

**IMAGINE ME LEADERSHIP CHARTER SCHOOL**

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**FINANCIAL STATEMENTS**

**JUNE 30, 2013**

**(WITH SUMMARIZED COMPARATIVE  
INFORMATION FOR JUNE 30, 2012)**

## IMAGINE ME LEADERSHIP CHARTER SCHOOL

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### TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-12
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	13-14
Schedule of Findings and Responses	15-16
Views of Responsible Officials and Planned Corrective Actions	17-18
Schedule of Prior Audit Findings	19



## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Imagine Me Leadership Charter School

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

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, 2013, and the related statements of activities, functional expenses, and cash flows 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 audit. 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. 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.

An Independent Member of Baker Tilly International

***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, 2013, 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.

***Emphasis of Matter Regarding Liquidity***

As discussed in Note 3 to the financial statements, the School has a potential liquidity shortfall.

***Report on Summarized Comparative Information***

We have previously audited Imagine Me Leadership Charter School's 2012 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated November 13, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2014, on our consideration of Imagine Me Leadership Charter 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 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* in considering Imagine Me Leadership Charter School's internal control over financial reporting and compliance.

**MBAF CPAs, LLC**

New York, NY  
January 10, 2014

**IMAGINE ME LEADERSHIP CHARTER SCHOOL**

**STATEMENT OF FINANCIAL POSITION**

June 30, 2013

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2012)

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
Cash	\$ 88,187	\$ 1,441
Cash - restricted	42,331	20
Grants and other receivables	37,577	142,148
Due from NYCDOE	-	597
Security deposit	37,500	37,500
Prepaid expenses	-	27,272
Property and equipment, net	167,889	68,073
	<u>\$ 373,484</u>	<u>\$ 277,051</u>
<b>LIABILITIES AND NET DEFICIT</b>		
<b>LIABILITIES</b>		
Cash overdraft	\$ -	\$ 97,416
Accounts payable and accrued expenses	491,501	53,813
Accrued salaries	274,616	244,901
Deferred rent	213,277	242,911
Loan payable	50,000	50,000
	<u>1,029,394</u>	<u>689,041</u>
<b>NET DEFICIT</b>		
Unrestricted	<u>(655,910)</u>	<u>(411,990)</u>
	<u>\$ 373,484</u>	<u>\$ 277,051</u>

The accompanying notes are an integral part of these financial statements.

**IMAGINE ME LEADERSHIP CHARTER SCHOOL**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2013**

**(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	<b><u>2013</u></b>	<b><u>2012</u></b>
OPERATING REVENUE		
State and local per pupil operating revenue	\$ 2,736,806	\$ 2,245,265
Government grants and contracts	<u>120,238</u>	<u>440,661</u>
	<u>2,857,044</u>	<u>2,685,926</u>
EXPENSES		
Program	2,326,684	2,280,185
Management and general	901,800	902,022
Fundraising	<u>-</u>	<u>14,481</u>
	<u>3,228,484</u>	<u>3,196,688</u>
DEFICIT FROM SCHOOL OPERATIONS	(371,440)	(510,762)
SUPPORT AND OTHER INCOME		
Contributions, grants and other income	109,677	55,892
In-kind contributions	17,614	-
Interest income	<u>229</u>	<u>19</u>
	<u>127,520</u>	<u>55,911</u>
CHANGE IN NET DEFICIT	(243,920)	(454,851)
NET (DEFICIT) ASSETS - BEGINNING OF YEAR	<u>(411,990)</u>	<u>42,861</u>
NET (DEFICIT) - END OF YEAR	<b><u>\$ (655,910)</u></b>	<b><u>\$ (411,990)</u></b>

The accompanying notes are an integral part of these financial statements.

