Imagine Me Leadership Charter School

Financial Statements

Period From January 12, 2010
(Date of Inception)
To June 30, 2011

IMAGINE ME LEADERSHIP CHARTER SCHOOL
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Imagine Me Leadership Charter School

We have audited the accompanying statement of financial position of Imagine Me Leadership Charter School (the "School") as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the period from January 12, 2010 (date of inception) through June 30, 2011. 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 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 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 audit provides 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 Me Leadership Charter School as of June 30, 2011 and the changes in its net assets and its cash flows for the period from January 12, 2010 (date of inception) through June 30, 2011, 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 October 28, 2011 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 on 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 audit.

MBAF-ERE CPAs, LLC

New York, NY
October 28, 2011

IMAGINE ME LEADERSHIP CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

June 30, 2011

Assets:		
Cash	$	79,210
Cash - restricted		40,003
Grants and other receivables		194,354
Security deposit		37,500
Prepaid expenses		1,745
Property and equipment, net		41,928
Website		689
Total Assets	**$**	**395,429**
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	$	26,476
Deferred rent		177,253
Due to NYCDOE		98,839
Loan payable		50,000
Total Liabilities		352,568
Net assets - unrestricted		42,861
Total Net Assets		42,861
Total Liabilities and Net Assets	**$**	**395,429**

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

IMAGINE ME LEADERSHIP CHARTER SCHOOL

STATEMENT OF ACTIVITIES

For the Period From Inception
(January 12, 2010) to June 30, 2011

Operating revenue:	
State and local per pupil operating revenue	$ 1,588,700
Government grants and contracts	234,319
Total operating revenue	1,823,019
Public Revenue:	
Special events revenue	14,850
Less: costs of direct benefits to donors	(2,757)
Total public revenue	12,093
Expenses:	
Program services	1,424,687
Management and general	531,055
Fundraising	466
Total operating expenses	1,956,208
Deficiency from school operations	(121,096)
Support and other income:	
Contributions, grants and other income	159,896
In-kind contributions	3,800
Fundraising income	257
Interest income	4
Total support and other income	163,957
Change in unrestricted net assets	42,861
Unrestricted net assets – beginning of period	-
Unrestricted net assets – end of period	**$ 42,861**

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

IMAGINE ME LEADERSHIP CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

For the Period From Inception (January 12, 2010) to June 30, 2011

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 748,607	$ 236,402	$ -	$ 985,009
Payroll taxes and employee benefits	158,861	50,167	-	209,028
Classroom supplies and instructional materials	89,223	-	-	89,223
Professional fees	14,086	110,879	-	124,965
Staff professional development	37,008	-	-	37,008
Travel	1,200	10,010	-	11,210
Insurance	17,473	5,518	-	22,991
Field trips	4,937	-	-	4,937
Food services	2,513	2,837	-	5,350
Office expense	27,372	24,505	-	51,877
Telephone and internet	4,903	7,681	-	12,584
Rent	226,200	71,432	-	297,632
Repairs and maintenance	21,757	1,646	-	23,403
Furniture and fixtures - non-capitalized	30,428	-	-	30,428
Utilities	19,045	6,014	-	25,059
Technology service	4,831	1,525	-	6,356
Postage and delivery	1,491	471	-	1,962
Dues and subscriptions	850	-	-	850
Parent activities	2,836	-	-	2,836
Community events	719	-	-	719
Student uniforms	316	-	-	316
Fundraising	-	-	466	466
Depreciation and amortization	6,231	1,968	-	8,199
In-kind expenses	3,800	-	-	3,800
Total expenses	**$ 1,424,687**	**$ 531,055**	**$ 466**	**$ 1,956,208**

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

IMAGINE ME LEADERSHIP CHARTER SCHOOL

STATEMENT OF CASH FLOWS

For the Period From Inception (January 12, 2010) to June 30, 2011

Cash flows from operating activities:		
Change in net assets	$	42,861
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		8,199
Changes in operating assets and liabilities:		
Cash - restricted		(40,003)
Grants and other receivables		(194,354)
Security deposit		(37,500)
Prepaid expenses		(1,745)
Accounts payable and accrued expenses		26,476
Deferred rent		177,253
Due to NYCDOE		98,839
Net cash provided by operating activities		**80,026**
Cash flows from investing activities:		
Purchase of property and equipment		(49,626)
Development of website		(1,190)
Net cash used in investing activities		**(50,816)**
Cash flows from financing activities		
Proceeds from loans		50,000
Net cash provided by financing activities		**50,000**
Net increase in cash		79,210
Cash - beginning of period		-
Cash - end of period	**$**	**79,210**

Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for:		
Interest	$	-
Income taxes	$	-

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

1. NATURE OF 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 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 leader. The School is exempt from Federal income tax under section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and 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) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii).

