



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B43908

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

July 23, 2014

Charter School Board
IFWCS Campus II, Inc. d/b/a Imagine Schools on Broadway
2320 Broadway Street
Fort Wayne, IN 46807

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac, LLC, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. 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 the IFWCS Campus II, Inc. d/b/a Imagine Schools on Broadway, as of June 30, 2013, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

IFWCS CAMPUS II, INC.

d/b/a IMAGINE SCHOOLS ON BROADWAY

Financial Statements and Federal Single Audit Report

June 30, 2013 and 2012

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-3
Financial Statements:	
Statement of Net Assets in Liquidation - June 30, 2013	4
Statement of Financial Position - June 30, 2012	5
Statements of Activities - Years Ended June 30, 2013 and 2012	6
Statement of Changes in Net Assets in Liquidation - As of June 30, 2013	7
Statements of Cash Flows - Years Ended June 30, 2013 and 2012	8
Notes to Financial Statements	9-16
Supplementary Information:	
Schedule of Expenditures of Federal Awards	17
Notes to Schedule of Expenditure of Federal Awards	18
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19-20
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	21-23
Schedule of Findings and Questioned Costs	24-25
Exit Conference	26

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
IFWCS Campus II, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **IFWCS Campus II, Inc. d/b/a Imagine Schools on Broadway**, which comprise the statement of net assets in liquidation as of June 30, 2013, the statement of financial position as of June 30, 2012, the statement of changes in net assets in liquidation as of June 30, 2013, the statements of activities and cash flows for the years ended June 2013 and 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

9245 North Meridian Street, Suite 302
Indianapolis, Indiana 46260
317-844-8300 Fax 317-848-6555
www.fitzgeraldisaac.net

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IFWCS Campus II, Inc. as of June 30, 2012, net assets in liquidation as of June 30, 2013, the changes in its net assets and its cash flows for the years ended June 30, 2013 and 2012, and the changes in its net assets in liquidation as of June 30, 2013 in accordance with accounting principles generally accepted in the United States of America applied on the bases described in Note 2 to the financial statements.

Other Matters

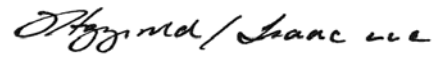
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2014 on our consideration of IFWCS Campus II, Inc.'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Imagine IFWCS Campus II, Inc.'s internal control over financial reporting and compliance.

Emphasis-of-Matter

As discussed in Note 2 to the financial statements, the School's charter sponsor did not renew the School's charter upon expiration, resulting in the Board of Directors approving a plan of dissolution effective June 30, 2013. As a result, the School has changed its basis of accounting from the going concern basis to the liquidation basis.

A handwritten signature in cursive script, appearing to read "Thyrd / Lane".

Indianapolis, IN
June 18, 2014

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Statement of Net Assets in Liquidation

<u>Assets</u>	<u>June 30, 2013</u>
Cash	\$ 46,329
Grants receivable	25,355
Property and equipment	<u>22,527</u>
Total assets	<u>94,211</u>
<u>Liabilities</u>	
Accounts payable and accrued expenses	4,423
Contributions payable	71,876
Refundable balances	<u>17,912</u>
Total liabilities	<u>94,211</u>
Unrestricted net assets	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Statement of Financial Position

<u>Assets</u>	<u>June 30, 2012</u>
Current assets:	
Cash and cash equivalents	\$ 684,619
Accounts receivable:	
State education support	1,505,928
Grants	44,706
Prepaid expenses	25,260
Total current assets	<u>2,260,513</u>
Property and equipment:	
Furniture, fixtures, and equipment	702,760
Less: accumulated depreciation	(576,980)
Property and equipment, net	<u>125,780</u>
	<u>\$ 2,386,293</u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable and accrued expenses:	
Due to Imagine Schools, Inc.	\$ 182,649
Other	188,645
Refundable advances	2,787
Total current liabilities	<u>374,081</u>
Accrued interest on Common School Fund loans	200,682
Notes payable	1,347,447
Total liabilities	<u>1,922,210</u>
Unrestricted net assets	<u>464,083</u>
	<u>\$ 2,386,293</u>

See accompanying notes to financial statements.