**IMAGINE ME LEADERSHIP CHARTER SCHOOL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2013**  
**(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

	<u>Program</u>	<u>Management and General</u>	<u>2013</u>	<u>2012</u>
<b>FUNCTIONAL EXPENSES</b>				
Salaries	\$ 1,487,186	\$ 319,312	\$ 1,806,498	\$ 1,732,085
Payroll taxes and employee benefits	277,157	179,606	456,763	438,611
Rent	190,484	107,149	297,633	297,633
Professional fees	104,397	89,823	194,220	146,579
Consultants	44,091	103,347	147,438	113,153
Supplies and office expenses	69,622	29,543	99,165	152,115
Depreciation and amortization	54,130	11,622	65,752	21,686
Insurance	20,144	19,023	39,167	29,369
Utilities	22,299	4,788	27,087	28,290
Repairs and maintenance	6,939	18,779	25,718	32,771
In-kind expenses - donated materials	17,614	-	17,614	-
Staff professional development	12,950	159	13,109	115,170
Interest	-	9,375	9,375	-
Student recreation	8,599	270	8,869	34,163
Telephone and internet	2,136	4,284	6,420	9,022
Food services	3,347	914	4,261	21,314
Postage and delivery	-	2,648	2,648	4,173
Parent activities	2,111	507	2,618	10,094
Instructional Technology - Classrooms	2,180	250	2,430	-
Bad debt	1,106	-	1,106	-
Travel	192	401	593	7,530
Fundraising	-	-	-	1,926
Advertising	-	-	-	1,004
	<u>\$ 2,326,684</u>	<u>\$ 901,800</u>	<u>\$ 3,228,484</u>	<u>\$ 3,196,688</u>

The accompanying notes are an integral part of these financial statements.

**IMAGINE ME LEADERSHIP CHARTER SCHOOL**

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net deficit	\$ (243,920)	\$ (454,851)
Adjustments to reconcile change in net deficit to net cash provided by (used in) operating activities:		
Depreciation and amortization	65,752	21,686
Bad debt expense	1,106	-
Changes in operating assets and liabilities:		
Cash - restricted	(42,311)	39,983
Grants and other receivables	103,465	52,206
Due from NYCDOE	597	(597)
Prepaid expenses	27,272	(25,527)
Accounts payable and accrued expenses	437,688	27,337
Accrued salaries	29,715	244,901
Deferred rent	(29,634)	65,658
Due to NYCDOE	-	(98,839)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	349,730	(128,043)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(165,568)	(47,142)
NET CASH USED IN INVESTING ACTIVITIES	(165,568)	(47,142)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in cash overdraft	(97,416)	97,416
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(97,416)	97,416
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	86,746	(77,769)
CASH - BEGINNING OF YEAR	1,441	79,210
CASH - END OF YEAR	\$ 88,187	\$ 1,441

The accompanying notes are an integral part of these financial statements.

# IMAGINE ME LEADERSHIP CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

### 1. NATURE OF THE ORGANIZATION

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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 and renewable 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, 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 is also currently 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.

In fiscal year 2013, the School operated classes for students in grades K-3.

### 2. SIGNIFICANT ACCOUNTING POLICIES

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#### Financial Statement Presentation

The School's 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, revenues 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:

Permanently Restricted – 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.

Temporarily Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School are 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.

Unrestricted – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

None of the School's net assets are subject to donor-imposed restrictions. Accordingly, all net assets are accounted for as unrestricted net assets.

## IMAGINE ME LEADERSHIP CHARTER SCHOOL

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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##### **Cash**

The School maintains an escrow account of \$42,331, which is less than the \$70,000 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. On August 7, 2013, the School funded \$32,813 into the escrow account in order to be in compliance with the escrow policy.

##### **Grants and Other Receivables**

Grants and other receivables that are expected to be collected within one year and recorded at net realizable value amounts to \$37,577 and \$142,148 at June 30, 2013 and 2012, respectively. The School has determined that no allowance for uncollectible accounts is necessary as of June 30, 2013 and 2012. 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 are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

##### **Donated Services and Materials**

The School receives contributed services and materials (or, in-kind contributions) that are an integral part of its operations. Such services are only recorded as contributions in-kind, at their fair value, provided it meets the criteria for recognition. Donated services and materials received are estimated at \$17,614 and \$0 for the years ended June 30, 2013 and 2012, respectively, and are reflected as both income and expense in the accompanying financial statements.