In fiscal year 2011, the School operated classes for students in grades K-1.

The New York City Department of Education ("NYCDOE") provides free lunches and transportation directly to a majority of the School's students.

2. SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting.

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 a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a 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 in the statement of activities. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

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

Cash
For the purpose of presentation in the statement of cash flows, cash consists of one checking account and petty cash on hand.

Grants and Other Receivables
Grants and other receivables represent unconditional promises to give. At June 30, 2011, the School had $194,354 of grants and other receivables that are expected to be collected within one year and recorded at net realizable value. The School has determined that no allowance for uncollectible accounts for grants and other receivables is necessary as of June 30, 2011. 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.

The carrying value of grants and other receivables approximates fair value. Management reviews those receivables due in more than one year for impairment and none was determined as of June 30, 2011.

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. 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 expenses 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.

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 period ended June 30, 2011.

Planned Maintenance
Costs related to planned major maintenance are expensed as incurred.

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 Goods and Services
The School receives contributed goods and services that are an integral part of its operations. Such goods and services are only recorded as contributions in-kind at their fair value, provided they meet the criteria for recognition.

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 minimus.

Advertising
The School expenses advertising costs as incurred. The School incurred $1,221 of advertising costs for the period ended June 30, 2011 and is included in office expense.

Deferred Rent
In accordance with accounting principles generally accepted in the United States of America, 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 using bases determined by management based upon benefits received.

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 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 October 28, 2011 which is the date the financial statements were available to be issued.

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.

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."

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.

The School files informational returns in the United States federal and New York State jurisdictions. All returns that have been filed are subject to audit.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following as of June 30, 2011:

			Estimated Useful Lives
Furniture and fixtures	$	24,822	7 years
Computers hardware and software		17,265	3 years
Equipment		5,849	5 years
Software		1,690	3 years
		49,626	
Less: accumulated depreciation		(7,698)	
	$	41,928	

Depreciation expense for the period ended June 30, 2011 was $7,698.

4. WEBSITE:

Development costs related to the School's website amounting to $1,190 have been capitalized. These costs are amortized over the estimated life of three years using the straight-line method. Amortization expense for the period ended June 30, 2011 was $501.

5. DUE TO NYC DEPARTMENT OF EDUCATION:

The NYCDOE pays the School Per Pupil grant funds that the Department thought was due to the School. The School determines whether an overpayment or underpayment has been made. As of June 30, 2011, a cumulative overpayment totaling $98,839 had been made. An adjustment for this amount will be reflected in the succeeding year's fourth payment.

6. 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 anytime not to exceed 10% of their pay. The School may make discretionary and matching contributions to the Plan. The Plan has a three-year vesting schedule at which point employees become fully vested. Employee benefit expense was $510 for the period ended June 30, 2011, and is included in payroll taxes and employee benefits on the accompanying statement

of functional expenses.

7. LOAN PAYABLE: On July 16, 2010, the School obtained a $50,000 loan from the New York City Charter School Center at an interest rate of 0% per annum. The loan is due in full on September 30, 2013. The outstanding principal at June 30, 2011 was $50,000.

8. AGREEMENT FOR SCHOOL FACILITY: The School entered into a sublease agreement with the St. Paul Economic Development Corp. effective July 1, 2010. The School is obligated under a non-cancelable operating lease for office and classroom space expiring on June 30, 2015. Future minimum rental payments are as follow:

Year ended June 30,		
2012	$	231,975
2013		327,267
2014		385,020
2015		423,522
	$	1,367,784

9. 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 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, because management does not believe that there are any liabilities to be recorded.

10. CONCENTRATIONS:

A. Financial instruments that potentially subject the school to concentrations of credit risk consist principally of cash deposits. Interest bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Non-interest bearing accounts are fully insured without limit through December 31, 2012.

B. The School received approximately 79% of its total revenue from per pupil funding from the NYCDOE.

C. Three grantors accounted for 96% of grants and other receivables at June 30, 2011.

D. Four vendors accounted for approximately 88% of accounts payable at June 30, 2011.

11. LITIGATION:

A former employee has brought a case against the School claiming wrongful termination. The Plaintiff alleges fives causes of action and such judgment in the amount of $500,000 on each cause of action. At present, the School's attorney has submitted a notice to dismiss all causes, and the School will defend its position vigorously.

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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") for the period from January 12, 2010 (date of inception) through June 30, 2011, and have issued our report thereon dated October 28, 2011. 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.

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*.

We noted certain matters that we reported to management of the School in a separate letter dated October 28, 2011.

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-ERE CPAs, LLC

New York, NY
October 28, 2011