



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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January 4, 2013

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 LLC, Independent Public Accountants, for the period July 1, 2011 to June 30, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Imagine-Fort Wayne Charter School, Inc., as of June 30, 2012, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report. Pages 23 through 26 contain three current audit findings. Management's response is in Attachment A.

In addition to the report presented herein, a Supplemental Audit Report for Imagine-Fort Wayne Charter School, Inc., was prepared in accordance with the guidelines established by the State Board of Accounts.

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

State Board of Accounts

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Financial Statements and Federal Single Audit Report

June 30, 2012 and 2011

IMAGINE - FORT WAYNE CHARTER SCHOOL, INC.

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INDEPENDENT AUDITORS' REPORT

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

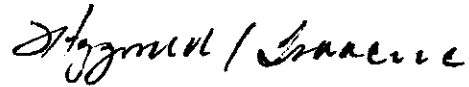
We have audited the accompanying statements of financial position of **Imagine – Fort Wayne Charter School, Inc.** (the "School") as of June 30, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School's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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2012 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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



Indianapolis, IN
November 13, 2012

IMAGINE - FORT WAYNE CHARTER SCHOOL, INC.

Statements of Financial Position

| | June 30 | |
|--|--------------|-----------|
| Assets | 2012 | 2011 |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,277,466 | 658,411 |
| Accounts receivable: | | |
| State education support | 2,383,917 | 2,420,653 |
| Grants | 8,316 | 24,091 |
| Other | 33,530 | 12,897 |
| Prepaid expenses | 7,756 | 98,138 |
| Total current assets | 3,710,985 | 3,214,190 |
| Property and equipment: | | |
| Furniture, fixtures, and equipment | 993,526 | 961,248 |
| Accumulated depreciation | (875,718) | (704,282) |
| Property and equipment, net | 117,808 | 256,966 |
| | \$ 3,828,793 | 3,471,156 |
| <u>Liabilities and Net Assets</u> | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses: | | |
| Due to Imagine Schools, Inc. | \$ 292,902 | 246,484 |
| Other | 243,606 | 202,452 |
| Refundable advances | 5,535 | 27,598 |
| Total current liabilities | 542,043 | 476,534 |
| Real estate taxes | 146,394 | 146,394 |
| Accrued interest on Common School Fund loans | 311,089 | 219,832 |
| Long-term debt | 2,281,420 | 2,281,420 |
| Total liabilities | 3,280,946 | 3,124,180 |
| Unrestricted net assets: | | |
| Designated | 100,000 | - |
| Undesignated | 447,847 | 346,976 |
| Total | 547,847 | 346,976 |
| | \$ 3,828,793 | 3,471,156 |

See accompanying notes to financial statements.

IMAGINE - FORT WAYNE CHARTER SCHOOL, INC.

Statements of Activities

| | Year Ended June 30 | |
|-----------------------------------|--------------------|------------------|
| | 2012 | 2011 |
| <u>Revenue, Gains and Support</u> | | |
| State education support | \$ 4,768,067 | 4,843,187 |
| Grant revenue | 1,394,117 | 1,226,974 |
| Student fees | 140,377 | 150,638 |
| Interest income | 1,728 | 1,520 |
| Contributions | 7,381 | 1,104 |
| Other | 56,837 | 47,322 |
| Total revenue, gains and support | <u>6,368,507</u> | <u>6,270,745</u> |
| | | |
| <u>Expenses</u> | | |
| Program services: | | |
| Educational instruction | 3,758,292 | 3,863,706 |
| Education support | 1,107,971 | 962,896 |
| Administrative | 1,301,373 | 1,452,157 |
| Total expenses | <u>6,167,636</u> | <u>6,278,759</u> |
| | | |
| Increase (decrease) in net assets | 200,871 | (8,014) |
| | | |
| Net assets, beginning of year | <u>346,976</u> | <u>354,990</u> |
| | | |
| Net assets, end of year | <u>\$ 547,847</u> | <u>346,976</u> |

See accompanying notes to financial statements.

IMAGINE - FORT WAYNE CHARTER SCHOOL, INC.

