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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, 2012 to June 30, 2013. 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, 2013, 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, 2013 and 2012



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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, 2013 and 2012, 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.

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***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, 2013 and 2012, 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 9 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 initial "D".

September 8, 2016  
Indianapolis, IN

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 395,404	\$ 581,073
Accounts receivable		
State education support	-	1,526,622
Grants	33,220	-
Other	7,434	7,434
Prepaid expenses	18,605	19,111
	<u>454,663</u>	<u>2,134,240</u>
<i>Total current assets</i>		
Security deposits	7,803	7,803
	<u>7,803</u>	<u>7,803</u>
<b>PROPERTY AND EQUIPMENT</b>		
Buildings and improvements	2,341,502	2,341,502
Furniture and equipment	548,448	499,270
Less: accumulated depreciation	(910,099)	(804,231)
	<u>1,979,851</u>	<u>2,036,541</u>
<i>Property and equipment, net</i>		
<b>TOTAL ASSETS</b>	<u>\$ 2,442,317</u>	<u>\$ 4,178,584</u>
<b>LIABILITIES AND NET DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 370,793	\$ 662,579
Current portion of notes payable	186,109	181,708
Current portion of capital lease obligation	15,814	-
	<u>572,716</u>	<u>844,287</u>
<i>Total current liabilities</i>		
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of current portion	1,938,508	3,481,658
Capital lease obligation, net of current portion	24,712	-
	<u>1,963,220</u>	<u>3,481,658</u>
<i>Total long-term liabilities</i>		
<i>Total liabilities</i>	2,535,936	4,325,945
<b>NET DEFICIT</b>	<u>(93,619)</u>	<u>(147,361)</u>
<b>TOTAL LIABILITIES AND NET DEFICIT</b>	<u>\$ 2,442,317</u>	<u>\$ 4,178,584</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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 3,162,606	\$ 3,102,872
Grant revenue	599,454	741,788
Student fees	22,262	36,134
Program fees	14,118	16,747
Contributions	51	300
Fundraising income	39,872	20,544
Other income	2,856	24,101
	<u>3,841,219</u>	<u>3,942,486</u>
<b>EXPENSES</b>		
Program services	3,278,299	3,262,451
Management and general	570,220	687,574
	<u>3,848,519</u>	<u>3,950,025</u>
<b>CHANGE IN NET ASSETS BEFORE NON-OPERATING INCOME</b>	(7,300)	(7,539)
<b>NON-OPERATING INCOME</b>		
Gain due to changes in legislative funding	61,042	-
	<u>61,042</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	53,742	(7,539)
<b>NET DEFICIT, BEGINNING OF YEAR</b>	<u>(147,361)</u>	<u>(139,822)</u>
<b>NET DEFICIT, END OF YEAR</b>	<u>\$ (93,619)</u>	<u>\$ (147,361)</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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 53,742	\$ (7,539)
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	105,869	107,241
Gain due to change in legislative funding	(61,042)	-
Change in:		
Accounts receivable	(33,220)	18,205
Prepaid expenses	506	17,486
Accounts payable and accrued expenses	(50,602)	91,466
	<u>15,253</u>	<u>226,859</u>
<b>FINANCING ACTIVITIES</b>		
Principal reduction of capital lease obligation	(8,651)	-
Principal reduction of notes payable	(192,271)	(199,206)
	<u>(200,922)</u>	<u>(199,206)</u>
<i>Net cash provided by operating activities</i>		
<i>Net cash used by financing activities</i>		
<b>NET CHANGE IN CASH</b>	(185,669)	27,653
<b>CASH, BEGINNING OF YEAR</b>	<u>581,073</u>	<u>553,420</u>
<b>CASH, END OF YEAR</b>	<u>\$ 395,404</u>	<u>\$ 581,073</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Equipment obtained under capital lease	<u>\$ 49,178</u>	<u>\$ -</u>
Cash payments for interest expense	<u>\$ 69,512</u>	<u>\$ 61,100</u>

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, 2013 and 2012**

**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. See Note 2 regarding legislative changes affecting revenue recognition.

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, 2013 and 2012, 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, 2013 and 2012**

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

Taxes on Income, Continued – As disclosed in Note 9, 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 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 - LEGISLATIVE FUNDING CHANGES**

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, school funding will be paid following the State of Indiana fiscal year of July to June, which is similar to the School’s academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 will no longer be paid.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School has applied for and received repayment of its indebtedness under these obligations as of June 30, 2013.

