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302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

May 22, 2014

Charter School Board
The Hammond Urban Academy, Inc.
33 Muenich Court
Hammond, IN 46320

We have reviewed the Financial Statements and Independent Auditors' Report prepared by (McMahon & Associates Certified Public Accountants, P.C.), Independent Public Accountants, for the period July 1, 2011 to June 30, 2012. 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 the Hammond Urban Academy, Inc., as of June 30, 2012, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Financial Statements and Independent Auditors' Report are filed in our office as a matter of public record.

State Board of Accounts

THE HAMMOND URBAN ACADEMY, INC.

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2012 AND 2011

THE HAMMOND URBAN ACADEMY, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Hammond Urban Academy, Inc.
Hammond, Indiana

We have audited the accompanying statements of financial position of The Hammond Urban Academy, Inc. (an Indiana nonprofit corporation) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the School's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Hammond Urban Academy, Inc as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



McMahon & Associates Certified Public Accountants, P.C.
Munster, Indiana

May 22, 2013

THE HAMMOND URBAN ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
<u>CURRENT ASSETS:</u>		
Cash and cash equivalents	\$ 610,235	\$ 964,582
Restricted cash	183,344	229,425
Grants receivable	1,253,192	997,834
Accounts receivable - tuition	34,193	16,668
Accounts receivable - other	4,035	0
Prepaid expenses	36,258	34,685
Total current assets	<u>2,121,257</u>	<u>2,243,194</u>
<u>FIXED ASSETS</u>	26,653,533	1,320,885
Less: Accumulated depreciation	<u>1,130,432</u>	<u>239,677</u>
Total fixed assets	<u>25,523,101</u>	<u>1,081,208</u>
<u>OTHER LONG-TERM ASSETS:</u>		
Construction in progress	0	13,067,995
City of Hammond funds - held in trust	0	6,700,000
Bond investment account	158	4,285
Bond sinking fund - held in trust	1,148,500	1,148,500
Deferred bond issuance cost (net)	232,077	242,168
Total other long-term assets	<u>1,380,735</u>	<u>21,162,948</u>
<u>TOTAL ASSETS</u>	<u>\$ 29,025,093</u>	<u>\$ 24,487,350</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Note payable - current portion	\$ 0	\$ 62,834
Capital lease payable	0	9,027
Accounts payable	49,843	54,266
Accrued payroll and payroll taxes	40,958	68,024
Compensated absences	98,602	63,129
Accrued property taxes	0	9,969
Accrued interest	63,351	40,558
Total current liabilities	<u>252,754</u>	<u>307,807</u>
<u>LONG-TERM LIABILITIES:</u>		
Bonds payable	13,160,000	13,160,000
Note payable - net of current portion	1,520,261	1,193,841
Total long-term liabilities	<u>14,680,261</u>	<u>14,353,841</u>
Total liabilities	<u>14,933,015</u>	<u>14,661,648</u>
<u>NET ASSETS:</u>		
Unrestricted	13,518,797	2,869,927
Temporarily restricted	573,281	6,955,775
Total net assets	<u>14,092,078</u>	<u>9,825,702</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 29,025,093</u>	<u>\$ 24,487,350</u>

THE HAMMOND URBAN ACADEMY, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>REVENUES:</u>			
State tuition grant	\$ 0	\$ 2,439,931	\$ 2,439,931
Grants	0	574,562	574,562
Gaming funds	5,098,500	0	5,098,500
Contributions and donations	35,472	0	35,472
Student fees	64,111	0	64,111
Lunch revenue	60,546	0	60,546
Textbook rental	61,705	0	61,705
Total revenues	<u>5,320,334</u>	<u>3,014,493</u>	<u>8,334,827</u>
Net assets released from restrictions			
Satisfaction of program restrictions	<u>9,396,987</u>	<u>(9,396,987)</u>	<u>0</u>
Total revenues and net assets released from restrictions	<u>14,717,321</u>	<u>(6,382,494)</u>	<u>8,334,827</u>
<u>EXPENSES:</u>			
Program expenses	3,001,192	0	3,001,192
Management and general expenses	643,905	0	643,905
Total expenses	<u>3,645,097</u>	<u>0</u>	<u>3,645,097</u>
<u>OTHER INCOME (EXPENSE):</u>			
Interest income	1,338	0	1,338
Interest expense	(456,481)	0	(456,481)
Miscellaneous	31,789	0	31,789
Total other income (expense)	<u>(423,354)</u>	<u>0</u>	<u>(423,354)</u>
CHANGE IN NET ASSETS	10,648,870	(6,382,494)	4,266,376
NET ASSETS - BEGINNING OF YEAR	<u>2,869,927</u>	<u>6,955,775</u>	<u>9,825,702</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 13,518,797</u>	<u>\$ 573,281</u>	<u>\$ 14,092,078</u>

