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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

October 16, 2019

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


We have reviewed the audit report of East Chicago Urban Enterprise Academy, Inc., which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2018 to June 30, 2019. 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, 2019 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 Going Concern Considerations paragraph in Note 2 on pages 8-9.

In our opinion, Donovan CPAs prepared the audit report in accordance with 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, 2019 and 2018



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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., which comprise the statements of financial position as of June 30, 2019 and 2018, 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

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

Indianapolis | 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, 2019 and 2018, 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
October 3, 2019

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 13,829	\$ 185,726
Grants receivable	94,030	32,906
Prepaid expenses	<u>20,672</u>	<u>19,989</u>
<i>Total current assets</i>	<u>128,531</u>	<u>238,621</u>
PROPERTY AND EQUIPMENT		
Buildings and improvements	2,408,538	2,408,538
Furniture and equipment	316,076	194,366
Less: accumulated depreciation	<u>(1,047,959)</u>	<u>(937,313)</u>
<i>Property and equipment, net</i>	<u>1,676,655</u>	<u>1,665,591</u>
OTHER ASSETS		
Security deposit	<u>7,828</u>	<u>7,803</u>
TOTAL ASSETS	<u><u>\$ 1,813,014</u></u>	<u><u>\$ 1,912,015</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 233,761	\$ 224,567
Accounts payable and accrued expenses	413,768	290,540
Refundable advance	<u>17,806</u>	<u>-</u>
<i>Total current liabilities</i>	665,335	515,107
LONG-TERM LIABILITIES		
Notes payable, net of current portion	<u>640,414</u>	<u>864,935</u>
<i>Total liabilities</i>	1,305,749	1,380,042
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>507,265</u>	<u>531,973</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,813,014</u></u>	<u><u>\$ 1,912,015</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUE AND SUPPORT		
State education support	\$ 2,986,286	\$ 3,004,927
Grant revenue	1,028,666	917,154
Student fees	34,524	33,877
Contributions	332	662
Other income	38,285	29,298
	<u>4,088,093</u>	<u>3,985,918</u>
<i>Total revenue and support</i>		
	<u>4,088,093</u>	<u>3,985,918</u>
EXPENSES		
Program services	3,249,313	3,120,166
Management and general	863,488	881,631
	<u>4,112,801</u>	<u>4,001,797</u>
<i>Total expenses</i>		
	<u>4,112,801</u>	<u>4,001,797</u>
CHANGE IN NET ASSETS	(24,708)	(15,879)
NET ASSETS, BEGINNING OF YEAR	<u>531,973</u>	<u>547,852</u>
NET ASSETS, END OF YEAR	<u>\$ 507,265</u>	<u>\$ 531,973</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, 2019 and 2018

	2019			2018		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 1,556,558	\$ 210,625	\$ 1,767,183	\$ 1,400,588	\$ 199,701	\$ 1,600,289
Employee benefits	498,562	60,378	558,940	397,067	57,956	455,023
Professional services	172,543	17,305	189,848	147,337	27,928	175,265
Depreciation	110,646	-	110,646	117,551	-	117,551
Classroom, kitchen, and office supplies	129,441	25,842	155,283	160,152	30,400	190,552
Food costs	233,193	-	233,193	196,496	-	196,496
Insurance	-	27,617	27,617	-	21,721	21,721
Occupancy	364,249	15,336	379,585	482,980	7,430	490,410
Authorizer oversight fees	-	33,316	33,316	-	66,440	66,440
Management services	-	404,700	404,700	-	393,774	393,774
Equipment	61,714	5,163	66,877	58,618	7,421	66,039
Property rental and maintenance	45,049	-	45,049	44,710	184	44,894
Instruction services	18,167	-	18,167	12,007	-	12,007
Interest	-	39,974	39,974	-	44,924	44,924
Advertising	-	2,475	2,475	-	3,382	3,382
Travel	20,614	887	21,501	25,578	1,608	27,186
Information technology	15,031	4,107	19,138	43,999	-	43,999
Other	23,546	15,763	39,309	33,083	18,762	51,845
	<u>\$ 3,249,313</u>	<u>\$ 863,488</u>	<u>\$ 4,112,801</u>	<u>\$ 3,120,166</u>	<u>\$ 881,631</u>	<u>\$ 4,001,797</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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (24,708)	\$ (15,879)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	110,646	117,551
Change in certain assets and liabilities:		
Grants receivable	(61,124)	5,459
Prepaid expenses	(683)	(19,989)
Security deposit	(25)	-
Accounts payable and accrued expenses	123,228	58,544
Refundable advance	<u>17,806</u>	<u>-</u>
<i>Net cash provided by operating activities</i>	<u>165,140</u>	<u>145,686</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(121,710)</u>	<u>(87,358)</u>
FINANCING ACTIVITIES		
Principal payments on notes payable	(224,990)	(216,730)
Proceeds from notes payable	<u>9,663</u>	<u>-</u>
<i>Net cash used by financing activities</i>	<u>(215,327)</u>	<u>(216,730)</u>
NET CHANGE IN CASH	(171,897)	(158,402)
CASH, BEGINNING OF YEAR	<u>185,726</u>	<u>344,128</u>
CASH, END OF YEAR	<u>\$ 13,829</u>	<u>\$ 185,726</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 39,974	\$ 44,924