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Statements of Activities

	Year Ended June 30	
	2013	2012
<u>Revenue, Gains and Support</u>		
State education support	\$ 2,500,488	3,011,980
Grant revenue	795,666	911,070
Student fees	22,102	28,411
Contributions	228	1,035
Other	4,643	5,146
Total revenue, gains and support	<u>3,323,127</u>	<u>3,957,642</u>
<u>Expenses</u>		
Program services:		
Educational instruction	2,040,886	2,312,409
Education support	620,577	696,490
Administrative	718,346	841,464
Total expenses	<u>3,379,809</u>	<u>3,850,363</u>
Increase (decrease) in net assets before non-operating revenue	(56,682)	107,279
<u>Non-Operating Revenue</u>		
Gain due to changes in legislative funding	<u>312,795</u>	<u>-</u>
Increase in net assets	256,113	107,279
Net assets, beginning of year	<u>464,083</u>	<u>356,804</u>
Net assets, end of year	<u>\$ 720,196</u>	<u>464,083</u>

See accompanying notes to financial statements.

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Statement of Changes in Net Assets in Liquidation

Net assets as of June 30, 2013 on going concern basis	\$ 720,196
Increases (decreases) in net assets:	
Adjustment of property and equipment to net realizable value	(5,986)
Liquidation expenses:	
Retention bonuses and employee benefits	(202,934)
Lease termination expenses	(151,649)
Other	(269,839)
Contributions to other educational organizations	(71,876)
Refunds to the State of Indiana	(17,912)
Total	<u>(720,196)</u>
Net assets as of June 30, 2013 on liquidation basis	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Statements of Cash Flows

	Year Ended June 30	
	2013	2012
<u>Operating Activities</u>		
Change in net assets before liquidation	\$ 256,113	107,279
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Payment of liquidation expenses	(624,422)	-
Gain due to changes in legislative funding	(312,795)	-
Depreciation	102,920	155,129
Change in:		
Accounts receivable	275,035	(199,027)
Prepaid expenses	25,260	16,464
Accounts payable and accrued expenses	(351,961)	197,941
Refundable advances	(2,787)	(33,932)
Net cash provided (used) by operating activities	<u>(632,637)</u>	<u>243,854</u>
<u>Investing Activities</u>		
Purchase of property and equipment	<u>(5,653)</u>	<u>(11,331)</u>
Net cash used by investing activities	<u>(5,653)</u>	<u>(11,331)</u>
Net increase (decrease) in cash	(638,290)	232,523
Cash and cash equivalents, beginning of year	<u>684,619</u>	<u>452,096</u>
Cash and cash equivalents, end of year	<u>\$ 46,329</u>	<u>684,619</u>
Supplementary information:		
Cash payments for interest expense	\$ -	-

See accompanying notes to financial statements.

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Notes to Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

General

IFWCS Campus II, Inc. d/b/a Imagine Schools on Broadway (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 and is sponsored by Ball State University. The School commenced operations as of July 1, 2008. The School 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. Effective June 30, 2013, the Board of Directors adopted a resolution to suspend operations and dissolve the corporation.

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 other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in monthly installments in January through December following the start of the academic school year. Revenue is recognized in the year in which the educational services are rendered. See Note 3 regarding legislative changes affecting revenue recognition.

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

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

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

IFWCS Campus II, 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, 2013 and 2012, 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 2012, 2011 and 2010 are open to audit for both federal and state purposes.

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Property and Equipment

Prior to June 30, 2013, purchases of these assets and expenditures that materially increased value or extended useful lives were capitalized and 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 were charged to expense as incurred.

Depreciation was provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives for furniture, fixtures, and equipment ranged from three to ten years.

Effective June 30, 2013, property and equipment was restated to reflect estimated net realizable value.