THE HAMMOND URBAN ACADEMY, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>REVENUES:</u>			
State tuition grant	\$ 0	\$ 1,990,416	\$ 1,990,416
Grants	0	353,173	353,173
Gaming funds	1,900,000	0	1,900,000
Student fees	87,610	0	87,610
Lunch revenue	34,849	0	34,849
Uniform revenue	3,513	0	3,513
Total revenues	<u>2,025,972</u>	<u>2,343,589</u>	<u>4,369,561</u>
Net assets released from restrictions			
Satisfaction of program restrictions	<u>2,087,814</u>	<u>(2,087,814)</u>	<u>0</u>
Total revenues and net assets released from restrictions	<u>4,113,786</u>	<u>255,775</u>	<u>4,369,561</u>
<u>EXPENSES:</u>			
Program expenses	1,941,767	0	1,941,767
Management and general expenses	632,613	0	632,613
Total expenses	<u>2,574,380</u>	<u>0</u>	<u>2,574,380</u>
<u>OTHER INCOME (EXPENSE):</u>			
Interest income	24,707	0	24,707
Interest expense	(42,650)	0	(42,650)
Penalties	(1,909)	0	(1,909)
Miscellaneous	142,588	0	142,588
Total other income (expense)	<u>122,736</u>	<u>0</u>	<u>122,736</u>
CHANGE IN NET ASSETS	1,662,142	255,775	1,917,917
NET ASSETS - BEGINNING OF YEAR	<u>1,207,785</u>	<u>6,700,000</u>	<u>7,907,785</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 2,869,927</u>	<u>\$ 6,955,775</u>	<u>\$ 9,825,702</u>

THE HAMMOND URBAN ACADEMY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	SUPPORTING SERVICES				Total 2012
	Program Services	Fundraising Expenses	Mgmt and Gen Expenses	Sub Total	
<u>Salaries and Related Expenses</u>					
Salaries	\$ 1,173,428	\$ 0	\$ 416,364	\$ 416,364	\$ 1,589,792
Employee benefits	223,781	0	58,051	58,051	281,832
Payroll taxes	136,178	0	27,480	27,480	163,658
Total salaries and related expenses	1,533,387	0	501,895	501,895	2,035,282
Advertising	273	0	273	273	546
Amortization	9,081	0	1,009	1,009	10,090
Bank fees	0	0	602	602	602
Depreciation	803,183	0	89,242	89,242	892,425
Educational supplies	31,861	0	0	0	31,861
Faculty development	11,119	0	0	0	11,119
Food purchases	108,346	0	0	0	108,346
Insurance	52,155	0	5,795	5,795	57,950
Miscellaneous	0	0	672	672	672
Office expense	7,390	0	7,390	7,390	14,780
Professional fees	253,434	0	7,096	7,096	260,530
Property taxes	0	0	907	907	907
Rent	8,782	0	8,781	8,781	17,563
Repairs and maintenance	75,220	0	8,358	8,358	83,578
Telephone	4,914	0	546	546	5,460
Utilities	102,047	0	11,339	11,339	113,386
Total expenses	\$ 3,001,192	\$ 0	\$ 643,905	\$ 643,905	\$ 3,645,097

