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July 23, 2014

Charter School Board  
Imagine – Fort Wayne Charter School, Inc.  
2000 N. Wells Street  
Fort Wayne, IN 46808

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac, LLP, 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 Imagine – Fort Wayne Charter School, Inc., 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

**IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.**

*Financial Statements and Federal Single Audit Report*

*June 30, 2013 and 2012*

IMAGINE - FORT WAYNE CHARTER SCHOOL, INC.

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 - Period Ended June 19, 2013 and Year Ended June 30, 2012	6
Statement of Changes in Net Assets in Liquidation - June 19, 2013 to June 30, 2013	7
Statements of Cash Flows - Period Ended June 19, 2013 and Year Ended June 30, 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
Summary Schedule of Prior Audit Findings	26-28
Exit Conference	29

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Imagine – Fort Wayne Charter School, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of **Imagine – Fort Wayne Charter School, Inc.**, which comprise the statement of financial position as of June 30, 2012, the statement of net assets in liquidation as of June 30, 2013, the related statements of activities and cash flows for the year ended June 30, 2012 and for the period from July 1, 2012 to June 19, 2013, and the related statement of changes in net assets in liquidation for the period from June 19, 2013 through June 30, 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.

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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 Imagine – Fort Wayne Charter School, Inc. as of June 30, 2012, the net assets in liquidation as of June 30, 2013, the changes in its net assets and its cash flows for the year ended June 30, 2012 and the period from July 1, 2012 to June 19, 2013, and the changes in net assets in liquidation for the period from June 19, 2013 to 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 Imagine – Fort Wayne Charter School, 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 – Fort Wayne Charter School, 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 at June 30, 2013, resulting in the Board of Directors approving a plan of dissolution effective June 19, 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 black ink, appearing to read "Raymond J. Hancock".

Indianapolis, IN  
June 18, 2014

IMAGINE - FORT WAYNE CHARTER SCHOOL, INC.

Statement of Net Assets in Liquidation

<u>Assets</u>	<u>June 30, 2013</u>
Cash	\$ 112,741
Accounts receivable:	
Grants	31,726
Other	19,781
Property and equipment	62,243
Total assets	<u>226,491</u>
 <u>Liabilities</u>	
Accounts payable and accrued expenses	98,600
Contributions payable	127,891
Total liabilities	<u>226,491</u>
 Net assets	 <u><u>\$ -</u></u>

See accompanying notes to financial statements.

IMAGINE - FORT WAYNE CHARTER SCHOOL, INC.

Statement of Financial Position

Assets	June 30, 2012
Current assets:	
Cash and cash equivalents	\$ 1,277,466
Accounts receivable:	
State education support	2,383,917
Grants	8,316
Other	33,530
Prepaid expenses	7,756
Total current assets	<u>3,710,985</u>
Property and equipment:	
Furniture, fixtures, and equipment	993,526
Accumulated depreciation	(875,718)
Property and equipment, net	<u>117,808</u>
	<u><u>\$ 3,828,793</u></u>
Liabilities and Net Assets	
Current liabilities:	
Accounts payable and accrued expenses:	
Due to Imagine Schools, Inc.	\$ 292,902
Other	243,606
Refundable advances	5,535
Total current liabilities	<u>542,043</u>
Real estate taxes	146,394
Accrued interest on Common School Fund loans	311,089
Notes payable	2,281,420
Total liabilities	<u>3,280,946</u>
Unrestricted net assets:	
Designated	100,000
Undesignated	447,847
Total	<u>547,847</u>
	<u><u>\$ 3,828,793</u></u>

See accompanying notes to financial statements.

IMAGINE - FORT WAYNE CHARTER SCHOOL, INC.

Statements of Activities

	Period From July 1, 2012 to June 19, 2013	Year Ended June 30, 2012
<u>Revenue, Gains and Support</u>		
State education support	\$ 4,426,110	4,768,067
Grant revenue	1,185,141	1,394,117
Student fees	142,536	140,377
Interest income	2,225	1,728
Contributions	-	7,381
Other	73,530	56,837
Total revenue, gains and support	<u>5,829,542</u>	<u>6,368,507</u>
<u>Expenses</u>		
Program services:		
Educational instruction	3,480,229	3,758,292
Education support	1,117,279	1,107,971
Administrative	1,081,486	1,301,373
Total expenses	<u>5,678,994</u>	<u>6,167,636</u>
Increase in net assets	150,548	200,871
Net assets, beginning of period	<u>547,847</u>	<u>346,976</u>
Net assets, end of period	<u>\$ 698,395</u>	<u>547,847</u>

See accompanying notes to financial statements.

IMAGINE - FORT WAYNE CHARTER SCHOOL, INC.

