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January 5, 2017

Charter School Board
East Chicago Urban Enterprise Academy, Inc.
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, 2015 to June 30, 2016. 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 East Chicago Urban Enterprise Academy, Inc., as of June 30, 2016, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the Emphasis of Matter paragraph included in the Independent Auditor's Report and further detailed in Note 7.

In addition to the report presented herein, a Supplemental Audit Report for East Chicago Urban Enterprise Academy, Inc., 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, 2016 and 2015



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
 FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities and Change in Net Assets (Deficit)	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to the Financial Statements	7 - 11
 OTHER REPORT	 12



Independent Auditors' Report

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

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, 2016 and 2015, and the related statements of activities and change in net assets (deficit), 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 auditors consider 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, 2016 and 2015, and the changes in its net assets (deficit), functional expenses, and 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. Additionally, the School was notified by the IRS of the loss of its tax-exempt status as a result of these late filings. The School has begun the process of reapplying for 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, stylized 'D'.

Indianapolis, Indiana
December 14, 2016

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**STATEMENTS OF FINANCIAL POSITION****June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 387,171	\$ 174,879
Accounts receivable:		
Grants	34,172	95,394
Other	4,736	1,196
Prepaid expenses	<u>-</u>	<u>32,435</u>
<i>Total current assets</i>	<u>426,079</u>	<u>303,904</u>
PROPERTY AND EQUIPMENT		
Buildings and improvements	2,356,038	2,356,038
Furniture and equipment	628,804	628,804
Less: accumulated depreciation	<u>(1,228,432)</u>	<u>(1,134,703)</u>
<i>Property and equipment, net</i>	<u>1,756,410</u>	<u>1,850,139</u>
OTHER ASSETS		
Security deposit	<u>7,803</u>	<u>7,803</u>
TOTAL ASSETS	<u><u>\$ 2,190,292</u></u>	<u><u>\$ 2,161,846</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 1,113,120	\$ 1,179,727
Current portion of capital lease obligation	-	7,564
Accounts payable and accrued expenses	<u>169,243</u>	<u>251,293</u>
<i>Total current liabilities</i>	1,282,363	1,438,584
LONG-TERM LIABILITIES		
Notes payable, net of current portion	<u>404,768</u>	<u>544,821</u>
<i>Total liabilities</i>	1,687,131	1,983,405
NET ASSETS	<u>503,161</u>	<u>178,441</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,190,292</u></u>	<u><u>\$ 2,161,846</u></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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
REVENUE AND SUPPORT		
State education support	\$ 2,929,782	\$ 3,080,003
Grant revenue	904,167	668,761
Student fees	24,361	21,972
Program fees	13,457	14,875
Contributions	16	6,652
Fundraising income	15,967	26,361
Other income	1,441	5,553
	<u>3,889,191</u>	<u>3,824,177</u>
 <i>Total revenue and support</i>		
EXPENSES		
Program services	2,850,935	2,956,912
Management and general	713,536	666,245
	<u>3,564,471</u>	<u>3,623,157</u>
 <i>Total expenses</i>		
CHANGE IN NET ASSETS	324,720	201,020
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>178,441</u>	<u>(22,579)</u>
NET ASSETS, END OF YEAR	<u>\$ 503,161</u>	<u>\$ 178,441</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, 2016 and 2015

	2016			2015		
	<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	\$ 1,395,028	\$ 184,318	\$ 1,579,346	\$ 1,541,748	\$ 161,577	\$ 1,703,325
Employee benefits	394,991	66,203	461,194	373,415	54,765	428,180
Professional services	56,512	34,761	91,273	119,517	6,188	125,705
Depreciation	93,729	-	93,729	112,757	-	112,757
Classroom, kitchen, and office supplies	75,638	21,942	97,580	89,747	10,847	100,594
Food costs	242,850	-	242,850	231,338	-	231,338
Insurance	-	18,827	18,827	-	18,762	18,762
Occupancy	407,438	8,139	415,577	386,650	12,362	399,012
Authorizer oversight fees	-	62,882	62,882	-	58,184	58,184
Academic services	-	234,383	234,383	-	246,400	246,400
Equipment	63,532	3,906	67,438	15,610	3,417	19,027
Property rental and maintenance	12,838	-	12,838	5,619	-	5,619
Staff development	15,313	-	15,313	18,131	-	18,131
Interest	-	59,843	59,843	-	75,776	75,776
Travel	30,968	3,843	34,811	21,965	1,698	23,663
Information technology	5,800	-	5,800	11,733	-	11,733
Other	56,298	14,489	70,787	28,682	16,269	44,951
	<u>\$ 2,850,935</u>	<u>\$ 713,536</u>	<u>\$ 3,564,471</u>	<u>\$ 2,956,912</u>	<u>\$ 666,245</u>	<u>\$ 3,623,157</u>
<i>Total functional expenses</i>						

