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December 28, 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, 2017 to June 30, 2018. 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, 2018 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.

  
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, 2018 and 2017



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# Donovan CPAs

## *Independent Auditors' Report*

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of East Chicago Urban Enterprise Academy, Inc. (the "School"), which comprise the statements of financial position as of June 30, 2018 and 2017, 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.

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## 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, 2018 and 2017, 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 14, 2018

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 185,726	\$ 344,128
Grants receivable	32,906	38,365
Prepaid expenses	<u>19,989</u>	<u>-</u>
<i>Total current assets</i>	<u>238,621</u>	<u>382,493</u>
<b>PROPERTY AND EQUIPMENT</b>		
Buildings and improvements	2,408,538	2,356,038
Furniture and equipment	194,366	653,470
Less: accumulated depreciation	<u>(937,313)</u>	<u>(1,313,724)</u>
<i>Property and equipment, net</i>	<u>1,665,591</u>	<u>1,695,784</u>
<b>OTHER ASSETS</b>		
Security deposit	<u>7,803</u>	<u>7,803</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,912,015</u></u>	<u><u>\$ 2,086,080</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of notes payable	\$ 224,567	\$ 217,231
Accounts payable and accrued expenses	<u>290,540</u>	<u>231,996</u>
<i>Total current liabilities</i>	515,107	449,227
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of current portion	<u>864,935</u>	<u>1,089,001</u>
<i>Total liabilities</i>	<u>1,380,042</u>	<u>1,538,228</u>
<b>NET ASSETS, UNRESTRICTED</b>		
Undesignated	(44,116)	158,300
Invested in property and equipment, net of notes payable	<u>576,089</u>	<u>389,552</u>
<i>Total net assets, unrestricted</i>	<u>531,973</u>	<u>547,852</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,912,015</u></u>	<u><u>\$ 2,086,080</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**

**For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 3,004,927	\$ 3,026,997
Grant revenue	917,154	884,499
Student fees	33,877	36,425
Program fees	-	10,725
Contributions	662	6,682
Other income	29,298	12,504
	<u>3,985,918</u>	<u>3,977,832</u>
<i>Total revenue and support</i>		
	<u>3,985,918</u>	<u>3,977,832</u>
<b>EXPENSES</b>		
Program services	3,120,166	3,056,222
Management and general	881,631	876,919
	<u>4,001,797</u>	<u>3,933,141</u>
<i>Total expenses</i>		
	<u>4,001,797</u>	<u>3,933,141</u>
<b>CHANGE IN NET ASSETS</b>	(15,879)	44,691
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>547,852</u>	<u>503,161</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 531,973</u>	<u>\$ 547,852</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, 2018 and 2017**

	2018			2017		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
<b>FUNCTIONAL EXPENSES</b>						
Salaries and wages	\$ 1,400,588	\$ 199,701	\$ 1,600,289	\$ 1,288,207	\$ 190,640	\$ 1,478,847
Employee benefits	397,067	57,956	455,023	337,805	42,856	380,661
Professional services	147,337	27,928	175,265	201,287	41,165	242,452
Depreciation	117,551	-	117,551	85,292	-	85,292
Classroom, kitchen, and office supplies	160,152	30,400	190,552	161,402	24,475	185,877
Food costs	196,496	-	196,496	223,572	-	223,572
Insurance	-	21,721	21,721	-	27,494	27,494
Occupancy	482,980	7,430	490,410	431,643	1,397	433,040
Authorizer oversight fees	-	66,440	66,440	-	65,442	65,442
Academic services	-	393,774	393,774	-	399,788	399,788
Equipment	58,618	7,421	66,039	55,657	9,764	65,421
Property rental and maintenance	44,710	184	44,894	39,864	158	40,022
Instruction services	12,007	-	12,007	170,237	-	170,237
Interest	-	44,924	44,924	-	49,506	49,506
Advertising	-	3,382	3,382	-	1,661	1,661
Travel	25,578	1,608	27,186	19,860	2,918	22,778
Information technology	43,999	-	43,999	6,164	1,600	7,764
Other	33,083	18,762	51,845	35,232	18,055	53,287
<i>Total functional expenses</i>	<u>\$ 3,120,166</u>	<u>\$ 881,631</u>	<u>\$ 4,001,797</u>	<u>\$ 3,056,222</u>	<u>\$ 876,919</u>	<u>\$ 3,933,141</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, 2018 and 2017**

