



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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January 30, 2024

Charter School Board
The Hammond Urban Academy, Inc.
Lake County, Indiana

We have reviewed the audit report of The Hammond Urban Academy, Inc. which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2022 to June 30, 2023. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of The Hammond Urban Academy, Inc. as of June 30, 2023, 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 finding in the report on page 22. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding. Management's Corrective Action Plan appears on page 24.

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 The Hammond Urban Academy, Inc., was prepared in accordance with the guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

A handwritten signature in cursive script that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner

THE HAMMOND URBAN ACADEMY, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2023 and 2022



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Donovan CPAs

Independent Auditors' Report

The Board of Directors
The Hammond Urban Academy, Inc.

Opinion

We audited the financial statements of The Hammond Urban Academy, Inc. (the “School”) which comprise the statements of financial position as of June 30, 2023 and 2022 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the School as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (“GAAS”) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about the School’s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report including our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information was subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2023 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

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 21, 2023

THE HAMMOND URBAN ACADEMY, INC

STATEMENTS OF FINANCIAL POSITION

June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 949,290	\$ 755,970
Grants receivable	281,992	174,733
Student fees receivable, net of allowance	58,165	-
Prepaid expenses	168,682	50,710
<i>Total current assets</i>	<u>1,458,129</u>	<u>981,413</u>
PROPERTY AND EQUIPMENT		
Land	6,253,333	6,213,923
Building and improvements	13,411,269	13,411,269
Furniture and equipment	4,183,849	4,177,272
Textbooks	144,890	144,890
Vehicles	141,240	-
Less: accumulated depreciation	<u>(9,591,124)</u>	<u>(8,769,931)</u>
<i>Property and equipment, net</i>	<u>14,543,457</u>	<u>15,177,423</u>
OTHER ASSETS		
Cash restricted for debt service	<u>960,038</u>	<u>960,038</u>
TOTAL ASSETS	<u>\$ 16,961,624</u>	<u>\$ 17,118,874</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of finance lease obligations	\$ 200,364	265,957
Current portion of notes payable	452,698	547,698
Accounts payable and accrued expenses	155,200	376,838
Deferred revenue	50,584	16,727
<i>Total current liabilities</i>	<u>858,846</u>	<u>1,207,220</u>
LONG-TERM LIABILITIES		
Finance lease obligations, net of current portion	440,752	712,746
Notes payable, net of current portion	8,586,745	9,144,443
Less: unamortized debt issuance costs	<u>(191,010)</u>	<u>(207,035)</u>
<i>Total long-term liabilities</i>	<u>8,836,487</u>	<u>9,650,154</u>
TOTAL LIABILITIES	9,695,333	10,857,374
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>7,266,291</u>	<u>6,261,500</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,961,624</u>	<u>\$ 17,118,874</u>

See independent auditors' report and accompanying notes to the financial statements

THE HAMMOND URBAN ACADEMY, INC
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
REVENUE AND SUPPORT		
State education support	\$ 4,329,763	\$ 4,016,485
Grant revenue	2,799,548	1,376,348
Contributions	658,559	151,769
Student fees	258,772	183,751
Other	103,133	49,652
	<hr/>	<hr/>
<i>Total revenue and support</i>	8,149,775	5,778,005
	<hr/>	<hr/>
EXPENSES		
Program services	5,834,683	4,974,706
Management and general	1,310,302	1,204,006
	<hr/>	<hr/>
<i>Total expenses</i>	7,144,984	6,178,712
	<hr/>	<hr/>
CHANGE IN NET ASSETS FROM OPERATIONS	1,004,791	(400,707)
PAYCHECK PROTECTION PROGRAM LOAN FORGIVENESS INCOME	<hr/>	<hr/>
	-	500,000
	<hr/>	<hr/>
CHANGE IN NET ASSETS	1,004,791	99,293
NET ASSETS, BEGINNING OF YEAR	<hr/>	<hr/>
	6,261,500	6,162,207
	<hr/>	<hr/>
NET ASSETS, END OF YEAR	<u>\$ 7,266,291</u>	<u>\$ 6,261,500</u>

See independent auditors' report and accompanying notes to the financial statements

