

IMAGINE ME LEADERSHIP CHARTER SCHOOL

Financial Statements

June 30, 2017

IMAGINE ME LEADERSHIP CHARTER SCHOOL

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INDEPENDENT AUDITOR’S REPORT

The Board of Directors
Imagine Me Leadership Charter School

We have audited the accompanying financial statements of Imagine Me Leadership Charter School (the “School”), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows and functional expenses for the year then ended, 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 School’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 School’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 Me Leadership Charter School as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017 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, 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 the School's internal control over financial reporting and compliance.

Mayer Hoffman McCann CPAs

October 30, 2017

IMAGINE ME LEADERSHIP CHARTER SCHOOL

Statement of Financial Position

June 30, 2017

ASSETS

Assets:

Cash	\$ 981,358
Cash - restricted	75,000
Grants and other receivables	177,182
Security deposit	37,500
Prepaid expenses	84,969
Property and equipment, net (Note 3)	<u>41,988</u>
Total assets	<u>\$ 1,397,997</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$ 42,656
Accrued salaries and related expenses	321,563
Deferred rent	<u>93,363</u>
Total liabilities	457,582

Commitments (Note 7)

Net assets:

Unrestricted	<u>940,415</u>
Total liabilities and net assets	<u>\$ 1,397,997</u>

See accompanying notes.

IMAGINE ME LEADERSHIP CHARTER SCHOOL

Statement of Activities
For the Year Ended June 30, 2017

Operating revenue:	
State and local per pupil operating revenue (Note 6)	\$ 3,627,497
Government grants and contracts	<u>306,961</u>
Total operating revenue	<u>3,934,458</u>
Expenses:	
Program	2,650,515
Management and general	<u>913,783</u>
Total expenses	<u>3,564,298</u>
Surplus from school operations	370,160
Support and other income:	
Contributions	51,065
Interest and other income	<u>193,938</u>
Total support and other income	<u>245,003</u>
Change in net assets	615,163
Net assets, beginning of year	<u>325,252</u>
Net assets, end of year	<u>\$ 940,415</u>

See accompanying notes.

IMAGINE ME LEADERSHIP CHARTER SCHOOL

Statement of Cash Flows For the Year Ended June 30, 2017

Cash flows from operating activities:	
Change in net assets	\$ 615,163
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	48,159
Deferred rent	(3,571)
Changes in operating assets and liabilities:	
Grants and other receivables	(67,126)
Prepaid expenses	(63,623)
Accounts payable and accrued expenses	(12,589)
Accrued salaries and related expenses	43,383
Income taxes payable	<u>(131,390)</u>
Net cash provided by operating activities	<u>428,406</u>
Cash used in investing activities:	
Property and equipment acquisitions	<u>(15,391)</u>
Cash used in financing activities:	
Payments of capital lease payable	<u>(13,808)</u>
Net increase in cash	399,207
Cash, beginning of year	<u>582,151</u>
Cash, end of year	<u>\$ 981,358</u>

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for:	
Interest	<u>\$ 405</u>

See accompanying notes.

IMAGINE ME LEADERSHIP CHARTER SCHOOL

Statement of Functional Expenses

For the Year Ended June 30, 2017

	Program	Management and General	Total
Salaries	\$ 1,625,487	\$ 571,117	\$ 2,196,604
Payroll taxes and employee benefits	357,646	74,237	431,883
Professional fees	46,916	55,124	102,040
Occupancy	361,919	127,161	489,080
Supplies	103,563	7,713	111,276
Depreciation and amortization	35,638	12,521	48,159
Insurance expense	30,167	10,599	40,766
Travel	19,168	20,001	39,169
Food services	14,093	1,459	15,552
Miscellaneous	2,562	19,832	22,394
Printing and postage	2,391	1,241	3,632
Student recreation	34,643	1,319	35,962
Telecommunications	5,550	1,672	7,222
PTA expenses	9,969	-	9,969
Bank charges	803	9,787	10,590
Total expenses	<u>\$ 2,650,515</u>	<u>\$ 913,783</u>	<u>\$ 3,564,298</u>

See accompanying notes.

