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September 28, 2016

Charter School Board  
East Chicago Urban Enterprise Academy  
1402 E Chicago Ave  
East Chicago, IN 46312

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Donovan P.C., 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 East Chicago Urban Enterprise Academy, 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.

In addition to the report presented herein, a Supplemental Audit Report for the East Chicago Urban Enterprise Academy, was prepared in accordance with the guidelines established by the State Board of Accounts.

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

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

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**

**FINANCIAL STATEMENTS**

Together with Independent Auditors' Report

For the Years Ended June 30, 2012 and 2011



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### ***Independent Auditors' Report***

The Board of Directors  
East Chicago Urban Enterprise Academy, Inc.  
1402 E. Chicago Avenue  
East Chicago, IN 46312

We have audited the accompanying financial statements of East Chicago Urban Enterprise Academy, Inc., which comprise the statements of financial position as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years 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.

#### ***Auditors' 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Chicago Urban Enterprise Academy, 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 accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 8 to the financial statements, East Chicago Urban Enterprise Academy, Inc. was delinquent in filing its Internal Revenue Service Forms 990 for tax years 2008 through 2013. These delinquent filings carry potentially significant penalties and possible loss of the School's tax-exempt status. Our opinion is not modified with respect to this matter.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent 'D'.

September 8, 2016  
Indianapolis, IN

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 581,073	\$ 553,420
Accounts receivable		
State education support	1,526,622	1,526,622
Grants	-	24,409
Other	7,434	1,230
Prepaid expenses	19,111	36,597
	<hr/>	<hr/>
<i>Total current assets</i>	2,134,240	2,142,278
	<hr/>	<hr/>
Security deposits	7,803	7,803
	<hr/>	<hr/>
<b>PROPERTY AND EQUIPMENT</b>		
Buildings and improvements	2,341,502	2,341,502
Furniture and equipment	499,270	499,270
Less: accumulated depreciation	(804,231)	(696,990)
	<hr/>	<hr/>
<i>Property and equipment, net</i>	2,036,541	2,143,782
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<u>\$ 4,178,584</u>	<u>\$ 4,293,863</u>
<b>LIABILITIES AND DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 662,579	\$ 571,113
Current portion of long-term debt	181,708	187,554
	<hr/>	<hr/>
<i>Total current liabilities</i>	844,287	758,667
<b>LONG-TERM LIABILITIES</b>		
Long-term debt	3,481,658	3,675,018
	<hr/>	<hr/>
<i>Total liabilities</i>	4,325,945	4,433,685
<b>NET DEFICIT</b>		
	<hr/>	<hr/>
	(147,361)	(139,822)
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND DEFICIT</b>	<u>\$ 4,178,584</u>	<u>\$ 4,293,863</u>

See independent auditors' report and accompanying notes to the financial statements.

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**STATEMENTS OF ACTIVITIES**  
**For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 3,102,872	\$ 3,096,461
Grant revenue	741,788	716,657
Student fees	36,134	40,942
Program fees	16,747	14,672
Contributions	300	809
Fundraising income	20,544	17,235
Other income	24,101	7,289
	<u>3,942,486</u>	<u>3,894,065</u>
 <i>Total revenue and support</i>		
<b>EXPENSES</b>		
Program services	3,262,451	3,308,880
Management and general	687,574	679,922
	<u>3,950,025</u>	<u>3,988,802</u>
 <i>Total expenses</i>		
<b>CHANGE IN NET ASSETS</b>	(7,539)	(94,737)
<b>NET DEFICIT, BEGINNING OF YEAR</b>	<u>(139,822)</u>	<u>(45,085)</u>
<b>NET DEFICIT, END OF YEAR</b>	<u>\$ (147,361)</u>	<u>\$ (139,822)</u>

See independent auditors' report and accompanying notes to the financial statements.

