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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, 2013 to June 30, 2014. 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, 2014, 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, 2014 and 2013



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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, 2014 and 2013, and the related statements of activities and change in net deficit, 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 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 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, 2014 and 2013, 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2016, on our consideration of East Chicago Urban Enterprise Academy, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Chicago Urban Enterprise Academy, Inc.'s internal control over financial reporting and compliance.

DONOVAN



September 8, 2016
Indianapolis, IN

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 257,197	\$ 395,404
Accounts receivable		
Grants	-	33,220
Other	-	7,434
Prepaid expenses	11,267	18,605
	<hr/>	<hr/>
<i>Total current assets</i>	268,464	454,663
	<hr/>	<hr/>
Security deposits	7,803	7,803
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT		
Buildings and improvements	2,341,502	2,341,502
Furniture and equipment	628,804	548,448
Less: accumulated depreciation	(1,021,946)	(910,099)
	<hr/>	<hr/>
<i>Property and equipment, net</i>	1,948,360	1,979,851
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 2,224,627</u>	<u>\$ 2,442,317</u>
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 285,183	\$ 370,793
Current portion of notes payable	201,367	186,109
Current portion of capital lease obligation	17,147	15,814
	<hr/>	<hr/>
<i>Total current liabilities</i>	503,697	572,716
	<hr/>	<hr/>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	1,735,944	1,938,508
Capital lease obligation, net of current portion	7,565	24,712
	<hr/>	<hr/>
<i>Total long-term liabilities</i>	1,743,509	1,963,220
	<hr/>	<hr/>
<i>Total liabilities</i>	2,247,206	2,535,936
	<hr/>	<hr/>
NET DEFICIT	(22,579)	(93,619)
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 2,224,627</u>	<u>\$ 2,442,317</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
REVENUE AND SUPPORT		
State education support	\$ 3,178,614	\$ 3,162,606
Grant revenue	798,232	599,454
Student fees	12,537	22,262
Program fees	15,700	14,118
Contributions	-	51
Fundraising income	21,352	39,872
Other income	4,555	2,856
	<u>4,030,990</u>	<u>3,841,219</u>
 <i>Total revenue and support</i>		
EXPENSES		
Program services	3,308,709	3,278,299
Management and general	651,241	570,220
	<u>3,959,950</u>	<u>3,848,519</u>
 <i>Total expenses</i>		
CHANGE IN NET ASSETS BEFORE NON-OPERATING INCOME	71,040	(7,300)
NON-OPERATING INCOME		
Gain due to changes in legislative funding	-	61,042
	<u>71,040</u>	<u>53,742</u>
CHANGE IN NET ASSETS		
NET DEFICIT, BEGINNING OF YEAR	(93,619)	(147,361)
NET DEFICIT, END OF YEAR	<u>\$ (22,579)</u>	<u>\$ (93,619)</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 71,040	\$ 53,742
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	111,846	105,869
Gain due to change in legislative funding	-	(61,042)
Change in:		
Accounts receivable	40,654	(33,220)
Prepaid expenses	7,338	506
Accounts payable and accrued expenses	<u>(85,610)</u>	<u>(50,602)</u>
<i>Net cash provided by operating activities</i>	<u>145,268</u>	<u>15,253</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(80,355)</u>	<u>-</u>
FINANCING ACTIVITIES		
Principal reduction of capital lease obligation	(15,814)	(8,651)
Principal reduction of notes payable	<u>(187,306)</u>	<u>(192,271)</u>
<i>Net cash used by financing activities</i>	<u>(203,120)</u>	<u>(200,922)</u>
NET CHANGE IN CASH	(138,207)	(185,669)
CASH, BEGINNING OF YEAR	<u>395,404</u>	<u>581,073</u>
CASH, END OF YEAR	<u>\$ 257,197</u>	<u>\$ 395,404</u>
SUPPLEMENTAL INFORMATION		
Equipment obtained under capital lease	<u>\$ -</u>	<u>\$ 49,178</u>
Cash payments for interest expense	<u>\$ 64,443</u>	<u>\$ 69,512</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, 2014 and 2013

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, 2014 and 2013, 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, 2014 and 2013

