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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

February 7, 2018

Charter School Board
East Chicago Urban Enterprise Academy, Inc.
1402 E Chicago Ave
East Chicago, IN 46312

We have reviewed the report prepared by East Chicago Urban Enterprise Academy, Inc. and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of East Chicago Urban Enterprise Academy, Inc. as of June 30, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

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.

A handwritten signature in blue ink that reads "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, 2017 and 2016



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Donovan CPAs

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, 2017 and 2016, 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 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.

www.cpadonovan.com

Westside Office | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Northside Office | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

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, 2017 and 2016, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

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

Indianapolis, Indiana

December 20, 2017

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 344,128	\$ 387,171
Accounts receivable:		
Grants	38,351	34,172
Other	<u>14</u>	<u>4,736</u>
<i>Total current assets</i>	<u>382,493</u>	<u>426,079</u>
PROPERTY AND EQUIPMENT		
Buildings and improvements	2,356,038	2,356,038
Furniture and equipment	653,470	628,804
Less: accumulated depreciation	<u>(1,313,724)</u>	<u>(1,228,432)</u>
<i>Property and equipment, net</i>	<u>1,695,784</u>	<u>1,756,410</u>
OTHER ASSETS		
Security deposit	<u>7,803</u>	<u>7,803</u>
TOTAL ASSETS	<u>\$ 2,086,080</u>	<u>\$ 2,190,292</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 217,231	\$ 1,113,120
Accounts payable and accrued expenses	<u>231,996</u>	<u>169,243</u>
<i>Total current liabilities</i>	449,227	1,282,363
LONG-TERM LIABILITIES		
Notes payable, net of current portion	<u>1,089,001</u>	<u>404,768</u>
<i>Total liabilities</i>	1,538,228	1,687,131
NET ASSETS	<u>547,852</u>	<u>503,161</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,086,080</u>	<u>\$ 2,190,292</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

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT		
State education support	\$ 3,026,997	\$ 2,929,782
Grant revenue	884,499	904,167
Student fees	36,425	24,361
Program fees	10,725	13,457
Contributions	6,682	16
Fundraising income	-	15,967
Other income	12,504	1,441
	<u>3,977,832</u>	<u>3,889,191</u>
<i>Total revenue and support</i>		
	<u>3,977,832</u>	<u>3,889,191</u>
EXPENSES		
Program services	3,056,222	2,850,935
Management and general	876,919	713,536
	<u>3,933,141</u>	<u>3,564,471</u>
<i>Total expenses</i>		
	<u>3,933,141</u>	<u>3,564,471</u>
CHANGE IN NET ASSETS	44,691	324,720
NET ASSETS, BEGINNING OF YEAR	<u>503,161</u>	<u>178,441</u>
NET ASSETS, END OF YEAR	<u>\$ 547,852</u>	<u>\$ 503,161</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, 2017 and 2016

