



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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May 23, 2017

American Charter Education Services
Early Career Academy @ ITT Technical Institute
14165 N Fenton Road, Suite 101A
Fenton, MI 48430

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Katz Sapper & Miller, 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 Auditor's Report, the financial statements included in the report present fairly the financial condition of the Early Career Academy @ ITT Technical Institute 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.

In addition to the report presented herein, a Supplemental Audit Report for the same time period was prepared in accordance with the guidelines established by the State Board of Accounts.

Both reports are filed in our office as a matter of public record.

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



FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

June 30, 2016

EARLY CAREER ACADEMY, INC.

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Independent Auditors' Report

Board of Directors
Early Career Academy Inc.

We have audited the accompanying financial statements of Early Career Academy Inc. (an Indiana not-for-profit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Guidelines for the Audits of Charter Schools Performed by Private Examiners*, established by the Indiana State Board of Accounts. Those standards and guidelines require that we plan and perform the audit 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 Early Career Academy, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Charter Revocation

As discussed in Note 1 to the financial statements, Early Career Academy, Inc.'s charter was revoked by the Indiana Charter School Board (ICSB) subsequent to year end. Early Career Academy, Inc. has ended its programs and is working with the ICSB to cease operations. Additionally, Early Career Academy, Inc.'s partner and primary donor, ITT Education Services, Inc., declared bankruptcy in September 2016. Our opinion is not modified with respect to this matter.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
April 14, 2017

EARLY CAREER ACADEMY, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2016

ASSETS

ASSETS

Cash

\$ 38,523

Accounts receivable

614

TOTAL ASSETS

\$ 39,137

NET ASSETS

NET ASSETS - Unrestricted

\$ 39,137

TOTAL NET ASSETS

\$ 39,137

See accompanying notes.

EARLY CAREER ACADEMY, INC.

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2016**

REVENUE AND SUPPORT

School lunch program	\$ 2,531
Federal and state support	81,234
Donated services and rent	<u>569,491</u>
Total Revenues and Support	<u>653,256</u>

PROGRAM AND SUPPORTING SERVICE EXPENSES

Instructional services	197,389
Student support services	15,966
Fiscal services	22,618
Food services	24,445
Other outside services	86,277
Course materials and supplies	6,545
Administrative support	74,534
Student transportation	1,153
Marketing and communication	129,563
Rent and facilities	25,125
Other administrative expenses	<u>10,504</u>
Total Program and Supporting Service Expenses	<u>594,119</u>

INCREASE IN UNRESTRICTED NET ASSETS

59,137

UNRESTRICTED NET ASSETS

Beginning of Year	<u>(20,000)</u>
End of Year	<u>\$ 39,137</u>

See accompanying notes.

EARLY CAREER ACADEMY, INC.

STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

OPERATING ACTIVITIES

Increase in net assets	\$ 59,137
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Increase in accounts receivable	(614)
Decrease in accounts payable	<u>(20,000)</u>
Net Cash Provided by Operating Activities	<u>38,523</u>

NET INCREASE IN CASH

38,523

CASH

Beginning of Year	<u> </u>
End of Year	<u><u>\$ 38,523</u></u>

See accompanying notes.

EARLY CAREER ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: Early Career Academy, Inc. (the School) was a public charter school located in Indianapolis, Indiana, committed to offering challenging quality education to students of diverse backgrounds, interests and abilities. The School was incorporated in March 2013. The School offered educational programs that integrated life-long learning with knowledge and skills to help students (1) pursue their personal interests and objectives; (2) develop intellectual, analytical and critical thinking abilities; and (3) provide service to their communities while earning both secondary and post-secondary credit. The School employed pedagogies delivered through traditional, accelerated, and distance methodologies in a learner-centered environment of mutual respect. To accomplish this mission, the School partnered with ITT Educational Services, Inc. (ITT).

Subsequent to year end, the Indiana Charter School Board (ICSB) revoked the School's charter and ordered the School to be closed within 30 days. The School has ended its programs and is working with the ICSB to cease operations.

Basis of Accounting: The School prepares its financial statements using the accrual basis of accounting. Accrual accounting requires the recognition of revenues when they are earned and measurable in the accounting period when services are provided, and the recognition of expenses in the period in which they occur.

Estimates: Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could vary from those estimates.

Cash: At times, balances in bank accounts may exceed federally insured limits. The School has not experienced any losses from its bank accounts.