Statements of Cash Flows

| | Year Ended June 30 | |
|---|---------------------|------------------|
| | 2012 | 2011 |
| <u>Operating Activities</u> | | |
| Change in net assets | \$ 200,871 | (8,014) |
| Adjustment to reconcile change in net assets to cash flows from operating activities: | | |
| Depreciation | 171,436 | 191,922 |
| Change in: | | |
| Accounts receivable | 31,878 | 80,757 |
| Prepaid expenses | 90,382 | (22,376) |
| Accounts payable and accrued expenses | 178,829 | (118,759) |
| Refundable advances | (22,063) | (142,014) |
| Net cash provided (used) by operating activities | <u>651,333</u> | <u>(18,484)</u> |
| <u>Investing Activities</u> | | |
| Purchase of property and equipment | <u>(32,278)</u> | <u>(59,027)</u> |
| Net cash used by investing activities | <u>(32,278)</u> | <u>(59,027)</u> |
| <u>Financing Activities</u> | | |
| Principal payments under capital leases | <u>-</u> | <u>(100,187)</u> |
| Net cash used by financing activities | <u>-</u> | <u>(100,187)</u> |
| Net increase (decrease) in cash | 619,055 | (177,698) |
| Cash and cash equivalents, beginning of year | <u>658,411</u> | <u>836,109</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,277,466</u> | <u>658,411</u> |
| Supplementary information: | | |
| Cash payments for interest expense | \$ - | 3,861 |

See accompanying notes to financial statements.

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Notes to Financial Statements

June 30, 2012 and 2011

(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 20-24-3-1 and is sponsored by Ball State University. The School commenced operations as of July 1, 2007. The School has entered into a service agreement with Imagine Schools, Inc., an organization incorporated in the State of Virginia, to provide curriculum, managerial, legal, and financial services.

Accounting Estimates

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

Revenue Recognition

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

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

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.

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

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, 2012 and 2011, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

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

Property and Equipment

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

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

Subsequent Events

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

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Reclassifications

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

(2) Accounts Receivable

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

| | <u>2012</u> | <u>2011</u> |
|------------------------------|--------------------|------------------|
| Tuition support | \$2,255,485 | 2,206,639 |
| Special education grant..... | 91,892 | 132,932 |
| Prime time grant | <u>36,540</u> | <u>81,082</u> |
| Total..... | <u>\$2,383,917</u> | <u>2,420,653</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. The payment schedule is likewise determined by state law, with tuition support payable in equal monthly installments in the calendar year following the start of school. Upon revocation or termination of the charter, the payment streams will cease and any unpaid amounts will be applied to the unpaid balance of notes from the Indiana Common School Fund (see Note 3).

(3) Notes Payable

Notes payable at June 30, 2012 and 2011 represent three loans from the Indiana Common School Fund. The notes require semi-annual payments of principal and interest over a period of 20 years, with interest at 4% per annum. In 2011, the Indiana Common School Fund granted a second moratorium on loan payments. Payments are scheduled to commence again on July 1, 2013. The notes mature January 1, 2033 and are secured by unpaid tuition support distributions (see Note 2).

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Notes to Financial Statements

(3) Notes Payable, Continued

Principal maturities under the loan agreements are as follows:

| <u>Year Ended June 30:</u> | |
|----------------------------|--------------------|
| 2013 | \$ - |
| 2014 | 115,622 |
| 2015 | 115,622 |
| 2016 | 115,622 |
| 2017 | 115,622 |
| Thereafter | <u>1,818,932</u> |
| | <u>\$2,281,420</u> |

(4) 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. Subsequently, the landlord appealed the assessment under the premise that the property is used by a recognized tax-exempt organization. Allen County, Indiana contends that the assessment is proper because the property is owned by persons with an investment motive. This appeal is scheduled to be heard in October 2012.

The landlord has also agreed to absorb all real estate taxes assessed until such time as a ruling on the appeal is issued. Due to the uncertainty of the outcome, the School has concluded to maintain the liability of \$146,394 on its books until such time as the matter is resolved.

