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April 24, 2018


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

We have reviewed the report prepared by The Hammond Urban Academy, Inc. and opined upon by RSM US LLP, Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of The Hammond Urban Academy, Inc. as of June 30, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, RSM US LLP prepared all required independent auditor's reports in accordance with generally accepted auditing standards and 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 Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.


Paul D. Joyce, CPA
State Examiner

The Hammond Urban Academy, Inc.

Financial Report
6.30.16

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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 statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter—Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis rather than to present the financial position, changes in net assets and cash flows of The Hammond Urban Academy, Inc. 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 supplementary information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Elkhart, Indiana
October 26, 2017

The Hammond Urban Academy, Inc.

Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
ASSETS		
Current Assets		
Cash	\$ 871,238	\$ 738,787
Grants receivable	23,865	11,439
Prepaid expenses	65,983	61,165
Total current assets	961,086	811,391
Property and Equipment,		
Land	5,671,123	5,671,123
Building and improvements	13,337,095	13,337,095
Furniture and equipment	1,866,336	1,655,233
Textbooks	127,845	125,832
	21,002,399	20,789,283
Accumulated depreciation	4,306,965	3,665,692
	16,695,434	17,123,591
Cash Restricted for Debt Service	915,000	1,148,500
Deferred Loan Costs, net	302,682	201,806
	\$ 18,874,202	\$ 19,285,288
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 19,620	\$ 12,981
Accrued salaries and related benefits	184,540	187,441
Accrued interest	188,356	384,718
Current portion of long-term debt	316,349	305,000
Total current liabilities	708,865	890,140
Long-Term Debt	12,285,630	12,425,000
Net Assets		
Unrestricted	5,870,180	5,970,148
Temporarily restricted for teachers	9,527	-
Total net assets	5,879,707	5,970,148
	\$ 18,874,202	\$ 19,285,288

See notes to financial statements.

The Hammond Urban Academy, Inc.

Statements Of Activities

Years Ended June 30, 2016 and 2015

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and Support:		
State education support	\$ 3,366,168	\$ 3,429,733
Grant revenue	656,015	331,320
Student fees	231,151	246,439
Unrestricted contributions	675,378	453,001
Other	64,427	98,889
Total unrestricted revenues	4,993,139	4,559,382
Expenses:		
Program services	4,331,955	4,054,859
Management and general	761,152	648,534
Total expenses	5,093,107	4,703,393
Change in unrestricted net assets	(99,968)	(144,011)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Restricted contributions for teachers	9,527	-
Change in temporarily restricted net assets	9,527	-
Change in net assets	(90,441)	(144,011)
Net assets, beginning of year	5,970,148	6,114,159
Net assets, end of year	\$ 5,879,707	\$ 5,970,148

See notes to financial statements.

The Hammond Urban Academy, Inc.

Statements Of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	\$ (90,441)	\$ (144,011)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	860,897	749,077
Change in current assets and liabilities:		
(Increase) decrease in:		
Receivables	(12,426)	39,278
Other current assets	(4,818)	(11,805)
Increase (decrease) in:		
Accounts payable and accrued expenses	6,639	(83,752)
Other current liabilities	(199,263)	(30,576)
Net cash provided by operating activities	560,588	518,211
Cash Flows From Investing Activities		
Acquisition of property and equipment	(213,116)	(116,921)
Release of cash restricted for debt service	233,500	-
Net cash provided by (used in) investing activities	20,384	(116,921)
Cash Flows From Financing Activities		
Principal payments on long-term debt	(12,730,000)	(290,000)
Payment of deferred loan costs	(320,500)	-
Proceeds from long-term borrowings	12,601,979	-
Net cash used in financing activities	(448,521)	(290,000)
Increase in cash	132,451	111,290
Cash, beginning	738,787	627,497
Cash, ending	\$ 871,238	\$ 738,787
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 913,711	\$ 853,563

See notes to financial statements.

The Hammond Urban Academy, Inc.

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 not-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 Calumet College of St. Joseph. 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.

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.

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 \$219,600 and \$10,100 for the years ended June 30, 2016 and 2015 respectively. Amortization expense includes approximately \$201,800 related to debt that was extinguished during the year ended June 30, 2016.

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:

	<u>Years</u>
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.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

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 are recognized as revenues in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation. 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 permanently restricted net assets as of June 30, 2016 and 2015.

Functional allocation of expenses: Expenses are recorded when incurred in accordance with the accrual basis of accounting. 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. The School had no significant fundraising expenses for the years ended June 30, 2016 and 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 2013.