	<u><b>2018</b></u>	<u><b>2017</b></u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (15,879)	\$ 44,691
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	117,551	85,292
Change in certain assets and liabilities:		
Grants receivable	5,459	543
Prepaid expenses	(19,989)	-
Accounts payable and accrued expenses	<u>58,544</u>	<u>62,753</u>
 <i>Net cash provided by operating activities</i>	 145,686	 193,279
 <b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(87,358)	(24,666)
 <b>FINANCING ACTIVITIES</b>		
Principal payments on notes payable	<u>(216,730)</u>	<u>(211,656)</u>
 <b>NET CHANGE IN CASH</b>	 (158,402)	 (43,043)
 <b>CASH, BEGINNING OF YEAR</b>	 <u>344,128</u>	 <u>387,171</u>
 <b>CASH, END OF YEAR</b>	 <u><u>\$ 185,726</u></u>	 <u><u>\$ 344,128</u></u>
 <b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 44,924	\$ 49,506

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, 2018 and 2017

### 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 420 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, 2018 and 2017, 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 2014 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, 2018 and 2017

### 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. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method.

Through June 30, 2017, routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than \$1,000 were charged to expense as incurred. Effective July 1, 2017, the School changed its property and equipment accounting policy in order to more accurately reflect the pattern of usage and expected benefits from the assets, as follows:

<u>Asset Category</u>	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$25,000	15 to 39 years
Furniture and equipment	Individual items: \$5,000 Aggregate of similar or identical items on a single purchase order: \$12,500	3 to 7 years

As a result of implementing the above property and equipment accounting policy, the School wrote off a total of \$495,308 of asset costs and accumulated depreciation pertaining to assets that were fully-depreciated, inactive, and/or did not meet the criteria for capitalization.

Subsequent Events – The School evaluated subsequent events through December 14, 2018, 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.

Reclassifications – Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net assets.

### NOTE 2 - GOING CONCERN CONSIDERATIONS

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As of June 30, 2018, the School's current liabilities are greater than current assets by approximately \$276,000, and undesignated net assets were in a deficit position of approximately \$44,000. The School also suffered a negative change in net assets during the year ended June 30, 2018 of approximately \$16,000 and incurred a net cash outflow of approximately \$158,000. Approximately \$88,000 of this cash outflow was for capital expenditures aimed at increasing instructional technology in the building and improving the grounds. If this trend continues, these factors could raise doubt about the School's ability to continue as a going concern.

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2018 and 2017**

**NOTE 2 - GOING CONCERN CONSIDERATIONS. Continued**

The School's management is aware of the negative financial results presented in the previous paragraph and has taken the following measures to improve its finances. The School has focused its efforts on enrollment, which resulted in a slight increase during the fall 2019 semester compared to the spring 2018 semester. The School has also worked with its management company to develop a budget for fiscal year 2019 that will allow the School to meet its current and upcoming obligations and strengthen its net asset position. This budget includes revenue from additional funding sources as a result of the School's focused efforts on identifying and securing additional grant opportunities.

**NOTE 3 - NOTES PAYABLE**

Notes payable consisted of the following at June 30:

	<u>2018</u>	<u>2017</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	\$ 272,905	\$ 404,663
Mortgage note payable in monthly installments of \$10,538 including interest at 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.	816,597	901,569
	<u>1,089,502</u>	<u>1,306,232</u>
Less: current maturities	<u>(224,567)</u>	<u>(217,231)</u>
Long-term portion	\$ <u>864,935</u>	\$ <u>1,089,001</u>

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

2019	\$ 224,567
2020	230,590
2021	106,014
2022	104,756
2023	108,669
Thereafter	<u>314,906</u>
Total	\$ <u>1,089,502</u>

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2018 and 2017**

**NOTE 4 - LEASES**

The School leases its building from a related party, and modular classrooms and equipment from unrelated parties, all under operating leases. Total expense under these operating leases was \$240,096 and \$235,767 for June 30, 2018 and 2017, respectively.

Future minimum rental payments as of June 30, 2018 for all operating leases with initial, non-cancellable lease terms in excess of one year are as follows for the years ending June 30:

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

**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. Substantially all full-time employees are eligible to participate.

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. The School's contributions represent an insignificant percentage of the total contributions received by TRF. As of June 30, 2017 (the latest year reported), TRF was more than 80% funded.

Retirement plan expense was \$135,333 and \$109,138 for the years ended June 30, 2018 and 2017, respectively.

**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 \$66,440 and \$65,442 for the years ended June 30, 2018 and 2017, respectively. The charter will remain in effect until June 30, 2021 and is renewable thereafter by mutual consent.

# **EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2018 and 2017**

### **NOTE 6 - COMMITMENTS, Continued**

The School has also contracted with The Leona Group, LLC to provide financial, management, administrative and educational programming services. Under the terms of the agreement, the School agrees 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 \$393,774 and \$399,788 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, 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 8 - 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 services and management and general expenses.

**EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.**

**OTHER REPORT**

**For the Year Ended June 30, 2018**

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*.