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (7,539)	\$ (94,737)
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	107,241	111,113
Change in:		
Grants receivable	18,205	5,910
Other receivable	-	1,468
Prepaid expenses	17,486	(2,552)
Accounts payable and accrued expenses	91,466	(1,498)
	226,859	19,704
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	-	(81,179)
<b>FINANCING ACTIVITIES</b>		
Principal repayment of long-term debt	(199,206)	(178,657)
<b>NET CHANGE IN CASH</b>	27,653	(240,132)
<b>CASH, BEGINNING OF YEAR</b>	553,420	793,552
<b>CASH, END OF YEAR</b>	\$ 581,073	\$ 553,420
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 61,100	\$ 102,108

See independent auditors' report and accompanying notes to the financial statements.

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2012 and 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General - East Chicago Urban Enterprise Academy, 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 serving grades kindergarten through eighth and sponsored by Ball State University.

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

Revenue Recognition - Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and 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. Therefore, the School recognizes revenue under these grants in the amounts of costs and expenses at the time they are incurred.

Grants Receivable - Grants receivable relate primarily to activities funded under federal programs. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Taxes on Income - East Chicago Urban Enterprise Academy, 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 accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ended after 2007 are open to audit for both federal and state purposes.

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2012 and 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Taxes on Income, Continued – As disclosed in Note 8, the School was delinquent in filing its required IRS Forms 990 for tax years 2008 through 2013. These late filings could impact the School’s tax-exempt status and could carry significant penalties from the IRS.

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 generally are as follows:

Buildings and improvements	15 to 39 years
Furniture and equipment	3 to 7 years

Subsequent Events - The School evaluated subsequent events through September 8, 2016, 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.

**NOTE 2 - ACCOUNTS RECEIVABLE**

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

	<u>2012</u>	<u>2011</u>
Tuition support	\$ 1,495,822	\$ 1,454,615
Special education grant	30,800	25,826
Restoration grant	-	46,181
	<u>\$ 1,526,622</u>	<u>\$ 1,526,622</u>

Tuition support is determined by state law and is dependent upon the geographic location of the school and is indexed to the poverty data of the enrolled students. The payment schedule is likewise determined by state law with tuition payable in equal monthly installments in the calendar year following the start of the school year. 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).

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2012 and 2011**

**NOTE 3 - LONG-TERM DEBT**

Long-term debt at June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Notes payable to the Indiana Common School Fund	\$ 1,345,478	\$ 1,345,478
Line of credit agreement, payable in monthly installments of \$11,267 including interest at 1.0% per annum through July 2020, secured by all business assets	1,042,130	1,176,312
Mortgage loan payable to Peoples Bank, payable in monthly installments of \$10,425 including interest at a variable interest rate of 3% plus the 1-year Treasury bill rate per annum, adjustable annually, (4.5% at June 30, 2012) through April 2016, secured by a mortgage on School facilities and all business assets	1,275,758	1,340,782
	3,663,366	3,862,572
Less: current maturities	(181,708)	(187,554)
Long-term portion	\$ 3,481,658	\$ 3,675,018

The notes payable to the Indiana Common School Fund are comprised of multiple notes, each of which requires 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 were scheduled to commence again on July 1, 2013. The last note was scheduled to mature on January 1, 2032. These notes are secured by unpaid tuition support distributions (see Note 2).

Due to legislative funding changes in 2013, the Indiana Common School Fund loans and related accrued interest outstanding have been forgiven. This forgiveness is not reflected in the accompanying financial statements or footnotes as these balances were outstanding as of June 30, 2012 and 2011.

Principal maturities of long-term debt are as follows for the years ending June 30:

2013	\$	181,708
2014		272,247
2015		277,141
2016		1,265,008
2017		204,918
Thereafter		1,462,344
Total	\$	3,663,366

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2012 and 2011**

**NOTE 4 - LEASES**

The School leases its building and modular classrooms under operating leases. Total expense under these operating leases for the years ended June 30, 2012 and 2011 was \$217,805 and \$214,482, respectively. Minimum future rental payments as of June 30, 2012 for all operating leases with initial, non-cancellable lease terms in excess of one year are as follows for the years ending June 30:

2013	\$	93,296
2014		7,803

**NOTE 5 - RETIREMENT PLANS**

Retirement benefits for School employees are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are established by the INPRS Board. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 6.75% of compensation for other employees of PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense was \$138,089 and \$130,089 for the years ended June 30, 2012 and 2011, respectively.