Subsequent Events

The School evaluated subsequent events through June 18, 2014, 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) Basis of Accounting

In May 2013, the School received notification from its charter sponsor, Ball State University, that it would not be renewing the School's charter effective with the expiration on June 30, 2013. The School was unable to obtain another charter sponsor and the Board of Directors authorized the dissolution of the corporation effective June 30, 2013. As a result, the School changed its basis of accounting from the going concern basis to the liquidation basis, in which assets are carried at estimated net realizable value and liabilities are recorded at the amount of cash expected to be paid. Subsequent to June 30, 2013, the School liquidated assets, donated items of property and equipment, and paid its obligations. Resources remaining in the amount of \$17,912 were returned to the State of Indiana. The effects of these transactions are reflected in the accompanying statements of net assets in liquidation and changes in net assets in liquidation.

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Notes to Financial Statements

(3) Legislative Funding Changes

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in monthly installments in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, school funding will be paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 will no longer be paid.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School has applied for and received repayment of its indebtedness under these obligations as of June 30, 2013.

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a gain due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans	\$1,347,447
Repayment of accrued interest on Common School Fund loans....	<u>215,592</u>
	1,563,039
Elimination of School funding	<u>(1,250,244)</u>
	\$ <u>312,795</u>

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Notes to Financial Statements

(4) Accounts Receivable

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

Tuition support	\$ 1,423,856
Special education grant	42,526
Prime time grant	<u>39,546</u>
Total.....	\$ <u>1,505,928</u>

Tuition support is determined by state law and is dependent upon the geographic location of the school. The tuition is also indexed to the poverty data of the enrolled students and other factors. The payment schedule is likewise determined by state law. In 2013 and 2012, tuition support was payable in equal monthly installments in the calendar year following the start of the academic school year. See Note 3 regarding the effect of legislative changes on accounts receivable as of June 30, 2013.

(5) Notes Payable

Notes payable at June 30, 2012 represented two loans from the Indiana Common School Fund. The notes required semi-annual payments of principal and interest over a period of 20 years, with interest at 4% per annum. In 2013 and 2012, the loans were under a moratorium on payments, but interest continued to accrue.

In 2013, the outstanding loans and all accrued interest were repaid with funding appropriated from the State of Indiana general fund (see Note 3).

(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 2012, the School had refundable grant advances in excess of expenditures of \$2,787.

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

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 2013 and 2012. Retirement plan expense for the years ended June 30, 2013 and 2012 was \$36,403 and \$29,188, respectively.

(8) Leases

The School leased the school facility and certain items of equipment under operating leases. The school facility was leased from Schoolhouse Finance, LLC, and affiliate of Imagine Schools, Inc., which was under contract to operate and manage the School. The school facility lease terminated with the termination of the School's charter (see Note 2). The equipment lease provided for monthly lease payments through November 2016. The School completed a buyout of the remainder of the equipment leases as of June 30, 2013 at a cost of \$45,674. Lease expense under operating leases for the years ended June 30, 2013 and 2012 was \$527,840 and \$517,988, respectively.

(9) Commitments

The School had an operating agreement with Imagine Schools, Inc., whereby Imagine Schools, Inc. provided management, administrative, and educational programming services. This agreement remained in effect so long as the School maintained its charter. Under terms of the agreement, the School 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 \$292,122 and \$341,738 for the years ended June 30, 2013 and 2012, respectively.

The School operated under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercised certain oversight responsibilities. Under this charter, the School agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support receipts. Payments under this charter agreement were \$36,515 and \$83,770 for the years ended June 30, 2013 and 2012, respectively.

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Notes to Financial Statements

(9) Commitments, Continued

The charter granted by Ball State University terminated June 30, 2013, and was not renewed. Therefore, the School's operating agreement with Imagine Schools, Inc. has also been terminated. The School has no outstanding obligations under these agreements as of June 30, 2013.