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Notes to Financial Statements

(5) Leases

The School leased textbooks, furniture and equipment from Imagine Schools, Inc. under a capital lease agreement. Imagine Schools, Inc. is under contract to operate and manage the School. The School also leased certain items of computer equipment under a capital lease with Dell Financial. Each of these leases were fully repaid during the year ended June 30, 2011.

The School leases the school facility and certain items of equipment under operating leases. The school facility is leased from Schoolhouse Finance, LLC, an affiliate of Imagine Schools, Inc., which is under contract to operate and manage the School. The school facility lease will continue so long as the operating agreement is in effect (see Note 6) and contains provisions that the rental rate will escalate based on the consumer price index. The equipment leases provide for monthly lease payments through March 2017. Lease expense under operating leases for the years ended June 30, 2012 and 2011 was \$828,837 and \$870,481, respectively.

Future minimum lease obligations are as follows:

| <u>Year Ended June 30:</u> | |
|----------------------------|-----------|
| 2013 | \$835,306 |
| 2014 | 19,306 |
| 2015 | 19,306 |
| 2016 | 19,306 |
| 2017 | 19,306 |

(6) Commitments

The School has executed an operating agreement with Imagine Schools, Inc., whereby Imagine Schools, Inc. provides management, administrative, and educational programming services. This agreement remains in effect so long as the School maintains its charter, but may be terminated by either party with appropriate advance notice. Under terms of the agreement, the School has agreed to pay an amount equal to 12% of revenues, as defined, for such services. Aggregate payments to Imagine Schools, Inc. under this agreement were \$541,347 and \$529,623 for the years ended June 30, 2012 and 2011, respectively.

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Notes to Financial Statements

(6) Commitments, Continued

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. The charter remains in effect until June 30, 2013, and is renewable thereafter by mutual consent. Payments under this charter agreement were \$135,377 and \$132,414 for the years ended June 30, 2012 and 2011, respectively.

(7) Retirement Plan

The School participates in a Section 401(k) retirement plan sponsored by Imagine Schools, Inc. for the benefit of its employees. Under the plan, the School will match 100% of employee contributions not to exceed 5% of compensation for the plan year. Additional contributions may be made to the plan at the discretion of the board of directors. No discretionary contributions were made in 2012 and 2011. Retirement plan expense for the years ended June 30, 2012 and 2011 was \$72,923 and \$86,734, respectively.

(8) Refundable Advances

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2012 and 2011, the School had refundable grant advances in excess of expenditures of \$5,535 and \$27,598, respectively.

(9) Board Designated Net Assets

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

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Notes to Financial Statements

(10) Risks and Uncertainties

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

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

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

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Notes to Financial Statements

(11) Functional Expense Reporting

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

| | <u>2012</u> | | |
|--|--------------------|------------------|------------------|
| | <u>Educational</u> | <u>Education</u> | <u>Admini-</u> |
| | <u>Instruction</u> | <u>Support</u> | <u>strative</u> |
| Salaries and wages..... | \$1,514,713 | 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.

Notes to Financial Statements

(11) Functional Expense Reporting, Continued

| | <u>2011</u> | | |
|--|--------------------|------------------|------------------|
| | <u>Educational</u> | <u>Education</u> | <u>Admini-</u> |
| | <u>Instruction</u> | <u>Support</u> | <u>strative</u> |
| Salaries and wages..... | \$1,614,331 | 295,566 | 406,699 |
| Employee benefits | 555,712 | 67,112 | 86,979 |
| Professional services | 104,107 | 1,788 | 30,597 |
| Staff development and recruitment..... | - | 13,793 | - |
| Academic services | - | - | 529,623 |
| Authorizer oversight fee..... | - | - | 132,414 |
| Food costs..... | - | 258,304 | - |
| Transportation service | - | 199,002 | - |
| Property rental | 792,240 | - | 66,867 |
| Information technology | - | - | 18,002 |
| Classroom, kitchen and office supplies..... | 146,574 | 58,041 | 23,880 |
| Occupancy | 458,820 | 41,137 | - |
| Depreciation | 191,922 | - | - |
| Interest..... | - | - | 95,171 |
| Other | - | <u>28,153</u> | <u>61,925</u> |
| | <u>\$3,863,706</u> | <u>962,896</u> | <u>1,452,157</u> |