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2013 and 2012**

**NOTE 2 - LEGISLATIVE FUNDING CHANGES, Continued**

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a gain due to changes in legislative funding and is comprised of the following:

Repayments of Common School Fund loans	\$	1,345,478
Repayment of accrued interest on loans		242,186
Elimination of State Education Support receivable		<u>(1,526,622)</u>
	\$	<u>61,042</u>

**NOTE 3 – NOTES PAYABLE**

Notes payable at June 30, 2013 and 2012 consisted of the following:

		<u>2013</u>		<u>2012</u>
Notes payable to the Indiana Common School Fund	\$	-	-	\$ 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		917,267		1,042,130
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, 2013) through April 2016, secured by a mortgage on School facilities and all business assets		<u>1,207,350</u>		<u>1,275,758</u>
		2,124,617		3,663,366
Less: current maturities		<u>(186,109)</u>		<u>(181,708)</u>
Long-term portion	\$	<u>1,938,508</u>	\$	<u>3,481,658</u>

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2013 and 2012**

**NOTE 3 - LONG-TERM DEBT (Continued)**

The notes payable to the Indiana Common School Fund were comprised of multiple notes, each of which required semi-annual payments of principal and interest over a period of 20 years, with interest at 4% per annum. In 2013 and 2012, the loans were under a moratorium on loan payments, but interest continued to accrue. In 2013, the outstanding loans and all accrued interest were repaid with funding appropriated from the State of Indiana general fund (see Note 2).

Principal maturities of notes payable are as follows for the years ending June 30:

2014	\$	186,109
2015		202,565
2016		1,190,432
2017		130,342
2018		131,652
Thereafter		<u>283,517</u>
Total	\$	<u><u>2,124,617</u></u>

**NOTE 4 - LEASES**

The School leases equipment under a capital lease. At June 30, 2013, the cost and accumulated depreciation relating to these assets were \$49,178 and \$9,562, respectively.

Following is a schedule of future minimum lease payments under the capital lease and present value of the net minimum lease payments as of June 30:

2014	\$	18,525
2015		18,525
2016		<u>7,719</u>
		44,769
Less: amount representing interest		<u>(4,243)</u>
	\$	<u><u>40,526</u></u>

The School leases its building and modular classrooms under operating leases. Total expense under these operating leases for the years ended June 30, 2013 and 2012 was \$214,039 and \$217,805, respectively. Minimum future rental payments as of June 30, 2013 for all operating leases with initial, non-cancellable lease terms in excess of one year are as follows for the years ending June 30:

2014	\$	93,636
2015		7,803

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2013 and 2012**

**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 8.25% of compensation for other employees of PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense was \$138,434 and \$138,089 for the years ended June 30, 2013 and 2012, 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 \$45,783 and \$91,420 for the years ended June 30, 2013 and 2012, 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 July 1, 2012 and expired June 30, 2013. A new agreement commenced July 1, 2013 and expiring June 30, 2014. Payments under this contract were \$92,261 and \$175,951 for the years ended June 30, 2013 and 2012, respectively.

**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, 2013 and 2012, 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.

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2013 and 2012**

**NOTE 8 - 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, 2013 and 2012:

For the year ended June 30, 2013:

	<u>Program</u> <u>Services</u>	<u>Management</u> <u>and General</u>
Salaries and wages	\$ 1,777,847	\$ 169,169
Employee benefits	430,334	34,426
Professional services	60,499	27,971
Staff development	23,840	-
Authorizer oversight fee	-	45,783
Academic services	-	92,261
Advertising	-	2,365
Travel	23,552	124
Repairs and maintenance	26,234	-
Food costs	233,183	-
Equipment	40,735	5,807
Classroom, kitchen and office supplies	149,680	29,883
Occupancy	386,591	-
Information technology	19,705	-
Depreciation	105,869	-
Interest	-	123,331
Insurance	-	11,752
Other	230	27,348
	<u>                    </u>	<u>                    </u>
Total	\$ <u>3,278,299</u>	\$ <u>570,220</u>

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2013 and 2012**

**NOTE 8 - FUNCTIONAL EXPENSE REPORTING (Continued)**

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>

**NOTE 9 - 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.**  
**OTHER REPORT**  
**Year Ended June 30, 2013**

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*.