THE HAMMOND URBAN ACADEMY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	<u>SUPPORTING SERVICES</u>				<u>Total 2011</u>
	<u>Program Services</u>	<u>Fundraising Expenses</u>	<u>Mgmt and Gen Expenses</u>	<u>Sub Total</u>	
<u>Salaries and Related Expenses</u>					
Salaries	\$ 790,320	\$ 0	\$ 383,891	\$ 383,891	\$ 1,174,211
Employee benefits	157,337	0	70,066	70,066	227,403
Payroll taxes	56,874	0	26,425	26,425	83,299
Total salaries and related expenses	1,004,531	0	480,382	480,382	1,484,913
Advertising	510	0	510	510	1,020
Amortization	9,081	0	1,009	1,009	10,090
Bank fees	0	0	1,594	1,594	1,594
Depreciation	120,530	0	13,392	13,392	133,922
Educational supplies	21,910	0	0	0	21,910
Faculty development	77,035	0	0	0	77,035
Food purchases	87,377	0	0	0	87,377
Insurance	41,854	0	4,650	4,650	46,504
Miscellaneous	0	0	21	21	21
Office expense	7,814	0	7,814	7,814	15,628
Professional fees	442,097	0	15,206	15,206	457,303
Property taxes	0	0	41,032	41,032	41,032
Rent	59,251	0	59,250	59,250	118,501
Repairs and maintenance	26,788	0	2,977	2,977	29,765
Telephone	644	0	71	71	715
Utilities	42,345	0	4,705	4,705	47,050
Total expenses	<u>\$ 1,941,767</u>	<u>\$ 0</u>	<u>\$ 632,613</u>	<u>\$ 632,613</u>	<u>\$ 2,574,380</u>

THE HAMMOND URBAN ACADEMY, INC.
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>OPERATING ACTIVITIES:</u>		
City of Hammond grant	\$ 2,439,931	\$ 1,990,416
Grants	574,562	353,173
Gaming funds	5,098,500	1,900,000
Contributions and donations	35,472	0
Tuition revenue	64,111	87,610
Lunch revenue	60,546	34,849
Uniform revenue	0	3,513
Textbook rental	61,705	0
Miscellaneous revenue	31,789	142,588
Interest income	1,338	24,707
Interest expense	(456,481)	(42,650)
Penalties	0	(1,909)
Cash paid for services	<u>(3,004,266)</u>	<u>(3,226,017)</u>
Net cash provided by operating activities	<u>4,907,207</u>	<u>1,266,280</u>
<u>INVESTING ACTIVITIES:</u>		
Fixed asset purchases	(25,334,316)	(698,582)
Bond account	4,127	0
Bond proceeds	0	444,905
City of Hammond funds - held in trust	6,700,000	0
Construction in progress	<u>13,067,995</u>	<u>(1,258,086)</u>
Net cash used by investing activities	<u>(5,562,194)</u>	<u>(1,511,763)</u>
<u>FINANCING ACTIVITIES:</u>		
Loan proceeds	263,586	1,256,675
Capital lease payable	<u>(9,027)</u>	<u>9,027</u>
Net cash provided by financing activities	<u>254,559</u>	<u>1,265,702</u>
NET INCREASE (DECREASE) IN CASH	(400,428)	1,020,219
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,194,007</u>	<u>173,788</u>
<u>CASH AND CASH EQUIVALENTS - END OF YEAR</u>	<u>\$ 793,579</u>	<u>\$ 1,194,007</u>
<u>RECONCILIATION OF CHANGE IN NET ASSETS TO CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Change in net assets	\$ 4,266,376	\$ 1,917,917
Add non-cash items:		
Amortization	10,090	10,090
Depreciation	892,425	133,922
(Increase) decrease in assets:		
Grants receivable	(255,358)	(997,834)
Accounts receivable - tuition	(17,525)	(16,668)
Accounts receivable - other	(4,035)	0
Prepaid expenses	(1,573)	(13,635)
Increase (decrease) in liabilities:		
Accounts payable	(4,423)	54,266
Accrued payroll	(27,066)	66,567
Compensated absences	35,472	63,128
Bid deposits	0	(2,000)
Accrued property taxes	(9,969)	9,969
Accrued interest	<u>22,793</u>	<u>40,558</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>\$ 4,907,207</u>	<u>\$ 1,266,280</u>

THE HAMMOND URBAN ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - The Hammond Urban Academy, Inc. is a non-profit organization incorporated in the state of Indiana. Its primary purpose is to provide the highest quality level of education to students in the 6th to 12th grades by implementing state of the art technology and research-based instruction in an environment that is conducive to learning.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting.

Financial Statement Presentation - The School has adopted Financial Accounting Standards Board's Accounting Standards Codification (ASC) 958 which provides guidance to reporting on not-for-profit organizations. Under ASC 958, 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. Contributions whose restrictions are met in the same period as the recognition of the contribution are considered unrestricted for reporting purposes. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. There were no permanently restricted net assets at June 30, 2012 and 2011.