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 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 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, 2014 and 2013

NOTE 2 - LEGISLATIVE FUNDING CHANGES (Continued)

The effect of these legislative amendments has been reflected in the accompanying statement of activities as of June 30, 2013, 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>
Gain recognized in 2013	<u>\$ 61,042</u>

NOTE 3 – NOTES PAYABLE

Notes payable at June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
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	\$ 801,707	\$ 917,267
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, 2011) through April 2016, secured by a mortgage on School facilities and all business assets	<u>1,135,604</u>	<u>1,207,350</u>
	1,937,311	2,124,617
Less: current maturities	<u>(201,367)</u>	<u>(186,109)</u>
Long-term portion	<u>\$ 1,735,944</u>	<u>\$ 1,938,508</u>

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

2015	\$ 201,367
2016	1,190,432
2017	130,342
2018	131,652
2019	132,974
Thereafter	<u>150,544</u>
Total	<u>\$ 1,937,311</u>

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2014 and 2013

NOTE 4 - LEASES

The School leases equipment under a capital lease. At June 30, 2014, the cost and accumulated depreciation relating to these assets were \$49,178 and \$25,955, respectively (\$49,178 and \$9,562, respectively, at June 30, 2013).

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:

2015	\$	18,525
2016		7,719
		26,244
Less: amount representing interest		(1,532)
	\$	24,712

The School leases its building and modular classrooms under operating leases. Total expense under these operating leases for June 30, 2014 and 2013 was \$247,093 and \$214,039, respectively. Minimum future rental payments as of June 30, 2014 for all operating leases with initial, non-cancellable lease terms in excess of one year are as follows for the years ending June 30:

2015	\$	148,932
2016		148,186
2017		12,398

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 9.75% of compensation for other employees of PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense was \$153,535 and \$138,434 for the years ended June 30, 2014 and 2013, respectively.

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2014 and 2013

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 received. Payments under this charter agreement were \$58,571 and \$45,783 for the years ended June 30, 2014 and 2013, 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, 2013 and expired June 30, 2014. A new agreement was signed commencing July 1, 2014 and expiring June 30, 2016. Payments under this contract were \$254,289 and \$92,261 for the years ended June 30, 2014 and 2013, 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, substantially all of the receivable balance was due from the State of Indiana. No receivable balance existed as of June 30, 2014. 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.

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2014 and 2013

NOTE 8 - LATE FILING OF IRS FORMS 990 (Continued)

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.

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, 2014 and 2013:

For the year ended June 30, 2014:

	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages	\$ 1,803,220	\$ 177,634
Employee benefits	454,817	39,161
Professional services	136,958	3,611
Staff development	18,052	-
Authorizer oversight fee	-	58,571
Academic services	-	254,289
Advertising	-	194
Travel	20,129	221
Repairs and maintenance	1,096	-
Food costs	226,724	-
Equipment	18,951	92
Classroom, kitchen and office supplies	102,672	19,282
Occupancy	383,215	-
Information technology	11,829	-
Depreciation	111,846	-
Interest	-	64,443
Insurance	-	15,143
Other	19,200	18,600
	<hr/>	<hr/>
Total	\$ <u>3,308,709</u>	\$ <u>651,241</u>

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2014 and 2013

NOTE 9 - FUNCTIONAL EXPENSE REPORTING (Continued)

For the year ended June 30, 2013:

	<u>Program Services</u>	<u>Management 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
	<hr/>	<hr/>
Total	\$ <u>3,278,299</u>	\$ <u>570,220</u>

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended January 30, 2014

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Part A Cluster			
Grants to Local Educational Agencies	84.010	13-9555 14-9555	\$ 70,862 372,917
Special Education Cluster			
Special Education - Grants to States	84.027		56,255
Improving Teacher Quality State Grants	84.367		26,500
Total federal awards expended			<u>\$ 526,534</u>

See accompanying independent auditors' report and accompanying notes to this schedule.

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of East Chicago Urban Enterprise Academy, Inc. (the “School”) under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Directors
East Chicago Urban Enterprise Academy, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Chicago Urban Enterprise Academy, Inc. (the "School"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 8, 2016.