	2017			2016		
	<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	\$ 1,508,868	\$ 190,640	\$ 1,699,508	\$ 1,395,028	\$ 184,318	\$ 1,579,346
Employee benefits	337,805	42,856	380,661	394,991	66,203	461,194
Professional services	150,863	41,165	192,028	56,512	34,761	91,273
Depreciation	85,292	-	85,292	93,729	-	93,729
Classroom, kitchen, and office supplies	161,402	24,475	185,877	75,638	21,942	97,580
Food costs	223,572	-	223,572	242,850	-	242,850
Insurance	-	27,494	27,494	-	18,827	18,827
Occupancy	431,643	1,397	433,040	407,438	8,139	415,577
Authorizer oversight fees	-	65,442	65,442	-	62,882	62,882
Academic services	-	399,788	399,788	-	234,383	234,383
Equipment	55,657	9,764	65,421	63,532	3,906	67,438
Property rental and maintenance	39,864	158	40,022	12,838	-	12,838
Staff development	-	-	-	15,313	-	15,313
Interest	-	49,506	49,506	-	59,843	59,843
Advertising	-	1,661	1,661	-	-	-
Travel	19,860	2,918	22,778	30,968	3,843	34,811
Information technology	6,164	1,600	7,764	5,800	-	5,800
Other	35,232	18,055	53,287	56,298	14,489	70,787
	\$ 3,056,222	\$ 876,919	\$ 3,933,141	\$ 2,850,935	\$ 713,536	\$ 3,564,471
<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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 44,691	\$ 324,720
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	85,292	93,729
Change in certain assets and liabilities:		
Accounts receivable	543	57,682
Prepaid expenses	-	32,435
Accounts payable and accrued expenses	<u>62,753</u>	<u>(82,050)</u>
 <i>Net cash provided by operating activities</i>	 <u>193,279</u>	 <u>426,516</u>
 INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(24,666)</u>	<u>-</u>
 FINANCING ACTIVITIES		
Principal reduction of capital lease obligation	-	(7,564)
Principal payments on notes payable	<u>(211,656)</u>	<u>(206,660)</u>
 <i>Net cash used in financing activities</i>	 <u>(211,656)</u>	 <u>(214,224)</u>
 NET CHANGE IN CASH	 (43,043)	 212,292
 CASH, BEGINNING OF YEAR	 <u>387,171</u>	 <u>174,879</u>
 CASH, END OF YEAR	 <u>\$ 344,128</u>	 <u>\$ 387,171</u>
 SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 49,506	\$ 59,843

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, 2017 and 2016

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 approximately 415 students in 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. For the years ended June 30, 2017 and 2016, 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 2013 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, 2017 and 2016

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 31, 2017, 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>2017</u>	<u>2016</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 School assets	\$ 404,663	\$ 535,110
Mortgage note payable to Peoples Bank, payable in monthly installments of \$10,538 including interest at a rate of 4.75% through February 2022, thereafter payable in monthly installments of \$10,437 including interest at a variable rate based on 1-Year Treasury Constant Maturity rate plus margin of 3.00%, adjustable annually, through March 2026, secured by a mortgage on School facilities and all School assets. This note was refinanced in 2017.	901,569	982,778
	<u>1,306,232</u>	<u>1,517,888</u>
Less: current maturities	<u>(217,231)</u>	<u>(1,113,120)</u>
Long-term portion	<u>\$ 1,089,001</u>	<u>\$ 404,768</u>

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 2 - NOTES PAYABLE, Continued

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

2018	\$	217,231
2019		222,717
2020		228,406
2021		103,958
2022		103,688
Thereafter		<u>430,232</u>
Total	\$	<u>1,306,232</u>

NOTE 3 - LEASES

The School leases its building, modular classrooms, and equipment under operating leases. Total expense under these operating leases for June 30, 2017 and 2016 was \$235,767 and \$262,023, respectively.

Future minimum rental payments as of June 30, 2017 for all operating leases with initial, non-cancellable lease terms in excess of one year are as follows for the years ending June 30:

2018	\$	244,963
2019		253,132
2020		95,940
2021		12,068
2022		1,437

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 11.2% of compensation for other employees of PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense was \$109,138 and \$138,934 for the years ended June 30, 2017 and 2016, respectively.

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

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 \$65,442 and \$62,882 for the years ended June 30, 2017 and 2016, respectively. The charter will remain in effect until June 30, 2021 and is renewable thereafter by mutual consent.

Effective July 1, 2016, the School contracted with The Leona Group, LLC to provide financial, management, administrative and educational programming services. Under the terms of the agreement, the School agreed to pay an amount equal to 10% of revenues, as defined, for such services. The contract expires June 30, 2019. Payments under this contract were \$399,788 for the year ended June 30, 2017.

Through June 30, 2016, the School had contracted with American Quality Schools, to provide management, administrative and educational programming services. Under the terms of the agreement, the School paid 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 for the year ended June 30, 2016. 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, 2017 and 2016, 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 - FUNCTIONAL EXPENSE REPORTING

The cost of providing educational activities have been summarized on a functional basis in the statements of activities and change in net assets. 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, 2017

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*.