Use of Estimates in Preparation of Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates of revenues and expenses during the reporting period.

Cash and Cash Equivalents - Cash, as presented on the accompanying statements of financial position and statements of cash flows, includes cash on hand and deposits in interest bearing and non-interest bearing accounts in financial institutions. Cash equivalents consist of highly liquid accounts with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as short-term investments and stated at cost, which approximates market value.

Concentration of Credit Risk - The School occasionally has balances in interest bearing bank accounts that exceed federally insured limits of \$250,000. All balances in non-interest bearing accounts are insured. At June 30, 2012 and 2011 cash at one financial institution with interest exceeded the federally insured limit by \$0 and \$116,031, respectively.

Accounts Receivable - The School records bad debts on the direct write-off method when, in management's opinion, an account becomes uncollectible. The direct write-off method is a departure from generally accepted accounting principles. Bad debt expenses calculated using the direct write-off method does not differ materially from those calculated using generally accepted methods. The School reviews student accounts over 30 days and contacts the students' families to work out a payment plan.

THE HAMMOND URBAN ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Grants Receivable - Grants receivable consists primarily of state support outstanding for the current school year.

Fixed Assets - Fixed assets are carried at cost, if purchased. The fair market value of donated assets is also capitalized. Depreciation expense is computed using the straight-line methods over the estimated useful life of the assets. When assets are retired or otherwise disposed of, the cost of related accumulated depreciation are removed from the accounts and any gain or loss resulting from the transactions is recognized as income for the period. The cost of repairs and maintenance is charged to income as incurred; significant renewals and betterments are capitalized.

Income Taxes - The Hammond Urban Academy, Inc. is a not-for-profit corporation organized under the laws of the State of Indiana. The Internal Revenue Service has given the School a favorable determination under Section 501 (c) (3) of the Internal Revenue Code, exempting the School from taxation.

Advertising - Advertising costs are expensed as they are incurred. Advertising expense for the years ending June 30, 2012 and 2011 is \$546 and \$1,020, respectively.

Allocation of Functional Expenses - The School has allocated their expenses by function based on the time spent on management, fundraising and program activities.

Amortization - The School amortizes deferred bond costs based on a fraction of the current debt retirement over the total debt at origination. Bond discounts are amortized on a straight-line basis over the life of the bonds.

Donated Equipment and Services - Donated equipment is reflected as contributions in the accompanying financial statements at their fair values at the date of receipts. No amounts have been reflected in the statements for donated services because they did not meet the criteria for recognition.

Reclassifications - For comparative purposes, certain 2011 balances have been reclassified to be consistent with current classifications.

Subsequent Events - In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through May 22, 2013, the date the financial statements were available to be issued.

NOTE 2 - SIGNIFICANT CONCENTRATIONS

The School received approximately 61% and 44% of its revenue from the City of Hammond's Gaming Funds from the riverboats and approximately 30% and 46% of its revenue from the state tuition grant for the years ended June 30, 2012 and 2011, respectively. At June 30, 2012 and 2011 97% and 99% of the grants receivable is from the state tuition grant. The School's operations are solely in the City of Hammond.

THE HAMMOND URBAN ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 3 - FIXED ASSETS

Fixed assets consist of the following at June 30, 2012:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 571,881	\$ 0	\$ 571,881
Building	24,843,390	685,062	24,158,328
Equipment	368,929	86,449	282,480
Computer equipment	746,727	306,731	439,996
Textbooks	56,071	18,201	37,870
Software	<u>66,535</u>	<u>33,989</u>	<u>32,546</u>
Total fixed assets - net	<u>\$ 26,653,533</u>	<u>\$ 1,130,432</u>	<u>\$ 25,523,101</u>

Fixed assets consist of the following at June 30, 2011:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 571,881	\$ 0	\$ 571,881
Equipment	170,836	25,333	145,503
Computer equipment	484,947	159,429	325,518
Textbooks	43,654	7,765	35,889
Software	<u>49,567</u>	<u>47,150</u>	<u>2,417</u>
Total fixed assets - net	<u>\$ 1,320,885</u>	<u>\$ 239,677</u>	<u>\$ 1,081,208</u>

Depreciation and amortization expense for the years ended June 30, 2012 and 2011 was \$892,425 and \$133,922, respectively.