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, 2019 and 2018

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.

Financial Statement Presentation – Effective with the June 30, 2019 year end, the School adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires changes to the financial reporting model for not-for-profit entities, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires additional disclosures regarding the liquidity of financial assets. ASU 2016-14 must be applied on a retrospective basis, therefore net assets as of and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14.

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 monthly installments in July through June coinciding with the academic 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, 2019 and 2018, no accounting for federal and state income taxes was included in the accompanying financial statements.

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 2015 are open to audit for both federal and state purposes.

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.

<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

Subsequent Events – The School evaluated subsequent events through October 3, 2019, 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 - GOING CONCERN CONSIDERATIONS

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As of June 30, 2019, the School's current liabilities are greater than current assets by approximately \$537,000. Accounts payable and accrued expenses as of June 30, 2019 increased approximately \$123,000 compared to June 30, 2018. A majority of the balance in accounts payable and accrued expenses represents current payroll and future payroll to fulfill school year teaching contracts, totaling approximately \$308,000. The School also suffered a negative change in net assets during the year ended June 30, 2019 of approximately \$25,000 and incurred a net cash outflow of approximately \$172,000. If this trend continues, these factors could threaten 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, 2019 and 2018

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 fiscal year 2020 semester compared to the spring 2019 semester. The School has also worked with its management company to develop a budget for fiscal year 2020 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>2019</u>	<u>2018</u>
Line of credit, refinanced to a term note, payable to a related party in monthly installments of \$11,267 including interest at 1.0% per annum through July 2020, secured by all School assets	\$ 139,825	\$ 272,905
Finance agreement, payable in monthly installments of \$301, including interest at 8.0% per annum through July 2021, secured by equipment	6,905	-
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	<u>727,445</u>	<u>816,597</u>
	874,175	1,089,502
Less: current maturities	<u>(233,761)</u>	<u>(224,567)</u>
Long-term portion	<u>\$ 640,414</u>	<u>\$ 864,935</u>

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

NOTE 3 - NOTES PAYABLE, Continued

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

2020	\$	233,761
2021		109,449
2022		105,055
2023		108,669
2024		113,557
Thereafter		<u>203,684</u>
Total	\$	<u>874,175</u>

NOTE 4 - LEASES

The School leases its building from party related through a common Board of Directors, and modular classrooms and equipment from unrelated parties, all under operating leases. Total expense under these operating leases was \$251,554 and \$240,096 for the years ended June 30, 2019 and 2018, respectively.

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

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, 2018 (the latest year reported), TRF was approximately 80% funded.

Retirement plan expense was \$146,860 and \$135,333 for the years ended June 30, 2019 and 2018, respectively.

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

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 \$66,632 and \$66,440 for the years ended June 30, 2019 and 2018, respectively. The charter will remain in effect until June 30, 2021 and is renewable thereafter by mutual consent.

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 will expire June 30, 2021. Payments under this contract were \$404,700 and \$393,774 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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. Management of the School has categorized expenses as program services or management and general according to the underlying nature of the expense. As such, no allocation between these categories of expenses was required.

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

NOTE 9 - LIQUIDITY

Under ASU 2016-14, the School is required to disclose the assets it has available at June 30, 2019 to meet its cash needs for general expenditures within one year of the date of the statement of financial position. The School's financial assets include cash and grants receivable. Financial assets at June 30, 2019 total \$107,859, all of which are available to meet cash needs for general expenditures within one year.

While the School has \$107,859 in financial assets available to meet cash needs for general expenditures within one year, it also has \$665,335 in current liabilities as of June 30, 2019 which must be paid using these available financial assets, future year state tuition support, or some combination of the two. This deficit in financial assets net of financial liabilities will result in a significant strain on the School's financial resources.

From time to time, the School receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

EAST CHICAGO URBAN ENTERPRISE ACADEMY, INC.

OTHER REPORT

For the Year Ended June 30, 2019

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*.