##### **Property and Equipment**

Property and equipment are stated at cost and are being depreciated on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are being depreciated over the life of the lease. The School has established a \$1,000 threshold above which assets are capitalized. Property and equipment acquired with certain government contract funds is recorded as expense pursuant to the terms of the contract in which the government funding source retains ownership of the property. 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, 2013.

## IMAGINE ME LEADERSHIP CHARTER SCHOOL

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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##### **Special Events**

The direct costs of special events include expenses for the benefit of the donor. For example, meals and facilities rental are considered direct costs of special events. Included in special event revenue is both a contribution portion and an exchange portion. The portion that relates to the exchange transaction has been deemed de minimis. There was no special events revenue for the years ended June 30, 2013 and 2012, respectively.

##### **Advertising**

The School expenses advertising costs as incurred. The School incurred \$0 and \$1,004 of advertising costs for the years ended June 30, 2013 and 2012, respectively, and is included in office expense.

##### **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.

##### **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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Subsequent Events**

The School has evaluated events through January 10, 2014, which is the date the financial statements were available to be issued.

##### **Comparative Financial Information**

The June 30, 2013 financial statements include certain prior year summarized comparative information in total but not by net asset class. In addition, only certain of the notes to the financial statements for June 30, 2012 are presented. As a result, the June 30, 2012 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2012 information should be read in conjunction with the School's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

##### **Income Taxes**

The School follows the accounting standard 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.

## IMAGINE ME LEADERSHIP CHARTER SCHOOL

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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The School files an informational return in the federal jurisdiction. The School is subject to federal income tax examination by tax authorities for all fiscal years in which informational returns were filed.

The School believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts filed. Management believes that its nonprofit status would be sustained upon examination.

Should there be interest on underpayments of income tax, the School would classify it as interest expense. The School would classify penalties in connection with underpayments of tax as other expense.

#### Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

#### 3. LIQUIDITY

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At June 30, 2013, the School has a potential liquidity shortfall. This is reflected in a working capital deficit of approximately \$648,000 as of June 30, 2013. In order to meet this liquidity shortfall, management has reviewed its operations and capital outlays for savings. These actions include, but are not limited to, increasing student population by adding a grade in the 2013-14 school year which increases revenue, controlling overhead expenses, re-negotiating the lease agreement, and applying for forgiveness on their loan payable.

Beginning in October 2012, the School began withholding rent payments on account of the landlord's failure to maintain, repair, and increase the space as agreed in the original lease agreement. As a result, subsequent to the year ended June 30, 2013, the original lease agreement was amended so that the School did not resume paying rent until September 2013 at a reduced rate and all prior rent obligations were forgiven per unanimous decision by the landlord's Board of Trustees. The total rent forgiven was \$309,620, of which \$245,450 was classified as an accrued expense and will be recognized as a gain for the year ended June 30, 2014. The remaining \$64,170 was attributable to the year ended June 30, 2014 and will be reflected as a reduction in rent expense.

Furthermore, management applied to have their \$50,000 loan payable to the New York City Charter School Center (the "Charter Center") forgiven. This was approved by the Charter Center's Board on September 30, 2013.

## IMAGINE ME LEADERSHIP CHARTER SCHOOL

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

#### 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30,:

	2013	2012	Estimated Useful Lives
Furniture and Fixtures	\$ 58,847	\$ 30,434	7 years
Computer hardware and software	130,993	54,576	3 years
Equipment	28,573	10,458	5 years
Leasehold improvements	43,923	1,300	3 years
Website	1,190	1,190	3 years
	263,526	97,958	
	(95,637)	(29,885)	
	\$ 167,889	\$ 68,073	

Depreciation and amortization expense for the years ended June 30, 2013 and 2012 was \$65,752 and \$21,686, respectively.

#### 5. PENSION PLAN

Effective March 1, 2011, the School implemented a 403(b) plan (the "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 matching contributions were made by the School for the years ended June 30, 2013 and 2012, respectively. The Plan has a three-year vesting schedule at which point employees become fully vested in the matching contribution after three years.

#### 6. LOAN PAYABLE

On July 16, 2010, the School obtained a non-interest bearing \$50,000 loan from the Charter Center. The loan was to be due in full on September 30, 2013. The outstanding principal at June 30, 2013 was \$50,000.