NOTE 4 - CONSTRUCTION IN PROGRESS

At June 30, 2011 the construction of the school building was yet to be completed. The final inspection for the building was on August 22, 2011. Their first day of classes in the new school building was on August 29, 2011. Therefore, at June 30, 2011 the \$13,067,995 school building is recorded as construction in progress and has no depreciation recorded against it. During the year ended June 30, 2012 there was more construction on the building, but the school was open and there is no construction in progress at year end. Miscellaneous repairs and upgrades will continue to be made to the building in the coming years.

THE HAMMOND URBAN ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 5 - LONG TERM DEBT

	<u>2012</u>	<u>2011</u>
September 10, 2010 note payable of \$1,256,675, payable to Common School Fund, semi-annual payments of \$62,834 for principle, the payments change by the change in interest every payment, payments begin July 1, 2013 and go through January 1, 2023, interest rate of 4.00%.	\$ 1,256,675	\$ 1,256,675
November 2, 2011 note payable of \$263,586, payable to Common School Fund, semi-annual payments of \$6,590 for principle, the payments change by the change in interest every payment, payments begin July 1, 2013 and go through January 1, 2033, interest rate of 4.00%.	<u>263,586</u>	<u>0</u>
Total	1,520,261	1,256,675
Less: current portion	<u>0</u>	<u>62,834</u>
Long term debt	<u>\$ 1,520,261</u>	<u>\$ 1,193,841</u>

Maturities of long-term debt for the next five years are as follows:

For the year ended June 30	
2013	\$ 0
2014	138,847
2015	138,847
2016	138,847
2017 and thereafter	<u>1,103,720</u>
Total	<u>\$ 1,520,261</u>

NOTE 6 - RETIREMENT PLAN

The School has established a Teacher Employee Retirement Fund or "TERF" plan for teachers. Teachers receive 7.5% of their salary as a retirement contribution and the School pays an additional 3% of their salary towards their retirement plan. All other employees are enrolled in a Public Employee Retirement Fund or "PERF" plan. They receive 6.25% of their salary as a retirement contribution and the School pays an additional 3% of their salary towards their retirement plan. The School match for the years ending June 30, 2012 and 2011 was \$130,446 and \$83,765, respectively. The retirement plan expenses are included in employee benefits on the Statements of Functional Expenses.

THE HAMMOND URBAN ACADEMY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 7 - LEASE

The School has a lease for their copy machine. They entered into the lease on September 10, 2010 and the lease expires on September 10, 2013 (36 months). The monthly payment is \$301. They also have an immaterial lease for their postage machine. On December 2, 2011 the School added two more copy machines to this lease. The lease is now for three copiers and has a monthly payment of \$746. The lease expires in December 2014. Rent expense for equipment for the years ended June 30, 2012 and 2011 was \$7,363 and \$2,411, respectively.

The School also leased a building for their school during 2011 until their new school building was completed. The rent for the years ended June 30, 2012 and 2011 was \$10,200 and \$118,200, respectively.

Minimum lease payments for the next 3 years are:

For the year ended June 30

2013	\$ 8,952
2014	8,952
2015	<u>4,476</u>
Total	<u>\$ 22,380</u>

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

The School received grants in the years ended June 30, 2012 and 2011 for various projects at the School. The grants were restricted by the donors as to the purpose of the donation and its intended use. As of June 30, 2012 and 2011, temporarily restricted net assets consisted of donations for specific purposes that had not yet been met. The balances include \$0 and \$6,700,000 restricted for construction of the school, \$249,465 and \$0 restricted for initial start-up costs, \$0 and \$15,225 restricted for special education expenses, \$109,616 and \$0 restricted to pay loans and \$214,200 and \$240,550 restricted for staffing, and supplies from the planning phase of the School, respectively.

NOTE 9 - MISCELLANEOUS INCOME

Miscellaneous income in the other income section of the Statements of Activities is made up of various refunds for expenses and vending machine sales and commissions. The major refunds were from insurance claims and textbooks amounting to \$26,301 and \$141,103 in the years ended June 30, 2012 and 2011, respectively.

