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August 20, 2014

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

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 Imagine Indiana Life Sciences Academy East, 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.

Pages 26 and 27 contain the status of three prior audit findings.

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.

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

**IMAGINE INDIANA LIFE SCIENCES**

**ACADEMY EAST, INC**

*Financial Statements and Federal Single Audit Report*

*June 30, 2013 and 2012*

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **Imagine Indiana Life Sciences Academy East, Inc.** (the "School"), 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 related statements of activities and cash flows for the years ended June 30, 2013 and 2012, 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.

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 Indiana Life Sciences Academy East, 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 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 Imagine Indiana Life Sciences Academy East, 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 Indiana Life Sciences Academy East, Inc.'s internal control over financial reporting and compliance.

### **Emphasis-of-Matter Regarding Ceasing of Operations**

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 black ink, appearing to read "Raymond / Isaac LLC".

Indianapolis, IN  
June 18, 2014

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Statement of Net Assets in Liquidation

<u>Assets</u>	<u>June 30, 2013</u>
Cash	\$ 37,267
Grants receivable	181,210
Property and equipment	43,701
Total assets	<u>262,178</u>
<u>Liabilities</u>	
Accounts payable and accrued expenses	58,867
Contributions payable	69,073
Refundable balances	134,238
Total liabilities	<u>262,178</u>
Unrestricted net assets	<u><u>\$ -</u></u>

See accompanying notes to financial statements.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Statement of Financial Position

<u>Assets</u>	<u>June 30, 2012</u>
Current assets:	
Cash and cash equivalents	\$ 1,001,176
Accounts receivable:	
State education support	2,525,979
Grants	82,083
Prepaid expenses	11,253
Total current assets	<u>3,620,491</u>
Property and equipment:	
Leasehold improvements	100,359
Furniture, fixtures, and equipment	1,381,127
Textbooks	90,813
Less: accumulated depreciation	<u>(1,326,219)</u>
Property and equipment, net	<u>246,080</u>
	<u>\$ 3,866,571</u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable and accrued expenses:	
Due to Imagine Schools, Inc.	\$ 262,836
Other	298,331
Refundable advances	83,341
Total current liabilities	<u>644,508</u>
Accrued interest on Common School Fund loans	410,997
Notes payable	<u>3,151,568</u>
Total liabilities	<u>4,207,073</u>
Unrestricted net assets (deficiency)	<u>(340,502)</u>
	<u>\$ 3,866,571</u>

See accompanying notes to financial statements.



IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Statements of Activities

	Year Ended June 30	
	2013	2012
<u>Revenue and Support</u>		
State education support	\$ 4,246,986	5,051,925
Grant revenue	1,715,306	2,002,526
Student fees	15,519	20,173
Contributions	3,496	3,178
Other	62,029	8,663
Total revenue and support	<u>6,043,336</u>	<u>7,086,465</u>
<u>Expenses</u>		
Program services:		
Educational instruction	3,706,423	4,225,819
Education support	1,281,826	1,574,182
Administrative	968,873	1,358,859
Total expenses	<u>5,957,122</u>	<u>7,158,860</u>
Increase (decrease) in net assets before non-operating revenue	86,214	(72,395)
<u>Non-Operating Revenue</u>		
Gain due to changes in legislative funding	<u>1,462,759</u>	<u>-</u>
Increase (decrease) in net assets	1,548,973	(72,395)
Net assets (deficiency), beginning of year	<u>(340,502)</u>	<u>(268,107)</u>
Net assets (deficiency), end of year	<u>\$ 1,208,471</u>	<u>(340,502)</u>

See accompanying notes to financial statements.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Statement of Changes in Net Assets in Liquidation

Net assets as of June 30, 2013 on going concern basis	\$ 1,208,471
Increases (decreases) in net assets:	
Adjustment of property and equipment to net realizable value	(93,480)
Liquidation expenses:	
Retention bonuses and employee benefits	(346,489)
Lease termination expense	(292,231)
Other	(272,960)
Contributions to other educational organizations	(69,073)
Refund to State of Indiana	(134,238)
Total	<u>(1,208,471)</u>
Net assets as of June 30, 2013 on liquidation basis	<u>\$ -</u>

See accompanying notes to financial statements.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Statements of Cash Flows

	Year Ended June 30	
	2013	2012
<b>Operating Activities</b>		
Change in net assets	\$ 1,548,973	(72,395)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Payment of liquidation expenses	(852,470)	-
Gain due to changes in legislative funding	(1,462,759)	-
Depreciation	117,999	288,389
Change in:		
Accounts receivable	303,359	(22,792)
Prepaid expenses	11,254	46,225
Accounts payable and accrued expenses	(537,824)	75,786
Refundable advances	(83,341)	71,226
Net cash provided (used) by operating activities	(954,809)	386,439
<b>Investing Activities</b>		
Purchase of property and equipment	(9,100)	(9,911)
Net cash used by investing activities	(9,100)	(9,911)
<b>Financing Activities</b>		
Principal portion of capital lease payments	-	(131,610)
Net cash used by financing activities	-	(131,610)
Net increase (decrease) in cash	(963,909)	244,918
Cash and cash equivalents, beginning of year	1,001,176	756,258
Cash and cash equivalents, end of year	\$ 37,267	1,001,176
Supplementary information:		
Cash payments for interest expense	\$ -	5,759

See accompanying notes to financial statements.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Notes to Financial Statements

June 30, 2013 and 2012

(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 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 relation to costs and expenses at the time they are incurred.

