



STATE OF INDIANA
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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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, 2014 to June 30, 2015. 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, 2015, 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, 2015 and 2014



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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, 2015 and 2014, and the related statements of activities and change in net assets, functional expenses, 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, 2015 and 2014, 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 7 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 black ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent "D" at the beginning.

September 8, 2016
Indianapolis, IN

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 174,879	\$ 257,197
Accounts receivable		
Grants	95,394	-
Other	1,196	-
Prepaid expenses	32,435	11,267
	<hr/>	<hr/>
<i>Total current assets</i>	303,904	268,464
	<hr/>	<hr/>
SECURITY DEPOSITS	7,803	7,803
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT		
Buildings and improvements	2,356,038	2,341,502
Furniture and equipment	628,804	628,804
Less: accumulated depreciation	(1,134,703)	(1,021,946)
	<hr/>	<hr/>
<i>Property and equipment, net</i>	1,850,139	1,948,360
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 2,161,846</u>	<u>\$ 2,224,627</u>
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 251,293	\$ 285,183
Current portion of notes payable	1,179,727	201,367
Current portion of capital lease obligation	7,564	17,147
	<hr/>	<hr/>
<i>Total current liabilities</i>	1,438,584	503,697
	<hr/>	<hr/>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	544,821	1,735,944
Capital lease obligation, net of current portion	-	7,565
	<hr/>	<hr/>
<i>Total long-term liabilities</i>	544,821	1,743,509
	<hr/>	<hr/>
<i>Total liabilities</i>	1,983,405	2,247,206
	<hr/>	<hr/>
NET ASSETS (DEFICIT)	178,441	(22,579)
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$ 2,161,846</u>	<u>\$ 2,224,627</u>

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

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIT)
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
REVENUE AND SUPPORT		
State education support	\$ 3,080,003	\$ 3,178,614
Grant revenue	668,761	798,232
Student fees	21,972	12,537
Program fees	14,875	15,700
Contributions	6,652	-
Fundraising income	26,361	21,352
Other income	5,553	4,555
	<u>3,824,177</u>	<u>4,030,990</u>
 <i>Total revenue and support</i>		
EXPENSES		
Program services	2,956,912	3,308,709
Management and general	666,245	651,241
	<u>3,623,157</u>	<u>3,959,950</u>
 <i>Total expenses</i>		
CHANGE IN NET ASSETS	201,020	71,040
NET DEFICIT, BEGINNING OF YEAR	<u>(22,579)</u>	<u>(93,619)</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ 178,441</u>	<u>\$ (22,579)</u>

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

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>			<u>2014</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
FUNCTIONAL EXPENSES						
Salaries and wages	\$ 1,541,748	\$ 161,577	\$ 1,703,325	\$ 1,803,220	\$ 177,634	\$ 1,980,854
Employee benefits	373,415	54,765	428,180	454,817	39,161	493,978
Professional services	119,517	6,188	125,705	136,958	3,611	140,569
Depreciation	112,757	-	112,757	111,846	-	111,846
Classroom, kitchen, and office supplies	89,747	10,847	100,594	102,672	5,112	107,784
Food costs	231,338	-	231,338	226,724	-	226,724
Insurance	-	18,762	18,762	-	15,143	15,143
Occupancy	386,650	12,362	399,012	383,215	9,985	393,200
Authorizer oversight fees	-	58,184	58,184	-	58,571	58,571
Academic services	-	246,400	246,400	-	254,289	254,289
Equipment	15,610	3,417	19,027	18,951	-	18,951
Property rental and maintenance	5,619	-	5,619	1,096	-	1,096
Staff development	18,131	-	18,131	18,052	-	18,052
Interest	-	75,776	75,776	-	64,443	64,443
Travel	21,965	1,698	23,663	20,129	221	20,350
Information technology	11,733	-	11,733	11,829	-	11,829
Other	28,682	16,269	44,951	19,200	23,071	42,271
<i>Total functional expenses</i>	<u>\$ 2,956,912</u>	<u>\$ 666,245</u>	<u>\$ 3,623,157</u>	<u>\$ 3,308,709</u>	<u>\$ 651,241</u>	<u>\$ 3,959,950</u>

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

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 201,020	\$ 71,040
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	112,757	111,846
Change in:		
Accounts receivable	(96,590)	40,654
Prepaid expenses	(21,168)	7,338
Accounts payable and accrued expenses	(33,890)	(85,610)
	162,129	145,268
INVESTING ACTIVITIES		
Purchases of property and equipment	(14,536)	(80,355)
FINANCING ACTIVITIES		
Principal reduction of capital lease obligation	(17,148)	(15,814)
Principal reduction of notes payable	(212,763)	(187,306)
	(229,911)	(203,120)
<i>Net cash used by financing activities</i>		
NET CHANGE IN CASH	(82,318)	(138,207)
CASH, BEGINNING OF YEAR	257,197	395,404
CASH, END OF YEAR	\$ 174,879	\$ 257,197
SUPPLEMENTAL INFORMATION		
Cash payments for interest expense	\$ 75,776	\$ 64,443

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, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes on Income, Continued – As disclosed in Note 7, 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 -NOTES PAYABLE

Notes payable at June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</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	\$ 663,162	\$ 801,707
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	1,061,386	1,135,604
	1,724,548	1,937,311
Less: current maturities	(1,179,727)	(201,367)
Long-term portion	\$ 544,821	\$ 1,735,944

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 2 - NOTES PAYABLE (Continued)

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

2016	\$ 1,179,727
2017	130,342
2018	131,652
2019	132,974
2020	134,310
Thereafter	<u>15,543</u>
Total	<u>\$ 1,724,548</u>

NOTE 3 - LEASES

The School leases equipment under a capital lease. At June 30, 2015, the cost and accumulated depreciation relating to these assets were \$49,178 and \$41,614, respectively (\$49,178 and \$25,955, respectively, at June 30, 2014).

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:

2016	\$ 7,719
Less: amount representing interest	<u>(155)</u>
	<u>\$ 7,564</u>

The School leases its building and modular classrooms under operating leases. Total expense under these operating leases for June 30, 2015 and 2014 was \$223,519 and \$247,093, respectively. Minimum future rental payments as of June 30, 2015 for all operating leases with initial, non-cancellable lease terms in excess of one year are as follows for the years ending June 30:

2016	\$ 148,186
2017	12,398

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 4 - 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 \$118,178 and \$153,535 for the years ended June 30, 2015 and 2014, respectively.

NOTE 5 - 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 \$58,184 and \$58,571 for the years ended June 30, 2015 and 2014, 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, 2014 and expires June 30, 2016. Payments under this contract were \$246,400 and \$254,289 for the years ended June 30, 2015 and 2014, respectively.

NOTE 6 - 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, 2015 and 2014, 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, 2015 and 2014

NOTE 7 - 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
For the Year Ended June 30, 2015

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*.