IMAGINE ME LEADERSHIP CHARTER SCHOOL
Notes to Financial Statements

Note 1 - The Organization

Imagine Me Leadership Charter School (the “School”) is a New York State, not-for-profit educational corporation that was incorporated on November 20, 2009 to operate a charter school pursuant to Article 56 of the Educational Law of the State of New York. The School was granted a provisional charter on January 12, 2010, valid for a term of five years, renewed for two additional years and renewable again upon expiration by the Board of Regents of the University of the State of New York. The School opened its doors in the fall of 2010 in Brooklyn, New York with a rigorous academic program and a highly structured and supportive school culture. The School is designed to provide a positive, nurturing environment, where boys learn to become responsible citizens, life-long leaders and community leaders.

On August 6, 2010, the School, as determined by the Internal Revenue Service (“IRS”), was approved for Federal income tax exemption under Section 501(a) of the Internal Revenue Code (“IRC”) as an organization described in Section 501(c)(3) of the IRC. It was also exempt under a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the IRC and qualifies for deductible contributions as provided in section 170 (b)(1)(A)(ii) of the IRC. The School’s primary sources of income are per pupil and other government funding.

During the year ended June 30, 2016, the School, as determined by the IRS, was revoked of its Federal income tax exemption under Section 501(a) of the IRC as an organization described in Section 501(c)(3) of the IRC, effective fiscal year 2012, for failure to file the annual information returns. On August 24, 2017, the School was retroactively reinstated, effective as of November 15, 2012. As a result, the School is not subject to income taxes as of June 30, 2017.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The classification of the School’s net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets, permanently restricted, temporarily restricted and unrestricted, be displayed in the statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the statement of activities. These classes are defined as follows:

Unrestricted Net Assets

The part of net assets that is not subject to donor-imposed stipulations.

IMAGINE ME LEADERSHIP CHARTER SCHOOL

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Temporarily Restricted Net Assets

Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported as such in the statement of activities. The School had no temporarily restricted net assets at June 30, 2017.

Permanently Restricted Net Assets

Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School. The School had no permanently restricted net assets at June 30, 2017.

Cash and Cash Equivalents

As of June 30, 2017, the School maintains an escrow account of at least \$75,000, which is required by the charter agreement between the School and the Chancellor of the Board of Education of the City School District of the City of New York.

Grants and Other Receivables

Grants and other receivables that are expected to be collected within one year and recorded at net realizable value amounted to \$177,182 at June 30, 2017. The School has determined that no allowance for uncollectible accounts is necessary as of June 30, 2017. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

Revenue Recognition

Revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement.

Revenue from Federal, state and local government grants and contracts is recorded by the School when qualifying expenditures are incurred and billable.

IMAGINE ME LEADERSHIP CHARTER SCHOOL
Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment is stated at cost and is being depreciated by the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Leasehold improvements are being amortized over the lesser of the useful life or the life of the lease. The School has established a \$1,000 threshold above which assets are capitalized. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized.

Impairment

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the year ended June 30, 2017.

Advertising

The School expenses advertising costs as incurred. The School incurred no advertising costs for the year ended June 30, 2017.

Deferred Rent

In accordance with U.S. GAAP, rent expense is recognized on a straight-line basis over the life of the lease, including future escalations of rent, rather than in accordance with lease payments. Deferred rent represents the adjustment to future rents as a result of using the straight-line method.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received.

IMAGINE ME LEADERSHIP CHARTER SCHOOL
Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The School follows Financial Accounting Standards Board Accounting Standards Codification 740 for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The School had failed to file its information returns for several years. The School was subject to Federal income tax examination by tax authorities for all fiscal years since 2013. As of June 30, 2016, the School had accrued income taxes payable of approximately \$131,000. During the 2017 fiscal year, the School had engaged a consultant to help reinstate the School's status. On August 24, 2017, the IRS retroactively reinstated the School's status effective as of November 15, 2012. The income taxes payable as of June 30, 2016 were written off and the gain is included in interest and other income on the accompanying statement of activities.

