitoring procedures should be put in place to assure compliance.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

FINDING NO. 2012-3 ELIGIBILITY VERIFICATION

Federal Agency:	U.S. Department of Agriculture
Pass-Through Agency:	Indiana Department of Education
Federal Program:	Child Nutrition Cluster
CFDA Number:	10.553, 10.555, and 10.559
Award Year:	FY 2010-11 and FY 2011-12

Condition

Management was unable to produce documentation that applications for income eligibility had been verified in accordance with regulations.

Criteria

7 CFR 245.6 requires the School to verify the income data for a sample of 3% of all applications approved by the School.

Cause

The School had not established adequate procedures to document the number of verified applications, or produce evidence of verification.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Schedule of Findings and Questioned Costs

Years Ended June 30, 2012 and 2011

III. Federal Award Findings and Questioned Costs, Continued

FINDING NO. 2012-3 ELIGIBILITY VERIFICATION, Continued

Questioned
Costs

Effect

The failure to verify income applications could result in the improper expenditure of federal funds.

Context

Because verifications were not performed as indicated, no determination of questioned costs was possible.

\$ -0-

Recommendation

We recommend that the School establish a process for the verification of income data, with the emphasis on error prone applications. Internal monitoring procedures should be put in place to assure compliance.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

Total U.S. Department of Agriculture

\$ -0-

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Summary Schedule of Prior Audit Findings

Years Ended June 30, 2012 and 2011

FINDING NO. 2010-1 CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Pass-Through Entity: Indiana Department of Education
Federal Program: Charter Schools Program
CFDA Number: 84.282
Award Year: FY 2009-10

Condition

This finding was a significant deficiency stating that excessive cash balances were noted in 6 of the 12 months examined.

Recommendation

The auditor recommended the development and implementation of procedures and controls to ensure that the time between the receipt and disbursement of federal funds is kept to a minimum.

Current Status

The recommendation was adopted. The School no longer requests cash in advance of the disbursement of federal funds. No similar finding was noted in the 2012 and 2011 audits.

FINDING NO. 2010-2 CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Pass-Through Entity: Indiana Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Award Year: FY 2009-10

The discussion for Finding No. 2010-1 also applies to this finding.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Summary Schedule of Prior Audit Findings

Years Ended June 30, 2012 and 2011

FINDING NO. 2010-3 SPECIAL TESTS AND PROVISIONS

Federal Agency:	U.S. Department of Education
Pass-Through Entity:	Indiana Department of Education
Federal Program:	Title I Grants to Local Educational Agencies
CFDA Number:	84.010
Award Year:	FY 2008-09 and FY 2009-10

Condition

This finding was a material weakness stating that the School did not have a plan or other internal controls in place to assure that all teachers hired were highly qualified.

Recommendation

The auditor recommended the development and implementation of procedures and controls to ensure that teachers participating in the program are highly qualified.

Current Status

The recommendation was adopted. No similar finding was noted in the 2012 and 2011 audits.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

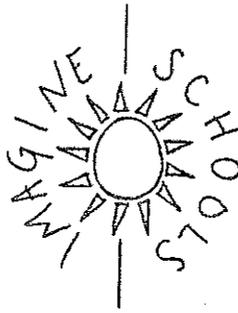
Other Reports

Years Ended June 30, 2012 and 2011

The reports presented herein were prepared in addition to another official report prepared for the school as listed below:

Supplemental Audit Report of Imagine Indiana Life Sciences Academy East, Inc.

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.



Attachment A

Imagine Life Sciences Academy East

Major Programs and Internal Control over compliance in Accordance with OMB Circular A-133

Official Response

July 1, 2010 to June 30, 2012

Finding NO. 2012-1 ELIGIBILITY, NO. 2012-2 ELIGIBILITY, NO. 2012-3 ELIGIBILITY VERIFICATION

The Lunch Room Manager who held that position failed to diligently comply with internal procedures and regulatory requirements.

The Lunch Room Manager at the school has been replaced for the 2012-2013 school year. Specific training regarding the determination of eligibility and verification of income for the national school lunch program was performed during the fall of 2012. In addition, all national school lunch applications will be determined, certified and maintained by the lunch room manager and periodically reviewed for compliance by the school treasurer. All lunch claims will be prepared by the lunch room manager and maintained by the School business office with supporting documentation attached to each lunch claim deposit. All verification of eligibility determination information will be completed by the lunchroom manager and reviewed and maintained by the school treasurer.