THE HAMMOND URBAN ACADEMY, INC

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2023 and 2022

	2023			2022		
	<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	\$ 2,502,408	\$ 519,147	\$ 3,021,555	\$ 2,158,869	\$ 480,613	\$ 2,639,482
Employee benefits	698,225	162,509	860,734	642,432	129,394	771,826
Depreciation	704,023	124,239	828,262	700,979	123,702	824,681
Information technology	495,349	87,415	582,764	181,163	31,970	213,133
Interest	424,100	74,841	498,941	411,815	72,673	484,488
Classroom and office supplies	283,722	7,676	291,398	283,577	12,791	296,368
Professional services	101,813	151,741	253,554	110,088	163,086	273,174
Occupancy	163,764	28,899	192,663	152,290	26,875	179,165
Staff development	153,043	-	153,043	122,183	-	122,183
Authorizer fees	-	119,646	119,646	-	109,833	109,833
Food costs	115,066	-	115,066	82,303	-	82,303
Repairs and maintenance	102,598	-	102,598	52,198	-	52,198
Insurance	40,445	-	40,445	69,823	-	69,823
Bad debt	19,000	-	19,000	-	-	-
Other	31,127	34,188	65,315	6,986	53,069	60,055
<i>Total functional expenses</i>	<u>\$ 5,834,683</u>	<u>\$ 1,310,302</u>	<u>\$ 7,144,984</u>	<u>\$ 4,974,706</u>	<u>\$ 1,204,006</u>	<u>\$ 6,178,712</u>

See independent auditors' report and accompanying notes to the financial statements

THE HAMMOND URBAN ACADEMY, INC

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 1,004,791	\$ 99,293
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Paycheck Protection Program loan forgiveness income	-	(500,000)
Depreciation expense	828,262	824,681
Amortization of debt issuance costs	16,025	16,025
Change in certain assets and liabilities:		
Grants receivable	(107,259)	18,428
Student fees receivable, net of allowance	(58,165)	-
Prepaid expenses	(117,972)	21,220
Accounts payable and accrued expenses	(221,638)	(200,428)
Deferred revenue	33,857	(76,985)
<i>Net cash provided by operating activities</i>	<u>1,377,901</u>	<u>202,234</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(194,296)</u>	<u>(577,845)</u>
FINANCING ACTIVITIES		
Principal payments on notes payable	(652,698)	(442,697)
Principal payments on finance lease obligations	<u>(337,587)</u>	<u>(163,327)</u>
<i>Net cash used in financing activities</i>	<u>(990,285)</u>	<u>(606,024)</u>
NET CHANGE IN CASH	193,320	(981,635)
CASH, BEGINNING OF YEAR	<u>1,716,008</u>	<u>2,697,643</u>
CASH, END OF YEAR	<u>\$ 1,909,328</u>	<u>\$ 1,716,008</u>
CASH, END OF YEAR		
Cash - unrestricted	\$ 949,290	\$ 755,970
Cash - restricted for debt service	<u>960,038</u>	<u>960,038</u>
<i>Total cash, end of year</i>	<u>\$ 1,909,328</u>	<u>\$ 1,716,008</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 669,687	\$ 281,692
Equipment financed under finance lease arrangements	-	454,823

See independent auditors' report and accompanying notes to the financial statements

THE HAMMOND URBAN ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2023 and 2022

NOTE 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 Calumet College of St. Joseph (“Calumet”). The charter is effective until June 2028 and is renewable thereafter by mutual consent. The School is dedicated to providing 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. The School served approximately 560 students during the 2022-2023 school year (545 during the 2021-2022 school year).

Financial Statement Presentation – The School reports its financial position and activities according to two classes of net assets:

- net assets without donor restrictions, which include unrestricted resources available for the operating objectives of the School; and
- net assets with donor restrictions, which represent resources restricted by donors for specific time or purpose.

As of June 30, 2023 and 2022, the School had only net assets without donor restrictions.

Basis of Accounting and Use of Estimates – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions which affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. As of June 30, 2023 and 2022, there were no cash equivalents.

Cash Restricted for Debt Service – The bond loan agreements require deposits in an escrow account as a debt service reserve. The deposits were funded from the proceeds of the bonds and are included in cash restricted for debt service on the statements of financial position.