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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, stylized "D" at the beginning.

September 8, 2016
Indianapolis, IN



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Board of Directors
East Chicago Urban Enterprise Academy, Inc.

Report on Compliance for Each Major Federal Program

We have audited East Chicago Urban Enterprise Academy, Inc.'s (the "School") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2014. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, East Chicago Urban Enterprise Academy, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-1. Our opinion on each major federal program is not modified with respect to these matters.

The School's response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of East Chicago Urban Enterprise Academy, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified one deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-1 that we consider to be a significant deficiency.

The School's response to the internal control over compliance findings identified in our audit are 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 compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

September 8, 2016
Indianapolis, IN

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

I. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unmodified
<i>Internal control over financial reporting:</i>	
Material weaknesses:	None Reported
Significant deficiencies that are not considered to be material weaknesses:	None Reported
Noncompliance noted which is material to financial statements:	No

Federal Awards

<i>Internal control over major programs:</i>	
Material weaknesses:	None Reported
Significant deficiencies that are not considered to be material weaknesses:	Yes
Type of auditor's report issued on compliance for major program:	Unmodified
Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	Yes

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

I. Summary of Auditor’s Results (Continued)

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A Cluster Grants to Local Educational Agencies
Dollar threshold use to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee:	Yes

II. Financial Statement Findings

No matters are reportable.

III. Federal Award Findings and Questioned Costs

FINDING NO. 2014-1 EMPLOYEE TIME RECORDS

Federal Agency:	U.S. Department of Education
Pass-Through Agency:	Indiana Department of Education
Federal Program:	Grants to Local Educational Agencies
CFDA Number:	84.010
Award Year:	FY 2013-2014

Questioned
Costs

Condition

The School operates a school-wide Title I program; however, it did not maintain time records to support employee attendance records or the allocation of salaries to Title I activities.

Criteria

OMB Circular A-87, Attachment B, paragraph 8.h states in part:
“Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

III. Federal Award Findings and Questioned Costs (Continued)

Criteria, Continued

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- a) More than one Federal award.
- b) A Federal award and a non-Federal award.
- c) An indirect cost activity and a direct cost activity.
- d) Two or more indirect activities which are allocated using different allocation bases, or
- e) An unallowable activity and a direct or indirect cost activity.”

Cause

The School had not established procedures to obtain and compile employee data for time spent on Title I activities.

Effect

The failure to properly document employee attendance and time could result in funds being inappropriately charged to grant programs.

Context

Due to the lack of documentation, it was not possible to determine if salaries were improperly allocated.

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Recommendation

We recommend that the School implement a process for reporting time and effort spent by employees on Title I program activities.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

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EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
OTHER REPORT
For the Year Ended June 30, 2014

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*.



East Chicago Urban Enterprise Academy

Where Excellence Begins

September 8, 2016

Donovan CPAs
9345 N. Meridian Street, Suite 302
Indianapolis, IN 46260

RE: Official Response to Governmental Audit (A-133) internal control finding:

TITLE I TIME REPORTING:

Condition:

The School operates a school-wide Title I program; however, it did not maintain time records to support employee attendance records or the allocation of salaries to Title I activities.

School Response:

In July of 2014, East Chicago Urban Enterprise Academy experienced a change in School Leaders. For the 2013-14 school year the Academy had no Title I staff which were partial funded and it is our belief that the former School Leader did complete the Semi-Annual Title I form for staff who were 100% Title I funded. However, in the transition the evidence of this form could not be located.

- To ensure that all documents are accessible when needed, despite leadership changes, the Academy has designated a specific area in which all state and federal documents are kept and the Office Manager and School Leaders have access if needed.

The Academy also chose to change management companies in July of 2016. The Leona Group utilizes UltiPro as a company-wide time management system. In order to accurately account for and track the time/responsibilities of Title-funded personnel, each must log notes daily in the UltiPro system to account for their time/duties. This is reviewed weekly by the Office Manager and approved by the School Leader before it is submitted for payroll.

- A report is generated, as needed, as evidence of time and effort for Title-funded staff.

Sincerely,


David Padilla, Board of Directors Chairman

9/13/2016
Date