On September 30, 2013, the Board of Directors at the Charter Center voted to forgive the loan in its entirety to assist the School in carrying out its mission.

## IMAGINE ME LEADERSHIP CHARTER SCHOOL

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

#### 7. AGREEMENT FOR SCHOOL FACILITY

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The School entered into a sublease agreement with the landlord effective July 1, 2010. The School is obligated under a non-cancelable operating lease for office and classroom space expiring on June 30, 2015.

As noted in Note 3, the lease was amended. Under the renegotiated terms of the new lease, the School agreed to pay a flat monthly rate for the remaining term of the original lease. Future minimum rental payments are as follows as of June 30,:

2014	\$ 216,000
2015	<u>259,200</u>
	\$ <u>475,200</u>

#### 8. RISK MANAGEMENT

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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.

#### 9. CONCENTRATIONS

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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 ("FDIC") insured limit of \$250,000.

The School received approximately 85% and 82% of its total revenue from per pupil funding from The New York City Department of Education ("NYCDOE") during the years ended June 30, 2013 and 2012, respectively.

One grantor accounted for 100% of grants and other receivables and three grantors accounted for approximately 95% of grants and other receivables at June 30, 2013 and 2012, respectively.

Three vendors accounted for approximately 77% of accounts payable and four vendors accounted for 100% of accounts payable at June 30, 2013 and 2012, respectively.

#### 10. SUBSEQUENT EVENT

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In June 2013, the School entered into an agreement with a bank whereby it is permitted to borrow up to \$50,000 under a secured line of credit. Interest is payable on any outstanding balance at an annual rate of 3.5%. There was no outstanding balance on the line of credit at June 30, 2013. In July 2013, the School drew \$32,813 of funds and in November 2013, repaid \$10,000 of the balance.



**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**

To the Board of Trustees  
Imagine Me Leadership Charter School

We have audited the financial statements of Imagine Me Leadership Charter School (the "School") as of and for the year ended June 30, 2013, and have issued our report thereon dated January 10, 2014. 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 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (Findings 2013-01, 2013-02, and 2013-03).

### **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 School's Responses to Findings**

The School's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the School in a separate letter dated January 10, 2014.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, the New York State Education Department and the Board of Regents of the University of the State of New York and is not intended to be and should not be used by anyone other than these specified parties.

**MBAF CPAs, LLC**

New York, NY  
January 10, 2014

IMAGINE ME LEADERSHIP CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2013

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

Material weakness (es) identified?

yes \_\_\_\_\_

no ✓

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

yes ✓

no \_\_\_\_\_

Noncompliance material to financial statements noted?

yes \_\_\_\_\_

no ✓

## IMAGINE ME LEADERSHIP CHARTER SCHOOL

### SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2013

#### Section II - Financial Statement Findings

##### Findings: 2013-01

Criteria: The New York State Education Department ("NYSED") requires the School to maintain a minimum balance in a separate escrow account. The requirement is that by April 1<sup>st</sup> of year 3 of a charter school's operation, the balance of the escrow account must be at least \$70,000.

Condition and Context: The School did not maintain the required \$70,000 cash balance in its escrow fund.

Cause: Ineffective monitoring of NYSED requirements.

Effect: The School could be in a position where they could lose their charter or be issued a shorter renewal period from NYSED for not being in compliance with the Charter School Audit Guide issued July 2, 2013.

Recommendation: We recommend for the School to comply with the NYSED requirement to maintain a minimum balance of \$70,000 in a separate escrow account.

##### Findings: 2013-02

Criteria: The New York State Education Department ("NYSED") requires the School to obtain I-9 forms from all employees.

Condition and Context: The School was missing one I-9 form from one of its employees.

Cause: Ineffective monitoring of NYSED requirements.

Effect: The School could be in a position where they could lose their charter or be issued a shorter renewal period from NYSED for not being in compliance with the Charter School Audit Guide issued July 2, 2013.

Recommendation: We recommend that the School obtain all required employee documentation at the time the employee is hired.

##### Findings: 2013-03

Criteria: The School needs support for its accounting transactions.