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

Student Fees Receivable – Student fees receivable relate to fees charged to students for various curricular materials and other fees and are reviewed for collectability on an annual basis. The accompanying statements of financial position reflect an allowance for doubtful accounts of \$19,000 as of June 30, 2023. There were no recorded student fees receivable or allowance for doubtful accounts as of June 30, 2022.

Debt Issuance 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 totaled \$16,025 for both years ended June 30, 2023 and 2022 and is included in interest expense.

THE HAMMOND URBAN ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2023 and 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property and Equipment – Purchases of assets and expenditures which 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 small equipment purchases are charged to expense as incurred.

Depreciation is computed using the straight-line method for property and equipment over the following estimated useful lives:

Building and improvements	30 to 40 years
Furniture and equipment	3 to 5 years
Textbooks	5 years
Vehicles	5 years

Taxes on Income – The School received a determination from the U.S. Treasury Department stating 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, 2023 and 2022, 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 not be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability 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 examined this issue and determined there are no material contingent tax liabilities or questionable tax positions. Tax years ended after June 30, 2019 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 21, 2023, 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 - REVENUE RECOGNITION

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.

THE HAMMOND URBAN ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2023 and 2022

NOTE 2 - REVENUE RECOGNITION, Continued

A significant 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. Incurring approved costs is considered satisfaction of the performance obligations.

The School receives contributions and grants from private organizations and individuals which are recorded in accordance with the terms of the underlying agreements.

Student fees are recognized in the year in which the services are rendered. Deferred revenue is recorded for amounts received for student fees prior to the fiscal year-end, pertaining to the subsequent fiscal year.

Disaggregation of Revenue – Revenue is disaggregated on the statements of activities and change in net assets.

NOTE 3 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	<u>2023</u>	<u>2022</u>
Note payable to City of Hammond, issued through Economic Development Revenue Bonds, Series 2016B, payable in semi-annual installments ranging from \$70,000 to \$475,000, plus interest at 5.00%, secured by building, maturing August 2035	\$ 7,840,000	\$ 8,150,000
Common School Loan, payable to State of Indiana in semi-annual installments of \$171,349, plus interest at 1.00%, maturing July 2026	1,199,443	1,542,141
	<u>9,039,443</u>	<u>9,692,141</u>
Less: current portion	<u>(452,698)</u>	<u>(547,698)</u>
Long-term portion	\$ <u>8,586,745</u>	\$ <u>9,144,443</u>

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

2024	\$ 452,698
2025	567,698
2026	577,698
2027	786,349
2028	645,000
Thereafter	<u>6,010,000</u>
	\$ <u>9,039,443</u>

THE HAMMOND URBAN ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2023 and 2022

NOTE 4 - LEASES

Lease Accounting Standard – Effective July 1, 2022, the School adopted Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 replaced previous lease guidance under U.S. GAAP and aims to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the statements of financial position and disclosing key information about leasing arrangements. The School elected to apply the transition alternative allowed under ASU 2018-11. Under this election, the entity recognizes a cumulative effect adjustment to the opening balance of net assets as of the adoption date. Management determined no cumulative effect adjustment to net assets was necessary, since there is no difference in rent expense under the new standard. The School applied the provisions of ASU 2016-02 as of the adoption date.

Finance Leases – The School leases computers, televisions, and office equipment under finance lease agreements with monthly payments ranging from \$343 to \$8,841 which mature at various dates from July 2023 through September 2027. The School capitalized a total of \$1,327,831 in equipment related to these agreements.

Imputed Interest – The weighted average discount rate for finance leases is 5.6%.

The required minimum capital lease payments and present value of future minimum lease payments are as follows for the years ending June 30:

2024	\$	230,838
2025		215,733
2026		214,221
2027		<u>37,816</u>
Total minimum lease payments		698,608
Less: amount representing interest		<u>(57,492)</u>
Present value of future minimum lease payments		641,116
Less: current portion		<u>(200,364)</u>
Long-term portion	\$	<u>440,752</u>

NOTE 5 - PAYCHECK PROTECTION PROGRAM

In response to the COVID-19 pandemic, the United States federal government adopted the Coronavirus Aid, Relief, and Economic Security Act and the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (collectively, the “Acts”). The Acts include provisions for the Paycheck Protection Program (“PPP”) administered through the Small Business Administration. On February 5, 2021, the School was granted a second-round PPP note payable from First Midwest Bank in the amount of \$500,000. The School was notified the loan was forgiven in full effective June 3, 2022, and therefore recognized the entire amount as PPP loan forgiveness income during the year ended June 30, 2022.