(10) 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 service for the years ended June 30, 2013 and 2012:

		<u>2013</u>	
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages.....	\$ 812,680	128,872	136,344
Employee benefits	283,334	26,873	38,896
Staff development			
and recruitment.....	-	16,449	-
Professional services	98,699	70,697	116,338
Academic services	-	-	292,122
Authorizer oversight fee.....	-	-	36,515
Food costs.....	-	210,946	-
Transportation service	2,035	144,889	-
Property rental	511,680	-	16,160
Information technology	-	-	13,198
Classroom, kitchen and			
office supplies.....	111,675	3,797	8,460
Occupancy	116,236	8,318	-
Depreciation	102,920	-	-
Interest	-	-	14,910
Other	<u>1,627</u>	<u>9,736</u>	<u>45,403</u>
	<u>\$2,040,886</u>	<u>620,577</u>	<u>718,346</u>

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Notes to Financial Statements

(10) Functional Expense Reporting, Continued

		<u>2012</u>	
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages.....	\$ 917,730	141,065	121,068
Employee benefits	279,591	32,876	28,354
Staff development and recruitment.....	-	10,889	-
Professional services	268,354	15,378	93,256
Academic services	-	-	341,738
Authorizer oversight fee.....	-	-	83,770
Food costs.....	-	230,733	-
Transportation service	2,182	155,146	-
Property rental	503,053	-	13,784
Information technology	-	-	20,392
Classroom, kitchen and office supplies.....	70,698	9,737	11,454
Occupancy	115,672	78,611	-
Depreciation	155,129	-	-
Interest	-	-	53,898
Other	-	<u>22,055</u>	<u>73,750</u>
	<u>\$2,312,409</u>	<u>696,490</u>	<u>841,464</u>

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 61,272
National School Lunch Program	10.555		152,996
Summer Food Service Program for Children	10.559		959
Total for cluster			<u>215,226</u>
Fresh Fruit and Vegetable Program	10.582		20,688
Total for federal grantor agency			<u>235,914</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	13-9820	203,741
Special Education Cluster			
Special Education - Grants to States	84.027	14212-553-PN01	118,175
English Speaking Acquisition Grants	84.365	011113-103-PN01	12,746
Improving Teacher Quality State Grants	84.367		20,549
Total for federal grantor agency			<u>355,211</u>
Total federal awards expended			<u>\$ 591,125</u>

See accompanying Independent Auditor's Report.
See accompanying notes to this schedule.

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of IFWCS Campus II, Inc. (the “School”) under programs of the federal government for the year ended June 30, 2013. 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.

INDEPENDENT AUDITOR'S 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
IFWCS Campus II, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **IFWCS Campus II, Inc. d/b/a Imagine Schools on Broadway** (the "School"), which comprise the statement of net assets in liquidation as of June 30, 2013, the related statements of activities, and cash flows for the year then ended, the statement of changes in net assets in liquidation as of June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated June 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

9245 North Meridian Street, Suite 302
Indianapolis, Indiana 46260
317-844-8300 Fax 317-848-6555
www.fitzgeraldisaac.net

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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Raymond J. Hancock".

Indianapolis, IN
June 18, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133

The Board of Directors
IFWCS Campus II, Inc.

Report on Compliance for Each Major Federal Program

We have audited **IFWCS Campus II, Inc. d/b/a Imagine Schools on Broadway's** (the "School") compliance 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 year ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, IFWCS Campus II, Inc. d/b/a Imagine Schools on Broadway complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of IFWCS Campus II, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Raymond L. Hancock".

Indianapolis, IN
June 18, 2014

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	None Reported
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:	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	No

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

I. Summary of Auditor's Results, Continued

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

84.010

Title I, Part A Cluster
Grants to Local Educational Agencies

Dollar threshold used to distinguish
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee:

Yes

II. Financial Statement Findings

No matters are reportable.

III. Federal Award Findings and Questioned Costs

No matters are reportable.

IFWCS CAMPUS II, INC.
d/b/a
IMAGINE SCHOOLS ON BROADWAY

Exit Conference

Year Ended June 30, 2013

The contents of this report were discussed on July 11, 2014 with Amy Williams (Indiana Region Business Manager), Rachel Cirullo (Regional Director), and Rachelle Spearman (Principal).