Note 3 - Property and Equipment

As of June 30, 2017, property and equipment consists of:

Furniture and fixtures	\$ 79,601
Computer hardware and software	263,452
Equipment	52,060
Leasehold improvements	<u>43,923</u>
	439,036
Less: Accumulated depreciation and amortization	<u>397,048</u>
	<u>\$ 41,988</u>

Depreciation and amortization expense for the year ended June 30, 2017 was \$48,159.

IMAGINE ME LEADERSHIP CHARTER SCHOOL
Notes to Financial Statements

Note 4 - Retirement Plan

Effective March 1, 2011, the School implemented a 403(b) plan with Principal Financial Group for its employees. Employees are automatically enrolled in the plan as soon as they become an employee of the School. Employees are automatically enrolled at 4% but may change their percentage at any time not to exceed 10% of their pay. The School may make discretionary and matching contributions to the plan; however, no contributions were made by the School for the year ended June 30, 2017. The plan has a three-year vesting schedule at which point employees become fully vested in the School's contributions.

Note 5 - Risk Management

The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to help protect itself from such risks. The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund.

Note 6 - Concentrations

Financial instruments that potentially subject the School to a concentration of credit risk include cash accounts at a major financial institution that, at times, exceeded the Federal Deposit Insurance Corporation insured limit of \$250,000.

The School received approximately 92% of its total revenue from per pupil funding from The New York City Department of Education during the year ended June 30, 2017.

Note 7 - Commitments

Operating Lease

The School entered into a sublease agreement with the landlord, expiring June 30, 2019. Minimum annual rentals under the non-cancellable operating lease are approximately as follows:

<u>Year Ending</u> <u>June 30,</u>	
2018	\$ 378,000
2019	<u>408,000</u>
	<u>\$ 786,000</u>

IMAGINE ME LEADERSHIP CHARTER SCHOOL
Notes to Financial Statements

Note 7 - Commitments (Continued)

Operating Lease (Continued)

Total occupancy expense charged to operations for the year ended June 30, 2017 was approximately \$489,000.

Capital Lease

The School entered into a capital lease to lease laptops and iPads (see Note 3), with terms that expired in January 2017. The School incurred interest expense related to this capital lease of \$405 for the year ended June 30, 2017.

Note 8 - Subsequent Events

The School entered into a capital lease to lease laptops and iPads, with terms expiring in August 2019. Monthly payments of approximately \$3,000 commence on August 1, 2017.

The School has evaluated subsequent events through October 30, 2017, the date the financial statements were available to be issued.



**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 Me Leadership Charter School

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* by the Comptroller General of the United States, the financial statements of Imagine Me Leadership Charter School (the “School”), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2017.

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 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 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 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 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.

Mayer Hoffman McCann CPAs

October 30, 2017

IMAGINE ME LEADERSHIP CHARTER SCHOOL
Schedule of Findings and Responses
June 30, 2017

Section I - Summary of Auditor's Results

Financial statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

yes ___

no ✓

Significant deficiency(ies) identified that are not considered to be material weaknesses?

yes ___

none reported ✓

Noncompliance material to financial statements noted?

yes ___

no ✓

Section II - Financial Statement Findings

None reported.

Section III - Summary Schedule of Prior Audit Findings

2016-01

Criteria

The Internal Revenue Service ("IRS") requires public charities (such as the School) to file an annual information return or notice with the IRS. Organizations that do not file for three consecutive years automatically lose their tax-exempt status.

Condition

The School failed to file its annual information returns for three consecutive years.

Cause

The School currently has not implemented a formal policy and respective procedures to ensure the annual returns are timely filed with the IRS.

Conclusion

Corrective action was taken.

IMAGINE ME LEADERSHIP CHARTER SCHOOL
Schedule of Findings and Responses (Concluded)
June 30, 2017

Section III - Summary Schedule of Prior Audit Findings (Continued)

2016-02

Criteria

In order to properly solicit contributions, the School must be in good standing with the IRS and current with its 501(c)(3) status.

Condition

The School solicited and was awarded a \$5,000 grant from a private foundation. This award was contingent on various requirements, including being in good standing with the IRS and current with its 501(c)(3) status.

Cause

Adequate controls, policies and procedures are not in place to ensure compliance with solicitations.

Effect

Corrective action was taken.