THE HAMMOND URBAN ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2023 and 2022

NOTE 6 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits 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. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plans, the School contributed 9% of compensation for electing teaching faculty to TRF and 14.2% of compensation for other electing employees to PERF during the year ended June 30, 2023 (8.5% and 14.2% for the year ended June 30, 2022), which included the optional 3% employee portion that the School elected to cover on their behalf. Should the School elect to withdraw from TRF or PERF, it could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2022 (the latest year reported), TRF was over 92% funded and PERF was over 82% funded.

Retirement plan expenses were \$264,107 and \$222,490 for the years ended June 30, 2023 and 2022, respectively.

NOTE 7 - COMMITMENT

As the sponsoring organization, Calumet exercises certain oversight responsibilities. Under this charter, the School agrees to pay to Calumet an annual authorizer's fee equal to 3% of state tuition payments received. Payments under this agreement were \$119,646 and \$109,833 for the years ended June 30, 2023 and 2022, respectively.

NOTE 8 - 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 which potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. In addition, deposits maintained at Old National Bank and Peoples Bank are insured up to the FDIC insurance limit. As of June 30, 2023 and 2022 and regularly throughout the years then ended, the School's cash balance exceeded the FDIC insurance limit.

THE HAMMOND URBAN ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2023 and 2022

NOTE 9 - LIQUIDITY

Financial assets available to meet cash needs for general expenditures within one year include cash (excluding cash restricted for debt service) and grants receivable totaling \$1,289,447 and \$930,703 as of June 30, 2023 and 2022, respectively.

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.

NOTE 10 - FUNCTIONAL EXPENSE REPORTING

The costs of providing educational instruction have been summarized on a functional basis in the statements of activities and change in net assets. Management of the School categorized expenses as program services or management and general according to the underlying nature of the expense. Certain categories of expenses are attributed to more than one program or supporting function. These expenses, which include depreciation and amortization, interest, occupancy, and information technology, are allocated on a square footage basis. Salaries and wages and employee benefits are allocated on the basis of estimates of time and effort. Management evaluates these allocations on an annual basis.

SUPPLEMENTARY INFORMATION

THE HAMMOND URBAN ACADEMY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2023

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education:			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 42,380
National School Lunch Program	10.555		6,485
			<hr/>
<i>Total U.S. Department of Agriculture</i>			48,865
			<hr/>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education:			
Title I, Part A;			
Grants to Local Educational Agencies	84.010	S010A220014	212,859
Grants to Local Educational Agencies	84.010	S010A210014	94,233
Title II, Part A;			
Supporting Effective Instruction State Grants	84.367	S367A200013	3,281
Supporting Effective Instruction State Grants	84.367	S367A210013	30,470
Supporting Effective Instruction State Grants	84.367	S367A220013	35,845
Title IV, Part A;			
Student Support and Academic Enrichment	84.424	S424A200015	1,526
Student Support and Academic Enrichment	84.424	S424A210015	2,329
Student Support and Academic Enrichment	84.424	S424A220015	2,700
Special Education Cluster;			
Special Education - Grants to States	84.027A	22611-538-PN01	28,278
Special Education - Grants to States	84.027A	23611-538-PN01	92,508
Education Stabilization Fund;			
Elementary and Secondary School Emergency Relief Fund	84.425U	S425U210013	1,227,344
Elementary and Secondary School Emergency Relief Fund	84.425D	S425D210013	283,488
			<hr/>
<i>Total U.S. Department of Education</i>			2,014,861
			<hr/>
<i>Total federal awards expended</i>			\$ 2,063,726
			<hr/> <hr/>

See independent auditors' report and accompanying notes to this schedule

THE HAMMOND URBAN ACADEMY, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2023

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of The Hammond Urban Academy, Inc. (the “School”) under programs of the federal government for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, functional expenses, or cash flows of the School.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

The School elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.