**NOTE 6 - COMMITMENTS**

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. Payments under this charter agreement were \$91,420 and \$91,442 for the years ended June 30, 2012 and 2011, respectively.

The School contracted with American Quality Schools, a for-profit organization incorporated in the State of Illinois, to provide management, administrative and educational programming services. Under the terms of the agreement, the School has agreed to pay an amount equal to 6% of revenues, as defined, for such services. The contract commenced February 1, 2005 and expired June 30, 2012. A new agreement was signed commencing July 1, 2012 and expiring June 30, 2013. Payments under this contract were \$175,951 and \$180,400 for the years ended June 30, 2012 and 2011, respectively.

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2012 and 2011**

**NOTE 7 - RISKS AND UNCERTAINTIES**

The School provides educational instruction services to families residing in Lake 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 and 2011, substantially all of the receivable balance was due from the State of Indiana. In addition, bank deposits are maintained primarily at Peoples Bank, and are insured up to the FDIC insurance limit.

**NOTE 8 – LATE FILING OF IRS FORMS 990**

The School was delinquent in filing its required IRS Forms 990 for tax years 2008 through 2013 (fiscal years 2009 through 2014). Each delinquent filing carries a potential maximum penalty of \$50,000 for a total maximum penalty of \$300,000. In addition to any potential penalty, the School could lose its tax-exempt status for failing to file its Forms 990 for three consecutive years.

As of May 2016, the School has filed all required Forms 990 for tax years 2008 through 2014 and has begun the process of seeking abatement for any penalties and reinstatement of its 501(c)(3) tax-exempt status. As of the date of the audit report, no penalty could be reasonably estimated nor does the School anticipate a permanent loss of its tax-exempt status. The financial statements do not include any allocation for IRS penalties nor income tax expense.

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2012 and 2011**

**NOTE 9 - 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 between program and management services. Following is a summary of expenses comprising each program and service for the years ended June 30, 2012 and 2011:

For the year ended June 30, 2012:

	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages	\$ 1,771,542	\$ 161,425
Employee benefits	441,575	26,526
Professional services	120,443	42,773
Staff development	28,734	
Authorizer oversight fee	-	91,420
Academic services	-	175,951
Advertising	-	1,228
Travel	37,902	1,065
Repairs and maintenance	1,782	-
Food costs	225,504	-
Equipment	15,312	893
Classroom, kitchen and office supplies	161,014	29,531
Occupancy	325,993	-
Information technology	25,409	-
Depreciation	107,241	-
Interest	-	114,919
Insurance	-	14,326
Other	-	27,517
	<hr/>	<hr/>
Total	\$ <u>3,262,451</u>	\$ <u>687,574</u>

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2012 and 2011**

**NOTE 9 - FUNCTIONAL EXPENSE REPORTING (Continued)**

For the year ended June 30, 2011:

	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages	\$ 1,796,359	\$ 161,738
Employee benefits	408,954	24,790
Professional services	63,119	42,045
Staff development	31,097	-
Authorizer oversight fee	-	91,442
Academic services	-	180,400
Advertising	-	654
Travel	18,747	576
Repairs and maintenance	987	-
Food costs	206,492	-
Equipment	105,951	2,156
Classroom, kitchen and office supplies	164,501	32,167
Occupancy	369,082	-
Information technology	31,753	-
Depreciation	111,113	-
Interest	-	109,690
Insurance	-	6,671
Other	725	27,593
	<hr/>	<hr/>
Total	\$ <u>3,308,880</u>	\$ <u>679,922</u>

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**OTHER REPORT**  
**For the 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 East Chicago Urban Enterprise Academy, 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*.