Condition and Context: The School was missing support for cash disbursements during the year ended June 30, 2013. However, subsequent to year end, the new personnel had adequate supporting documentation on hand to support cash disbursements.

Cause: There was major turnover in administrative personnel who did not leave a clear audit trail.

Effect: The School could be in a position where they could lose their charter or be issued a shorter renewal period from NYSED for not keeping adequate supporting documentation.

Recommendation: We recommend for the School prepare support for cash disbursements.

## IMAGINE ME LEADERSHIP CHARTER SCHOOL

### VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS JUNE 30, 2013

#### Views of responsible officials and planned corrective actions:

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##### Findings: 2013-01

Action to satisfy the auditor's recommendation was implemented in August 2013 with the result that the School is no longer out of compliance with its escrow fund balance. In August 2013, the current administration fully funded the escrow account and created a balance of \$75,000 in one of its first corrective actions.

##### Findings: 2013-02

Actions to satisfy the auditor's recommendation were implemented in July 2013 with the result that the School is no longer out of compliance with the requirement to maintain an I-9 form for each employee.

Action 1 – As part of a series of overall changes accomplished in the winter and spring of 2013, the Board contracted with Automatic Data Processing (ADP) for its "TotalSource" program and established ADP as its Professional Employer Organization (PEO) to leverage success through the PEO co-employment model. As a comprehensive program, "TotalSource" includes an integrated payroll and human resource management system. The program packages various aspects of HR compliance, risk management, and benefits administration. Upon implementation, ADP representatives spent two days on site formally enrolling employees and explaining benefits.

Action 2 – Additionally, the current HR Director has performed a review of each employee file to ensure that mandatory forms are in each file. In light of the current circumstances, the Board does not anticipate further issues with HR administration.

##### Findings: 2013-03

In the winter and spring of 2013, the Board changed the School's management staff, including the Executive Director, Principal, and the HR/Finance & Operations Director. After considerable search and deliberation, the Board is pleased with its selection of Dr. Katherine Corbett as Executive Director, and Mr. Bevon Thompson as principal. Later, Ms. Taryn Guy was hired to serve as the HR/Finance & Operations Director. In addition to staff changes, five actions to satisfy the auditor's recommendation were implemented during the first half of 2013 with the result that the School is no longer out of compliance with the requirement to maintain support for cash disbursements:

Action 1 – The contract with ADP as the School's Professional Employer Organization (PEO) brings expertise through the PEO co-employment model.

Action 2 - As part of a series of overall changes accomplished in the winter and spring of 2013, the Board contracted with Automatic Data Processing (ADP) for its "TotalSource" program and established ADP as its Professional Employer Organization (PEO) to leverage success through the PEO co-employment model. As a comprehensive program, "TotalSource" includes an integrated payroll and human resource management system. The program packages various aspects of HR compliance, risk management, and benefits administration. Upon implementation, ADP representatives spent two days on site formally enrolling employees and explaining benefits.

Action 3 – The incoming HR/Finance & Operations Director, with the support of the new Executive Director and Principal, gathered all supporting information left by outgoing personnel, and researched each cash transaction to identify the support status and to acquire further support as needed. The independent auditor recognized their efforts for the presentation of adequate and appropriate support during their relationship with the School.

Action 4 – As an additional compliance support measure, the Board retained the services of Rios and McGarrigle, LLC, to assist with the school's future fiscal compliance needs. As certified public accountants and management consultants, their services have been invaluable. Their future guidance will further assure the Board's commitment to the School.

## **IMAGINE ME LEADERSHIP CHARTER SCHOOL**

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### **VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS JUNE 30, 2013**

Action 5 - Evidence of the positive current financial position at the School as of November 30, 2013 prepared on request by Rios and McGarrigle, LLC, describes the current financial management status at the School as compared with its status on June 30, 2013. Support for the opinion can be found in the present budget vs. actual, prepared as of November 30, 2013. Board members are confident the opinion and supporting materials are a more accurate demonstration of the School's actual sustainability.

**IMAGINE ME LEADERSHIP CHARTER SCHOOL**

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SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2013

**Section III – Schedule of Prior Audit Findings**

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None