IMAGINE - FORT WAYNE CHARTER SCHOOL, INC.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

| Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Total Federal Awards Expended |
|--|---------------------------|--|-------------------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | |
| Pass-Through Indiana Department of Education | | | |
| Child Nutrition Cluster | | | |
| School Breakfast Program | 10.553 | | \$ 165,704 |
| National School Lunch Program | 10.555 | | 235,396 |
| Summer Food Service Program for Children | 10.559 | | 4,984 |
| Total for cluster | | | 406,084 |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | |
| Pass-Through Indiana Department of Education | | | |
| Title I, Part A Cluster | | | |
| Title I Grants to Local Educational Agencies | 84.010 | | 323,507 |
| ARRA--Title I Grants to Local Educational Agencies | 84.389 | | 3,197 |
| Total for cluster | | | 326,704 |
| Special Education Cluster | | | |
| Special Education - Grants to States | 84.027 | 14212-502-PN01 | 156,563 |
| ARRA--Special Education - Grants to States | 84.391 | 33310-202-SN01 | 98,910 |
| Total for cluster | | | 255,473 |
| Charter Schools Program | 84.282 | | 204,816 |
| English Language Acquisition Grants | 84.365 | | 8,274 |
| Improving Teacher Quality State Grants | 84.367 | | 38,204 |
| Total for federal grantor agency | | | 833,471 |
| Total federal awards expended | | | \$ 1,239,555 |

See accompanying Independent Auditors' 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, 2012

(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, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

(2) Summary of Significant Accounting Policies

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

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

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

We have audited the financial statements of Imagine – Fort Wayne Charter School, Inc. (the “School”) as of and for the year ended June 30, 2012 and have issued our report thereon dated November 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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

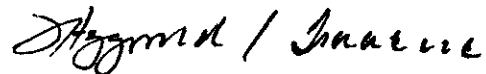
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified one deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. This item is identified as 2012-1. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the School are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2012-2 and 2012-3.

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

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



Indianapolis, IN
November 13, 2012

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

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

Compliance

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

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

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

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

Internal Control Over Compliance

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

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

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

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs identified as item 2012-1 to be a significant deficiency.

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

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

Stephane / Lanne

Indianapolis, IN
November 13, 2012

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

I. Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

I. Summary of Auditors' Results, Continued

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|--|
| 10.553 | Child Nutrition Cluster |
| 10.555 | |
| 10.559 | |
| 84.010 | Title I Grants to Local Educational Agencies Cluster |
| 84.389 | |

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

Auditee qualified as low-risk auditee: No

II. Financial Statement Findings

FINDING NO. 2012-1 ELIGIBILITY

As discussed at Findings 2012-2 and 2012-3, processes 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. The absence of a formal process governing income eligibility could result in a federal program supporting students that do not qualify for benefits and/or eligible students being denied benefits. A methodical process for determination and documentation of income eligibility should be established and monitored for compliance.

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

III. Federal Award Findings and Questioned Costs

Questioned
Costs

FINDING NO. 2012-2 ELIGIBILITY

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

Condition

The determination of eligibility for free and reduced meals was subject to 100% examination by the Indiana Department of Education. A number of issues were identified, including:

1. Applications that were incorrectly completed.
2. Applications where household income was incorrectly determined.
3. Applications where certification of eligibility by a school official was not evident.
4. Instances where students were assigned incorrect meal benefits.

Criteria

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

Cause

The School had not established adequate procedures to obtain and process the applications for free or reduced price meals.

Effect

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

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

III. Federal Award Findings and Questioned Costs, Continued

Questioned
Costs

Context

Multiple instances of incorrect eligibility determinations were noted. It was not practicable to determine the dollar value of the identified errors.

\$ -0-

Recommendation

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

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

FINDING NO. 2012-3 ELIGIBILITY VERIFICATION

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

Condition

The verification summary report indicated that 11 applications of 353 on file were chosen for verification resulting in no changes. Evidence of verification was available for only 2 applications.