Revenue Recognition: Revenues primarily came from resources provided under the Indiana Charter Schools Act (the Act). Under the Act, the School received an amount per student in relation to the funding received by public schools. Funding from the State of Indiana was based on an enrollment estimate provided by the School in May prior to the start of the school year. The official enrollment was submitted in September and any differences from the estimates to the actual were reconciled in monthly payments through December. Enrollment was reported again in February and monthly payments for January to June were reconciled to reflect enrollment in February. Revenue was recognized in the year in which the educational services are rendered.

Contributed Materials and Services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School. Contributions of tangible assets, if any, are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expense.

The School received \$569,491 of in-kind contributions during the year ended June 30, 2016, all from the School's partner, ITT.

Volunteers provided program services throughout the year which were not recognized as contributions in the financial statements since they do not meet the recognition criteria.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classification: The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include funds designated by the Board of Directors for specific uses. At June 30, 2016, the School had no permanently restricted or temporarily restricted net assets.

Functional Expenses: The costs of providing the various programs and other activities have been summarized in Note 3. Some expenses relate directly to specific programs or supportive services while others do not. Expenses that relate to more than one program or supporting service are allocated among the applicable functions.

Costs are allocated to the programs and supporting services. Management periodically evaluates its allocation method and revises it when necessary. Management and general expenses include those that are indirectly identifiable with other specific functions, but provide for the overall support and direction of the School.

Income Taxes: The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The School is not considered to be a private foundation. Accordingly, no provision or liability for income taxes has been included in the financial statements.

In the normal course of business, the School is subject to examination by taxing authorities. However, at present, there are no ongoing income tax audits or unresolved disputes with the various income tax authorities that the School currently files or has filed. All tax years are currently open to U.S. federal and state income tax examinations by tax authorities.

Concentration of Credit Risk: Operating funds from the Indiana Department of Education amounted to 13% of the School's revenues and support for the year ended June 30, 2016. A state funding formula is used to determine the amount of revenue a charter school receives. The formula was based on the number of students enrolled in the school during the year.

Donated goods and services from ITT amounted to 87% of the School's revenues and support and 96% of its expenses for the year ended June 30, 2016. These goods and services included rent, salaries, student meals, management services, curriculum support, and insurance costs.

Risks and Uncertainties: The School provided education instruction services to students residing in Marion and surrounding counties in Indiana, and was subject to risks of economic and competitive forces at work within this geographic region.

A significant portion of revenues related to legislation enacted by the State of Indiana. Changes in state or federal legislation could have significantly affected the School. Additionally, non-compliance in regards to federal and state standards and regulations could have resulted in a reduction of funding or repayment of disallowed costs.

The majority of revenues were donated by ITT, which declared bankruptcy subsequent to June 30, 2016, on September 16. The School's charter was revoked by the Indiana Charter School Board (ICSB) subsequent to year-end. Due to the revocation of the School's charter and ITT's bankruptcy, 2016/2017 will be the School's final fiscal year of operations.

Advertising Costs were expensed as incurred. Advertising expenses amounted to \$129,563 for the year ended June 30, 2016.

Subsequent Events: The School has evaluated the financial statements for subsequent events occurring through April 14, 2017, the date the financial statements were available to be issued. See the Risks and Uncertainties sections within Note 1 for details on significant subsequent events impacting the School's operations.

NOTE 2 - RELATED PARTIES

During the year ended 2016, the School agreed to reimburse a board member for travel expenses incurred to attend meetings. These reimbursements totaled \$17,574 for the year ended June 30, 2016.

The School had a lease agreement with its partner, ITT, which extended until January 2019. The agreement included variable rent expense based upon the number of students enrolled each month. Rent expense under the lease agreement was \$25,125 in 2016. Due to the loss of the School's charter and the filing of bankruptcy by ITT, there are no further future commitments regarding the lease agreement beyond 2016.

As discussed in Note 1, the School received significant in-kind donations from ITT.

NOTE 3 - FUNCTIONAL EXPENSES

Expenses by functional classifications for the year ended June 30, 2016, were as follows:

Program services	\$197,354
General and administrative	<u>396,765</u>
Total Expenses	<u>\$594,119</u>

OTHER REPORT

EARLY CAREER ACADEMY, INC.

OTHER REPORT

The report presented herein was prepared in addition to other official reports prepared for the school as listed below:

Supplemental Audit Report of Early Career 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*.