Statement of Changes in Net Assets in Liquidation

For the Period From June 19, 2013 to June 30, 2013

Net assets as of June 19, 2013	\$ 698,395
Increases (decreases) in net assets:	
Forgiveness of Common School Fund loans	2,281,420
Forgiveness of accrued interest on Common School Fund loans	365,862
Suspension of State school support	(2,213,055)
Adjustment of property and equipment to net realizable value	(46,353)
Liquidation expenses:	
Retention bonuses and employee benefits	(414,378)
Lease termination expense	(222,041)
Real estate taxes	(107,690)
Other	(214,269)
Contributions to other educational organizations	(127,891)
Total	<u>(698,395)</u>
Net assets as of June 30, 2013	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

IMAGINE - FORT WAYNE CHARTER SCHOOL, INC.

Statements of Cash Flows

	Period From July 1, 2012 to June 19, 2013	Year Ended June 30, 2012
<u>Operating Activities</u>		
Change in net assets	\$ 150,548	200,871
Adjustment to reconcile change in net assets to cash flows from operating activities:		
Depreciation	89,926	171,436
Change in:		
Accounts receivable	161,201	31,878
Prepaid expenses	7,756	90,382
Accounts payable and accrued expenses	(315,648)	178,829
Refundable advances	(5,535)	(22,063)
Net cash provided by operating activities	<u>88,248</u>	<u>651,333</u>
<u>Investing Activities</u>		
Purchase of property and equipment	<u>(80,715)</u>	<u>(32,278)</u>
Net cash used by investing activities	<u>(80,715)</u>	<u>(32,278)</u>
Net increase in cash	7,533	619,055
Cash and cash equivalents, beginning of period	<u>1,277,466</u>	<u>658,411</u>
Cash and cash equivalents, end of period	<u>\$ 1,284,999</u>	<u>1,277,466</u>
Supplementary information:		
Cash payments for interest expense	\$ -	-

See accompanying notes to financial statements.

# IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

## Notes to Financial Statements

June 30, 2013 and 2012

### (1) Summary of Significant Accounting Policies

#### General

Imagine – Fort Wayne Charter School, 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 and is sponsored by Ball State University. The School commenced operations as of July 1, 2007. 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 19, 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 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 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.

## IMAGINE – FORT WAYNE CHARTER SCHOOL, 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 – Fort Wayne Charter School, 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.

##### Property and Equipment

Prior to June 19, 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 were from three to four years.

Effective June 19, 2013, property and equipment was restated to reflect estimated net realizable value in response to the plan of dissolution.

## IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

### Notes to Financial Statements

#### (1) Summary of Significant Accounting Policies, Continued

##### 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 19, 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 property and equipment to other charitable organizations, and paid its obligations. The effects of these transactions are reflected in the accompanying statements of net assets in liquidation and changes in net assets in liquidation.

#### (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.

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Notes to Financial Statements

(3) Legislative Funding Changes, Continued

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 changes in net assets in liquidation.

(4) Accounts Receivable

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

Tuition support .....	\$ 2,255,485
Special education grant .....	91,892
Prime time grant .....	<u>36,540</u>
 Total.....	 \$ <u>2,383,917</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, with tuition support 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 three 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 loan 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).

## IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

### Notes to Financial Statements

#### (6) Real Estate Taxes

In 2011, the School was informed that it would be liable for real estate taxes incurred by the landlord on the facility leased by the School. At June 30, 2011, the School recorded a liability in the amount of \$146,394 in anticipation of this event. The landlord appealed the assessment under the premise that the property was used by a recognized tax-exempt organization, but the appeal was denied. The assessment was paid in 2013.

#### (7) Leases

The School leased the school facility and certain items of equipment under operating leases. The school facility was leased from Schoolhouse Finance, LLC, an affiliate of Imagine Schools, Inc., which was under contract to operate and manage the School. The school facility lease was terminated with the termination of the School's charter (see Note 2). The equipment leases provided for monthly lease payments through March 2017. The School completed a buyout of the remainder of the equipment leases as of June 30, 2013 at a cost of \$76,140. Lease expense under operating leases for the period ended June 19, 2013 and the year ended June 30, 2012 was \$842,560 and \$828,837, respectively.

#### (8) Commitments

The School executed 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 \$500,736 and \$541,347 for the period ended June 19, 2013 and the year ended June 30, 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 \$62,593 and \$135,377 for the period ended June 19, 2013 and the year ended June 30, 2012, respectively.

## IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

### Notes to Financial Statements

#### (8) 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.

#### (9) Retirement Plan

The School participated in a Section 401(k) retirement plan sponsored by Imagine Schools, Inc. for the benefit of its employees. Under the plan, the School matched 100% of employee contributions not to exceed 5% of compensation for the plan year. Additional contributions could also 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 period ended June 19, 2013 and the year ended June 30, 2012 was \$77,544 and \$72,923, respectively.

#### (10) Refundable Advances

The School was awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue was recognized when earned and expenses were recognized as incurred. At June 30, 2012, the School had refundable grant advances in excess of expenditures of \$5,535.

#### (11) Board Designated Net Assets

In 2012, the Board of Directors approved the designation of a portion of the School's unrestricted net assets for use in the acquisition of information technology equipment. The equipment was acquired in 2013.

