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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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September 20, 2016

Charter School Board
Hammond Urban Academy
5246 Hohman Avenue
Hammond, IN 46320

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Donovan P.C., Independent Public Accountants, for the period July 1, 2014 to June 30, 2015. 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, as of June 30, 2015, 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, 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 Report
6.30.15

Contents

RSM US LLP

Independent Auditor's Report

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

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, 2015, 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.

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

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

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, 2015, 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.

RSM US LLP

Elkhart, Indiana
August 16, 2016

The Hammond Urban Academy, Inc.

Statement of Financial Position
June 30, 2015

ASSETS	
Current Assets	
Cash	$ 738,787
Grants receivable	11,439
Prepaid expenses	61,165
Total current assets	811,391
Property and Equipment,	
Land	5,671,123
Building and improvements	13,337,095
Furniture and equipment	1,655,233
Textbooks	125,832
	20,789,283
Accumulated depreciation	3,665,692
	17,123,591
Cash Restricted for Debt Service	1,148,500
Deferred Loan Costs, net	201,806
	$ 19,285,288
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable and accrued expenses	$ 12,981
Accrued salaries and related benefits	187,441
Accrued interest	384,718
Current portion of long-term debt	305,000
Total current liabilities	890,140
Long-Term Debt	12,425,000
Unrestricted Net Assets	5,970,148
	$ 19,285,288

See notes to financial statements.

The Hammond Urban Academy, Inc.

Statement Of Activities
Year Ended June 30, 2015

Revenue and Support:	
State education support	$ 3,429,733
Grant revenue	331,320
Student fees	246,439
Contributions	453,001
Other	98,889
	4,559,382
Expenses:	
Program services	4,054,859
Management and general	648,534
Total expenses	4,703,393
Change in net assets	(144,011)
Net assets, beginning of year	6,114,159
Net assets, end of year	$ 5,970,148

See notes to financial statements.

The Hammond Urban Academy, Inc.

Statement Of Cash Flows
Year Ended June 30, 2015

Cash Flows From Operating Activities	
Change in net assets	$ (144,011)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	749,077
Change in current assets and liabilities:	
(Increase) decrease in:	
Receivables	39,278
Other current assets	(11,805)
Increase (decrease) in:	
Accounts payable and accrued expenses	(83,752)
Other current liabilities	(30,576)
Net cash provided by operating activities	518,211
Cash Flows From Investing Activities	
Acquisition of property and equipment	(116,921)
Net cash (used in) investing activities	(116,921)
Cash Flows From Financing Activities	
Principal payments on long-term debt	(290,000)
Net cash (used in) financing activities	(290,000)
Increase in cash	111,290
Cash, beginning	627,497
Cash, ending	$ 738,787
Supplemental disclosure of cash flow information:	
Cash paid for interest	$ 853,563

See notes to financial statements.

Note 1. Nature of School and Significant Accounting Policies

Nature of school: The Hammond Urban Academy, Inc. (the "School") is a public benefit non-for-profit school 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.

Significant accounting policies:

Basis of accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of 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.

Cash and cash equivalents: The School has cash on deposit in a financial institution, which, at times, may exceed the limits of coverage provided by the Federal Deposit Insurance Corporation.

Cash restricted for debt service is held at BNY Melon and consists of cash and cash equivalents totaling $1,148,500.

For purposes of the statement of cash flows, the School considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

Grants receivable: Grants 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.

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 approximately $10,100 for the year ended June 30, 2015.

Property and equipment: Property and equipment are stated at cost or, if donated to the School, at fair value on the date of acquisition. Additions and improvements are capitalized; expenditures for routine maintenance are charged to operations. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is credited to or charged against income for the period.

Depreciation is computed using the straight-line and accelerated methods for property and equipment over the following estimated useful lives or lease term if shorter for leasehold improvements:

	Years
Buildings and improvements	30 to 40
Furniture and equipment	3 to 5
Textbooks	5

The School has a capitalization policy that states all property and equipment in excess of $1,000 are to be capitalized and depreciated.

Revenue recognition: Revenues generally 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 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. Accordingly, the School recognized revenue under these grants in the amount of costs and expenses at the time they are incurred.

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. The School had no temporarily restricted or permanently restricted net assets as of June 30, 2015.

Income taxes: The School is incorporated as a not-for-profit under the laws of the State of Indiana and is exempt from federal and state income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code, except for taxes pertaining to unrelated business income, if any, and is not considered a private foundation. Contributions by the public are deductible for income tax purposes.

The School follows the accounting guidance for uncertainty in income taxes. The standard clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The guidance also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. Management believes the School has no material uncertainties in income taxes.

The School files Form 990 in the U.S. federal jurisdiction and the related form in the state of Indiana. With few exceptions, the School is no longer subject to examination for years before 2012.

Subsequent events: The School has evaluated subsequent events for potential recognition and/or disclosure through August 16, 2016, the date the financial statements were available to be issued.

Note 2. Long-Term Debt

Long-term debt at June 30, 2015 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 was payable until January 2014 when semi-annual principal payments began. 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 payments for the years ending June 30, 2016 through 2020 and thereafter are as follows:

2016	$ 305,000
2017	325,000
2018	355,000
2019	375,000
2020	400,000
Thereafter	10,970,000
	$ 12,730,000

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, 2015, the City of Hammond provided funding in the amount of $450,000, which is presented in contributions in the statement of activities, to meet the debt service obligation.

Note 3. Commitments

The School operated under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercised certain oversight responsibilities. Under this charter, the School agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition payments received. The charter remained in effect until June 30, 2015. Payments under this agreement were $78,819 for the year ended June 30, 2015.

As of July 1, 2015, the School's charter has been renewed with the charter school network of Calumet College of St. Joseph, located in Whiting, Indiana. Under this charter, the School agrees to pay Calumet College of St. Joseph an annual administrative fee equal to 3% of state tuition payments received.

Note 4. Operating Lease Commitments

The School has entered into various operating leases for office equipment for terms from three to five years. Lease expense for the year ended June 30, 2015 totaled $11,527.

The following schedule presents the future minimum lease payments under the above noncancellable leases as of June 30, 2015:

2016	$ 5,160
2017	2,580
	$ 7,740

Note 5. Risk 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, 2015 substantially all of the accounts receivable balance was due from the State of Indiana. Bank deposits are maintained at First Merchants Bank and are insured up to the FDIC insurance limit.

Note 6. 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 cost-sharing 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 years ended June 30, 2015, the School contributed 10.5% of compensation for teaching faculty to TRF. The contribution to PERF for other employees was 10.75% of compensation. Substantially all full-time employees are eligible to participate. Retirement plan expense was $170,217 for the year ended June 30, 2015.

Note 7. Functional Expenses Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated between program and management services. Following is a summary of expenses comprising program and management and general for the year ended June 30, 2015. The School had no significant fundraising expenses for the year ended June 30, 2015.

	Program Services	Management and General
Salaries and wages	$ 1,552,749	$ 326,023
Employee benefits	426,699	83,684
Authorizer's fees	-	78,819
Supplies and materials	82,886	5,804
Contracted transportation	3,327	-
Depreciation and amortization	749,077	-
Network support and equipment	79,470	-
Food service expense	94,954	-
Insurance	-	63,828
Interest	844,905	-
Occupancy	124,519	-
Professional fees	61,190	69,564
Repairs and maintenace	11,914	-
Staff development	13,333	-
Other	9,836	20,812
Total expenses	$ 4,054,859	$ 648,534

Supplemental Report Information

The Independent Auditor's Report presented on pages 1 and 2 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*.