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, 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 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 ranged from three to five years.

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

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 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 \$134,238 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.

(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 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 INDIANA LIFE SCIENCES ACADEMY EAST, 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 activities as a gain due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans.....	\$3,151,568
Repayment of accrued interest on Common School Fund loans....	<u>434,681</u>
	3,586,249
Elimination of School funding .....	<u>(2,123,490)</u>
	<u>\$1,462,759</u>

(4) Accounts Receivable

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

Tuition support .....	\$2,441,814
Special education grant .....	<u>84,165</u>
	<u>\$2,525,979</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 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.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Notes to Financial Statements

(5) Notes Payable

Notes payable at June 30, 2012 represented four 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) Leases

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 terminated with the termination of the School's charter (see Note 2). The equipment lease provided for monthly lease payments through July 2014. Lease expense under operating leases for the years ended June 30, 2013 and 2012 was \$1,122,468 and \$1,096,925, respectively.

(7) 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, the School had refundable grant advances in excess of expenditures of \$83,341.



IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Notes to Financial Statements

(8) 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 or 2012. Retirement plan expense for the years ended June 30, 2013 and 2012 was \$42,288 and \$27,370, 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 as 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 \$494,700 and \$586,032 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 \$61,838 and \$146,479 for the years ended June 30, 2013 and 2012, respectively.

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 obligation under these agreements as of June 30, 2013.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Notes to Financial Statements

(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 Instruction</u>	<u>Education Support</u>	<u>Admini- strative</u>
Salaries and wages.....	\$1,402,645	355,753	219,164
Employee benefits .....	447,966	18,665	38,772
Professional services .....	121,854	14,709	14,759
Staff development and recruitment.....	-	21,024	-
Academic services .....	-	-	494,700
Authorizer oversight fee.....	-	-	61,838
Food costs.....	-	403,235	-
Transportation service .....	18,718	352,676	-
Property rental .....	1,105,800	-	22,723
Information technology .....	-	-	25,696
Classroom, kitchen and office supplies.....	143,039	5,980	23,128
Occupancy .....	287,905	102,409	-
Depreciation .....	117,999	-	-
Interest .....	-	-	23,684
Other .....	<u>60,497</u>	<u>7,375</u>	<u>44,409</u>
	<u>\$3,706,423</u>	<u>1,281,826</u>	<u>968,873</u>

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

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.....	\$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.

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		\$ 148,410
National School Lunch Program	10.555		274,380
Total for cluster			<u>422,790</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		682,052
 Special Education Cluster			
Special Education - Grants to States	84.027	14213-552-PN01	137,726
English Language Acquisition Grants	84.365	01113-097-PN01	16,893
Improving Teacher Quality State Grants	84.367		113,689
Total for federal grantor agency			<u>950,360</u>
Total federal awards expended			<u>\$ 1,373,150</u>

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

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, 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 Indiana Life Sciences Academy East, 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 Indiana Life Sciences Academy East, 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 Indiana Life Sciences Academy East, 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 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.

### **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 organization'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 Indiana Life Sciences Academy East, Inc.

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

We have audited **Imagine Indiana Life Sciences Academy East, 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 Indiana Life Sciences Academy East, 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.

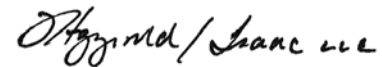
## **Report on Internal Control Over Compliance**

Management of Imagine Indiana Life Sciences Academy East, 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.

Handwritten signature in cursive script, appearing to read "Raymond J. Isaac III".

Indianapolis, IN  
June 18, 2014

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, 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 INDIANA LIFE SCIENCES ACADEMY EAST, 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>
10.553	Child Nutrition Cluster
10.555	School Breakfast Program
	National School Lunch Program
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: No

**II. Financial Statement Findings**

No matters are reportable.

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

No matters are reportable.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Summary Schedule of Prior Audit Findings

Years Ended June 30, 2013 and 2012

FINANCIAL STATEMENT FINDINGS

FINDING NO. 2012-1 ELIGIBILITY

Condition

This finding was a significant deficiency stating that eligibility records could not be produced for the year ended June 30, 2011 to support 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.

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 2010-11

Condition

The auditor identified that 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.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2013

FINDING NO. 2012-2 ELIGIBILITY, Continued

Recommendation

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

Current Status

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

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 2012-12

Condition

The auditor determined that management was unable to produce documentation that applications for income eligibility had been verified in accordance with regulations.

Recommendation

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

Current Status

The recommendation was adopted. The School adopted a process for the verification of income data. No similar finding was noted in the 2013 audit.

IMAGINE INDIANA LIFE SCIENCES ACADEMY EAST, INC.

Exit Conference

Year Ended June 30, 2013

The contents of this report were discussed on July 17, 2014, with Amy Williams (Regional Business Manager) and Theresa Wright (Board President).