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Notes to Financial Statements

(12) 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.....	\$1,444,857	335,962	212,576
Employee benefits .....	490,334	67,841	52,627
Professional services .....	141,140	6,476	53,022
Staff development and recruitment.....	-	10,120	-
Academic services .....	-	-	517,942
Authorizer oversight fee.....	-	-	62,593
Food costs.....	-	348,686	-
Transportation service .....	13,455	192,062	-
Property rental .....	821,560	-	7,563
Information technology .....	-	-	2,240
Classroom, kitchen and office supplies.....	129,470	67,232	7,410
Occupancy .....	312,359	60,565	-
Depreciation .....	89,926	-	-
Interest .....	-	-	54,773
Other .....	<u>37,128</u>	<u>28,335</u>	<u>110,740</u>
	<u>\$3,480,229</u>	<u>1,117,279</u>	<u>1,081,486</u>

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Notes to Financial Statements

(12) Functional Expense Reporting, Continued

	<u>2012</u>		
	<u>Educational</u> <u>Instruction</u>	<u>Education</u> <u>Support</u>	<u>Admini-</u> <u>strative</u>
Salaries and wages.....	\$1,514,713	305,389	297,919
Employee benefits .....	583,508	74,280	63,259
Professional services .....	167,507	7,529	27,331
Staff development and recruitment.....	-	29,795	-
Academic services .....	-	-	541,347
Authorizer oversight fee.....	-	-	135,377
Food costs.....	-	328,075	-
Transportation service .....	17,168	188,545	-
Property rental .....	798,600	-	19,598
Information technology .....	-	-	28,749
Classroom, kitchen and office supplies.....	126,588	37,922	7,662
Occupancy .....	368,268	110,920	-
Depreciation .....	171,436	-	-
Interest.....	-	-	91,257
Other .....	<u>10,504</u>	<u>25,516</u>	<u>88,874</u>
	<u>\$3,758,292</u>	<u>1,107,971</u>	<u>1,301,373</u>

IMAGINE - FORT WAYNE CHARTER SCHOOL, INC.

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		\$ 144,516
National School Lunch Program	10.555		230,313
Summer Food Service Program for Children	10.559		1,325
Total for cluster			<u>376,154</u>
Fresh Fruit and Vegetable Program	10.582		27,596
Total for federal grantor agency			<u>403,750</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	13-9695	317,491
Special Education Cluster			
Special Education - Grants to States	84.027	14213-502-PN01	153,835
English Language Acquisition Grants	84.365	011113-103-PN01	3,903
Improving Teacher Quality State Grants	84.367		24,039
Total for federal grantor agency			<u>499,268</u>
Total federal awards expended			<u>\$ 903,018</u>

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

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

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 Imagine – Fort Wayne Charter School, 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  
Imagine – Fort Wayne Charter School, 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 **Imagine – Fort Wayne Charter School, Inc.** (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 period July 1, 2012 to June 19, 2013, the statement of changes in net assets in liquidation for the period June 19, 2013 to 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.

### **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.



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  
Imagine – Fort Wayne Charter School, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited Imagine – Fort Wayne Charter School, Inc.'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, Imagine – Fort Wayne Charter School, Inc. 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 Imagine – Fort Wayne Charter School, 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.

*Atty. Gen. / Isaac Lee*

Indianapolis, IN  
June 18, 2014

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

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

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

**I. Summary of Auditor's Results, Continued**

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	Child Nutrition Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program
10.559	Summer Food Service Program for Children

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk auditee:	Yes
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**II. Financial Statement Findings**

No matters are reportable.

**III. Federal Award Findings and Questioned Costs**

No matters are reportable.

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2013

FINANCIAL STATEMENT FINDINGS

FINDING NO. 2012-1 ELIGIBILITY

Condition

This finding was a significant deficiency stating that formal processes governing income eligibility were not in place 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.

Recommendation

The auditor recommended a methodical process for determination and documentation of income eligibility be established and monitored for compliance.

Current Status

The recommendation was adopted. The School established a formal process to govern the determination and documentation of income eligibility. No similar finding was noted in the 2013 audit.

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2013

FEDERAL AWARD FINDINGS

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 2011-12

Condition

The auditor found numerous instances where applications were incorrectly completed, household income was incorrectly determined, certification of eligibility by a school official was not evident, and students were assigned incorrect meal benefits.

Recommendation

The auditor recommended a methodical process for determination and documentation of income eligibility be established and monitored for compliance.

Current Status

The recommendation was adopted. The School has established a formal process to govern the determination and documentation of income eligibility. No similar finding was noted in the 2013 audit.

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2013

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 2011-12

Condition

The auditor found that of the eleven applications reportedly chosen for verification, evidence of documentation was available for only two applications.

Recommendation

The auditor recommended that the School establish a process for the verification of income data, with the emphasis on error prone applications. The auditor also recommended that internal monitoring procedures be put in place to assure compliance.

Current Status

The recommendation was adopted. The School established a process for the verification of income data, and internal monitoring procedures have been put in place. No similar finding was noted in the 2013 audit.

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

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) and Rachel Cirullo (Regional Director).