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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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December 16, 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 Fitzgerald/Isaac, LLC, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. 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, 2013, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In addition to the report presented herein, a Supplemental Audit Report for The Hammond Urban 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

Paul D. Joyce, CPA
State Examiner

THE HAMMOND URBAN ACADEMY, INC.

Financial Statements

June 30, 2013

Fitzgerald Isaac LLC
Certified Public Accountants

THE HAMMOND URBAN ACADEMY, INC.

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Fitzgerald Isaac LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Hammond Urban Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **The Hammond Urban Academy, Inc.**, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers 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.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Hammond Urban Academy, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Indianapolis, IN
August 22, 2014

THE HAMMOND URBAN ACADEMY, INC.

Statement of Financial Position

Assets	June 30, 2013
Current assets:	
Cash and cash equivalents	$ 683,414
Grants receivable	192,116
Prepaid expenses	18,381
Total current assets	893,911
Cash restricted for debt service	1,148,500
Deferred loan costs, net	221,987
Property and equipment:	
Land	571,881
Building and improvements	18,334,787
Furniture and equipment	1,569,634
Textbooks	93,414
Less: accumulated depreciation	(2,082,197)
Property and equipment, net	18,487,519
	$ 20,751,917

Liabilities and Net Assets	
Current liabilities:	
Accounts payable and accrued expenses	$ 26,578
Accrued salaries and related benefits	212,402
Accrued interest	397,547
Current portion of long-term debt	140,000
Total current liabilities	776,527
Long-term debt	13,020,000
Total liabilities	13,796,527
Unrestricted net assets	6,955,390
	$ 20,751,917

See accompanying notes to financial statements.

THE HAMMOND URBAN ACADEMY, INC.

Statement of Activities

Revenue and Support	Year Ended June 30, 2013
State education support	$ 2,864,983
Grant revenue	338,169
Student fees	154,705
Contributions	578,081
Other	19,961
Total revenue and support	3,955,899
Expenses	
Program services	4,435,527
Management and general	689,887
Total expenses	5,125,414
Change in net assets before non-operating income	(1,169,515)
Non-Operating Income	
Gain due to changes in legislative funding	466,558
Change in net assets	(702,957)
Net assets, beginning of year	7,658,347
Net assets, end of year	$ 6,955,390

See accompanying notes to financial statements.

THE HAMMOND URBAN ACADEMY, INC.

Statement of Cash Flows

Operating Activities	Year Ended June 30, 2013
Change in net assets	$ (702,957)
Adjustments to reconcile change in net assets to cash flows from operating activities:	
Gain due to changes in legislative funding	(466,558)
Depreciation and amortization	1,072,750
Change in:	
Grants receivable	(333,187)
Prepaid expenses	17,878
Accounts payable and accrued expenses	501,212
Net cash provided by operating activities	89,138
Investing Activities	
Acquisition of property and equipment	(454,482)
Liquidation of bond escrow account	158
Net cash used by investing activities	(454,324)
Financing Activities	
Net proceeds from Common School Fund loan	255,021
Net cash provided by financing activities	255,021
Net decrease in cash	(110,165)
Cash and cash equivalents, beginning of year	793,579
Cash and cash equivalents, end of year	$ 683,414
Supplemental disclosures:	
Cash paid for interest expense	$ 867,375

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

General

The Hammond Urban 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 and is sponsored by Ball State University. The School is dedicated to provide the highest quality level of education to students in grades six to twelve by implementing state of the art technology and research-based instruction in an environment conducive to learning.

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.

Accounts Receivable

Accounts receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

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 is paid in equal monthly installments in January through December following the start of the academic school year. Revenue is recognized in the year in which educational services are rendered. See Note 2 regarding legislative changes affecting revenue recognition.

A portion of the School’s revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

(1) Summary of Significant Accounting Policies, Continued

Property and Equipment

Purchases of these 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:

Building and improvements	30 years
Furniture and equipment	3 to 5 years
Textbooks	5 years

Taxes on Income

The Hammond Urban 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 year ended June 30, 2013, no accounting for federal and state income taxes was required to be 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.

Deferred Loan Costs

Costs associated with debt issuance are amortized over the life of the related debt obligation using the straight-line method. Amortization of deferred loan costs is included in interest expense and amounted to $10,090 for the year ended June 30, 2013.