Donovan CPAs

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
The Hammond Urban Academy, Inc.

We audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Hammond Urban Academy, Inc. (the "School"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and issued our report thereon dated December 21, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting ("internal control") to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control which might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist which have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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 21, 2023



Donovan CPAs

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE *UNIFORM GUIDANCE*

The Board of Directors
The Hammond Urban Academy, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We audited The Hammond Urban Academy, Inc.'s (the "School") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* which could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2023. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above which could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding No. 2023-001. Our opinion on the major federal programs is not modified with respect to these matters.

The School's response to the noncompliance finding identified in our audit is described in the Corrective Action Plan on page 24. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (“GAAS”); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (“*Government Auditing Standards*”); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors’ Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the School and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the School’s federal programs.

Auditors’ Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School’s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School’s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School’s internal control over compliance relevant to the audit in order to design audit procedures appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School’s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program which is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding No. 2023-001 to be a significant deficiency.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance which might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist which were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DONOVAN



Indianapolis, Indiana
December 21, 2023

THE HAMMOND URBAN ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2023

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiency identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weakness identified?	No
• Significant deficiency identified?	Yes
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
Identification of major programs:	
Assistance Listing <u>Number</u>	<u>Name of Federal Program or Cluster</u>
84.425D & 84.425U	Education Stabilization Fund
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

II. Financial Statement Findings

No matters were reportable.

THE HAMMOND URBAN ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2023

III. Federal Award Findings and Questioned Costs

FINDING 2023-001 REPORTING
SIGNIFICANT DEFICIENCY

Federal Program: Education Stabilization Fund
Assistance Listing Number: 84.425D

Condition

The United States Department of Education required the submission of a report covering the period of July 1, 2021 to June 30, 2022 outlining the various uses of Elementary and Secondary School Emergency Relief Funds. The School was unable to provide support for how the amounts submitted in this report were calculated. Totals reported for expenses were not in line with totals expended during the period.

Criteria

2 CFR part 200, Appendix XI, Compliance Supplement, Section 3-L-1, states “Non-federal entities may be required to submit performance reports at least annually but not more frequently than quarterly, except in unusual circumstances, using a form or format authorized by OMB (2 CFR section 200.329). They also may be required to submit special reports as required by the terms and conditions of the federal award.”

Cause

The School did not report activity related to the use of Elementary and Secondary School Emergency Relief Funds in line with actual activity. The School did not have controls in place to ensure accurate reporting.

Effect

Information on the use of funds from the Education Stabilization Fund were not accurately presented.

Recommendation

We recommend the School develop internal controls to ensure accurate reporting in line with guidelines.

Views of Responsible Officials and Planned Corrective Actions

The School’s Corrective Action Plan is included on page 24.

THE HAMMOND URBAN ACADEMY, INC.

OTHER REPORT

For the Year Ended June 30, 2023

The reports presented herein were 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*.



Donovan CPAs
9292 N. Meridian St, Ste 150
Indianapolis, IN. 46260
Attn: Jacob Stephenson

Re: Response to Audit - 7/1/22 - 6/30/23 Single Audit

December 21, 2023

Regarding Finding 2023-001 Reporting Significant Deficiency occurred as a result of inadequate controls to ensure accurate reporting to eh DOE. Correct

1. Regarding Finding 2023-001 Reporting Significant Deficiency occurred as a result of inadequate controls to ensure accurate reporting to the DOE.

Corrective Action Plan as Follows:

- a. Deborah Czmiel (CFO) will request grant reports which include total expenses for each federal grant from BPI for the reporting period.
- b. Deborah Czmiel (CFO), Deborah Snedden (Superintendent) and Jeff Wood (Asst Superintendent) will compare grant reports from BPI to financial statements. Any discrepancies will be addressed and resolved by Deborah Czmiel (CFO) prior to submission of final report.
- c. Deborah Czmiel (CFO) will complete and submit the final reports, after the expense totals have been confirmed and reconciled.

With collaboration of the administrative team and the proper checks and balances as identified above any future inaccurate submissions will not occur.

Respectfully,

A handwritten signature in black ink, appearing to read "Deborah S. Czmiel".

Deborah S. Czmiel
CFO/Business Manager