Criteria

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

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

III. Federal Award Findings and Questioned Costs, Continued

| | <u>Questioned Costs</u> |
|---|-----------------------------|
| <u>Cause</u> The School had not established adequate procedures to document the number of verified applications as reported on its summary report. | |
| <u>Effect</u> The failure to verify income applications could result in the improper expenditure of federal funds. | |
| <u>Context</u> Because verifications were not performed as indicated, no determination of questioned costs was possible. | \$ <u>-0-</u> |
| <u>Recommendation</u> We recommend that the School establish a process for the verification of income data, with the emphasis on error prone applications. Internal monitoring procedures should be put in place to assure compliance. | |
| <u>Views of Responsible Officials and Planned Corrective Action</u> See attached letter of response from School officials. | |
| Total U.S. Department of Agriculture | <u>\$ -0-</u> |

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

Summary Schedule of Prior Audit Findings

June 30, 2012

No matters were reported in the previous audit of the period July 1, 2009 to June 30, 2011.

IMAGINE – FORT WAYNE CHARTER SCHOOL, INC.

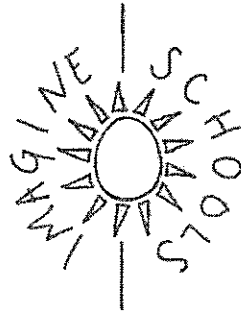
Other Reports

Year Ended June 30, 2012

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

Supplemental Audit Report of Imagine – Fort Wayne Charter School, Inc.

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



Imagine Fort Wayne Charter School, Inc
 Major Programs and Internal Control over compliance in Accordance with OMB Circular A-133
 Official Response
 Year Ended June 30, 2012

The 2011-12 school year was an exception. The lunch room manager who held that position failed to diligently comply with internal procedures and regulatory requirements.

As a result, the lunch room manager at the school was replaced at the beginning of 2012. Indiana Department of Education provided specific training regarding the determination of eligibility and verification of income for the national school lunch program during their review in May of 2012.

The lunch room manager is responsible for direct certification, direct verification, determining the eligibility status for free and reduced lunch students, ensuring the completeness and accuracy of the free and reduced lunch applications, and completing the monthly lunch claim in accordance with the guidelines on the National school lunch program website.

In response to your finding, Imagine Fort Wayne Charter School, Inc. (School) will take the following steps to ensure that all applicants for the School's Free and Reduced Lunch Program are complete and accurate:

- Subsequent to July 1st of each year, the lunch room manager will review applications completed by parents to:
 - o verify income,
 - o determine eligibility for meal benefits
 - o ensure application is complete and accurate
 - o sign off on the back of the application as the responsible school official
- The school leader and business manager of the School will review all applications completed prior to the start of the school year to ensure the above steps are complete and accurate.
- A letter will then be issued in August of each year notifying parent(s) of the meal benefits that their child will receive during the school year.
- As new students enroll during the year, the school leader and business manager of the School will review those applications, as indicated above, prior to sending notification to the parents regarding their child's eligibility for meal benefits.
- The lunch room manager will also run a direct certification against the Indiana DOE website three times per year to determine if a student is eligible for free lunch and therefore exempt from completing an application. If a child is determined to be exempt from completing an application, the verification from the Indiana DOE website will be printed and maintained with the student's file.

- The lunch room manager will complete the direct verification process by selecting a sample of 3% of the income based free and reduced lunch program applications. The School shall verify income (if not cleared through the Indiana DOE website) by letter to the applicant requesting documentation. Upon completion of the direct verification process, the lunch room manger will provide to the School's administrator or business office for review, the applications selected with supporting documentation showing how the applicant's income was verified and any changes in meal benefits as a result of the verification. The lunch room manager will complete the direct verification report on the Indiana DOE website.

The School will also be purchasing a software program (ETrition – School nutrition solutions) that will allow the application process to be completed online by Parents which will help minimize any errors with accuracy in the future.

The School business office will review the monthly lunch claim with supporting documentation for accuracy and maintain a copy with the lunch claim deposit.