(1) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in bank accounts and short-term, highly liquid investments with original maturities of three months or less.

Contributions

Contributions received are measured at their fair values and are reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Subsequent Events

The School evaluated subsequent events through August 22, 2014, 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.

(2) Legislative Funding Changes

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in equal monthly installments in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, school funding will be paid following the State of Indiana fiscal year of July to June, which is similar to the School’s academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 was suspended.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School has applied for and received repayment of its indebtedness under these obligations as of June 30, 2013.

(2) Legislative Funding Changes, Continued

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a gain due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans	$ 1,775,282
Repayment of accrued interest on Common School Fund loans	123,767
	1,899,049
Elimination of School funding	(1,432,491)
	$ 466,558

(3) Leases

The School leases certain items of office equipment under operating leases for terms from three to five years. Expense under operating leases for the year ended June 30, 2013 was $11,214. Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year are as follows:

Year Ending June 30:	
2014	$6,064
2015	5,160
2016	5,160
2017	2,580

(4) Retirement Plan

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 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. For the year ended June 30, 2013, the School contributed 10.5% of compensation for teaching faculty to TRF. The contribution to PERF for other employees was 9.25% of compensation. Substantially all full-time employees are eligible to participate. Retirement plan expense was $159,350 for the year ended June 30, 2013.

(5) Long-Term Debt

Long-term debt at June 30, 2013 consisted of a promissory note payable to the City of Hammond, funding for which was obtained by the issuance of Economic Development Revenue Bonds. The bonds were issued for the purpose of (1) financing all or a portion of the costs of construction, installation, and equipping of the charter school facility consisting of 72,000 square feet of space, (2) construction period interest on the Qualified Obligations through February 15, 2011, (3) a debt service reserve fund, and (4) various costs incidental to the financing. The note carries the same term as the related bonds, including interest at rates that vary from 6.5% to 6.75% and a maturity date of July 15, 2035. Interest only is payable until January 2014 when semi-annual principal payments begin. The loan is secured by a first mortgage on the land and building as well as a security interest in all fixtures, equipment, and machinery installed therein. The loan agreement also contains certain covenants that limit the School's ability to create liens, incur indebtedness, dispose of facility assets, or change the nature of its business.

Principal maturities of long-term debt are scheduled as follows:

Year Ending June 30:	
2014	$ 140,000
2015	290,000
2016	305,000
2017	325,000
2018	355,000
Thereafter	11,745,000
	$13,160,000

The City of Hammond has also committed to supplement any anticipated shortfall the School may have in meeting the debt service obligation. For the year ended June 30, 2013, the City of Hammond provided funding in the amount of $469,828 to meet the debt service obligation.

(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 payments received. The charter remains in effect until June 30, 2015, and is renewable thereafter by mutual consent. Payments under this agreement were $79,135 for the year ended June 30, 2013.

(7) Risks and Uncertainties

The School provides education 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, 2013, substantially all of the accounts receivable balance was due from the State of Indiana.

(8) Accounting Correction

In 2013, the School discovered that it had overstated the cost of the building construction project that was completed in 2012, and the related depreciation for the year. Net assets as of July 1, 2012 have been reduced by $6,433,731 to reflect the aggregate effect of this error.

(9) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated among the programs and services benefited. Following is a summary of expenses comprising each program and service for the year ended June 30, 2013:

	2013	
	Program Services	Management and General
Salaries and wages	$1,540,472	287,633
Employee benefits	428,804	68,734
Authorizer's fees	-	79,135
Supplies and materials	80,754	24,659
Contracted transportation	4,844	-
Depreciation and amortization	1,072,750	-
Equipment	122,049	-
Food service expense	114,424	-
Insurance	-	52,322
Interest	867,375	60,416
Occupancy	114,429	-
Professional fees	55,523	79,397
Repairs and maintenance	10,511	-
Staff development	17,021	-
Other	6,571	37,591
	$ 4,435,527	689,887

THE HAMMOND URBAN ACADEMY, INC.

Other Reports

Year Ended June 30, 2013

The report presented herein was prepared in addition to another official report prepared for the School as listed below:

Supplemental Audit Report of The Hammond Urban 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*.