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 324,720	\$ 201,020
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	93,729	112,757
Change in certain assets and liabilities:		
Accounts receivable	57,682	(96,590)
Prepaid expenses	32,435	(21,168)
Accounts payable and accrued expenses	<u>(82,050)</u>	<u>(33,890)</u>
 <i>Net cash provided by operating activities</i>	 <u>426,516</u>	 <u>162,129</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>-</u>	<u>(14,536)</u>
FINANCING ACTIVITIES		
Principal reduction of capital lease obligation	(7,564)	(17,148)
Principal payments on notes payable	<u>(206,660)</u>	<u>(212,763)</u>
 <i>Net cash used by financing activities</i>	 <u>(214,224)</u>	 <u>(229,911)</u>
NET CHANGE IN CASH	212,292	(82,318)
CASH, BEGINNING OF YEAR	<u>174,879</u>	<u>257,197</u>
CASH, END OF YEAR	<u>\$ 387,171</u>	<u>\$ 174,879</u>
 SUPPLEMENTAL INFORMATION		
Cash paid for interest	<u>\$ 59,843</u>	<u>\$ 75,776</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, 2016 and 2015

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 is 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. 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 impacted the School's tax-exempt status and could carry significant penalties from the IRS. For the years ended June 30, 2016 and 2015, no accounting for federal and state income taxes was 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 2012 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, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 December 14, 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 consisted of the following at June 30:

	<u>2016</u>	<u>2015</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	\$ 535,110	\$ 663,162
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, (3.45% at June 30, 2016) through April 2016, secured by a mortgage on School facilities and all business assets	982,778	1,061,386
	<u>1,517,888</u>	<u>1,724,548</u>
Less: current maturities	<u>(1,113,120)</u>	<u>(1,179,727)</u>
Long-term portion	\$ <u>404,768</u>	\$ <u>544,821</u>

Subsequent to the School's fiscal year end, People's Bank renewed the mortgage loan payable. The balance due as of June 30, 2016 of \$982,778 will be amortized over ten years, at a fixed rate of 4.75% for the first five years, and adjusted once to market rate to remain in effect for the remainder of the loan. As of the date of this report, the loan renewal was in process and had not yet been executed. For this reason, the entire balance of the note payable is reflected as current.

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 2 - NOTES PAYABLE, Continued

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

2017	\$	1,113,120
2018		131,652
2019		132,974
2020		134,310
2021		<u>5,832</u>
Total	\$	<u>1,517,888</u>

NOTE 3 - LEASES

The School leased equipment under a capital lease. The lease was paid in full during 2016.

The School leases its building and modular classrooms under operating leases. Total expense under these operating leases for June 30, 2016 and 2015 was \$262,023 and \$223,519, respectively.

Minimum future rental payments as of June 30, 2016 for all operating leases with initial, non-cancellable lease terms in excess of one year are as follows for the years ending June 30:

2017	\$	232,918
2018		239,215
2019		247,384
2020		20,672

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 \$138,934 and \$118,178 for the years ended June 30, 2016 and 2015, respectively.

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

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 \$62,882 and \$58,184 for the years ended June 30, 2016 and 2015, respectively. The charter will remain in effect until June 30, 2021 and is renewable thereafter by mutual consent.

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 had agreed to pay an amount equal to 6% of revenues, as defined, for such services. The contract commenced July 1, 2014 and expired June 30, 2016. Payments under this contract were \$234,383 and \$246,400 for the years ended June 30, 2016 and 2015, respectively. The contract with American Quality Schools was not renewed.

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, 2016 and 2015, 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 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 had its tax-exempt status revoked in 2016 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, 2016 and 2015

NOTE 8 - FUNCTIONAL EXPENSE REPORTING

The cost of providing educational activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated between program and management services.

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

OTHER REPORT

For the Year Ended June 30, 2016

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*.