NOTE 10 - RESTRICTED CASH

Cash is restricted for specific grants at June 30, 2012 and 2011. The balance includes \$(30,856) and \$15,225 for the Federal Special Education grant, and \$214,200 and \$214,200 for the Federal Planning Grant, respectively.

THE HAMMOND URBAN ACADEMY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 11 - BONDS PAYABLE

The following is a summary of the Special Revenue Term Bonds transactions of the School for the years ended June 30, 2012 and 2011.

	<u>2010 Special Revenue Term Bonds</u>
Bonds payable at April 20, 2010	\$ 13,160,000
Bonds retired	<u>0</u>
Bonds payable at June 30, 2011	13,160,000
Current portion due in 2012	<u>0</u>
Long-term debt at June 30, 2011	13,160,000
Bonds retired	<u>0</u>
Bonds payable at June 30, 2012	13,160,000
Current portion due in 2013	<u>0</u>
Long-term debt at June 30, 2012	<u>\$ 13,160,000</u>

2010 Special Revenue Term Bonds

In April 2010 the Organization issued \$13,160,000 (6.50% to 6.75%) 2010 Special Revenue Term Bonds due in amounts ranging from \$140,000 to \$555,000 payable on February 15, 2014 and every February 15th and August 15th of each year thereafter through August 15, 2035. Interest on the bonds is payable semi-annually on February 15th and August 15th of each year beginning February 15, 2014.

The bonds were issued on April 20, 2010 for the purpose of financing (i) all or a portion of the costs of the construction, installation and equipping of a new charter school facility consisting of approximately 72,000 square feet, (ii) construction period interest on the Qualified Obligations through and including February 15, 2011, (iii) a debt service reserve fund (which will be held under the Bond Bank Indenture), and (iv) various costs incidental to the financing (including costs of issuance).

A summary of debt maturing in the next five years follows:

2013	0.00%	\$ 0
2014	6.50%	140,000
2015	6.50%	290,000
2016	6.50%	305,000
2017 and thereafter	6.50% to 6.75%	<u>12,425,000</u>
Total		<u>\$ 13,160,000</u>

The last payments of the bonds in the year 2035 for principle and interest are required to be deposited into an interest-bearing sinking fund account. As of June 30, 2012 and 2011, the balance of restricted cash was \$1,148,500. The School has an account with \$710,766 to pay for the interest on the bonds in 2011. The account has a \$0 balance at June 30, 2012, because it was used to pay that interest. The City of Hammond has also donated \$6,700,000 in connection with the grant for the School to use as needed for construction of the building. The funds are in the City of Hammond's bank account. As of June 30, 2012 the entire amount was used for the construction of the school.

THE HAMMOND URBAN ACADEMY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 12 - DEFERRED BOND ISSUANCE COSTS

2010 Deferred Bond Issuance Costs

The original amount of expenses associated with the bond issues of 2010 was \$252,258 and has been recorded as a deferred asset. The issuance cost is being amortized straight-line over the life of the bond. The following is a schedule of the unamortized issuance costs to be recognized over the next 5 years.

<u>Year</u>	<u>Deferred Costs</u>
2013	\$ 10,090
2014	10,090
2015	10,090
2016	10,090
2017	10,090
Thereafter	<u>181,627</u>
Total	<u>\$ 232,077</u>

The bonds were purchased by The Hammond Local Public Improvements Bond Bank at a cost of \$13,029,058, resulting in a discount of \$130,942. The discount was amortized as a percentage of the bonds retired. The discount is \$130,942 in underwriter fees. Professional fees of \$121,316 are being amortized with the discount for the total discount of \$252,258. Amortization expense for the years ended June 30, 2012 and 2011 was \$10,090. The balance of the unamortized costs is \$232,077 and \$242,168 for the years ended June 30, 2012 and 2011, respectively.

NOTE 13 - INCOME TAX UNCERTAINTIES

The School has adopted the provisions of ASC 740, which requires an organization to disclose any income tax uncertainties, including tax positions for which it is reasonably possible that the unrecognized tax benefit will significantly change in the next 12 months. The School believes that all income tax positions are reasonable and that the total amounts of unrecognized tax benefits will not significantly increase or decrease within 12 months of the reporting date. As a non-profit organization, the entity is exempt from income taxes. The School did not recognize any income tax interest or penalties during the fiscal years ended June 30, 2012 and 2011. In general, the School is no longer subject to examinations for years prior to 2010.