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is permitted. The updated standard will now be effective for annual periods beginning after December 15, 2018. The School has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs*. The amendment in this update require that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendment in this Update. The amendment is effective for fiscal years beginning after December 15, 2015. The School is currently evaluating the effect of the pending adoption of the new standard on the financial statements.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

In February 2016, the FASB issued ASU 2016-02, *Leases—(Topic 842)*, which supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the School's June 30, 2021 financial statements. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The School is currently evaluating the effect of the pending adoption of the new standard on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The new standard is effective for the School in the fiscal year ending June 30, 2019, early adoption is allowed. The School is currently evaluating the impact of the adoption of the standard on its financial statements.

Subsequent events: The School has evaluated subsequent events for potential recognition and/or disclosure through October 26, 2017, the date the financial statements were available to be issued.

Note 2. Long-Term Debt

Long term debt at June 30, 2016 and 2015 consisted of the following:

	2016	2015
\$9,175,000 Note, 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%, until maturity in August 2035 ¹	\$ 9,175,000	\$ -
Common School Loan, State of Indiana, payable in semi-annual installments of \$171,349, plus interest at 1.00%, until maturity in July 2026 ¹	3,426,979	-
Other ¹	-	12,730,000
	<u>12,601,979</u>	<u>12,730,000</u>
Less current maturities	316,349	305,000
	<u>\$ 12,285,630</u>	<u>\$ 12,425,000</u>

¹ In February 2016, the School entered into an escrow deposit agreement (agreement) with the issuer and the trustee to provide for the defeasance and redemption of the Series 2010A bonds. In February 2016, the School deposited funds with the trustee under the agreement in order to legally defease and redeem all Series 2010A bonds. Simultaneously, the issuer terminated, released and cancelled the loan agreement entered into with the School. The School entered into a bond loan agreement (Series 2016B) and into a Common School Loan to fund the defeasance and redemption of the 2010A bonds. The trustee fully redeemed the outstanding Series 2010A bonds in February 2016 at the outstanding principal amount plus accrued interest.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Aggregate maturities of long-term debt outstanding at June 30, 2016 are as follows:

2018	\$ 502,698
2019	507,698
2020	517,698
2021	527,698
Thereafter	10,229,838
	<u>\$ 12,285,630</u>

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. The total amount held in escrow and included in cash restricted for debt service on the statements of financial position as of June 30, 2016 and 2015 is \$915,000 and \$1,148,500 respectively.

The interest expense was approximately \$728,000 and \$845,000 for the years ended June 30, 2016 and 2015 respectively.

The City of Hammond has also committed to supplement any anticipated shortfall the School may have in meeting the debt service obligation. For the years ended June 30, 2016 and 2015, the City of Hammond provided funding in the amount of \$650,000 and \$450,000 respectively, which is presented in contributions in the statement of activities, to meet the debt service obligation.

Note 3. Commitments

The School operates under a charter granted by Calumet College of St. Joseph. As the sponsoring organization, Calumet College of St. Joseph exercises certain oversight responsibilities. Under this charter, the School agrees to pay to Calumet College of St. Joseph an annual administrative fee equal to 3% of state tuition payments received. The charter is effective until August 15, 2019. Payments under this agreement were approximately \$81,600 and \$78,800 for the years ended June 30, 2016 and 2015 respectively.

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 years ended June 30, 2016 and 2015 totaled approximately \$14,000 and \$11,500 respectively.

The following schedule presents the future minimum lease payments under the above noncancellable leases as of June 30, 2016:

2017	\$ 13,100
2018	10,600
2019	10,600
2020	10,600
2021	1,700
	<u>\$ 46,600</u>

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 5. Risk and Uncertainties

The School provides education services to families residing in Lake County 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 an 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, 2016 substantially all of the accounts receivable balance was due from the state of Indiana. Bank deposits are maintained at a 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, 2016 and 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 approximately \$204,200 and \$170,200 for the years ended June 30, 2016 and 2015 respectively.

The Hammond Urban Academy, Inc.

Schedules of Functional Expenses
 Years Ended June 30, 2016 and 2015
 See Independent Auditor's Report

	2016		2015	
	Program Services	Management and General	Program Services	Management and General
Salaries and wages	\$ 1,798,318	\$ 361,580	\$ 1,552,749	\$ 326,023
Employee benefits	508,797	100,159	426,699	83,684
Authorizer's fees	-	81,567	-	78,819
Supplies and materials	82,257	4,377	82,886	5,804
Contracted transportation	341	-	3,327	-
Depreciation and amortization	860,897	-	749,077	-
Network support and equipment	63,698	-	79,470	-
Food service	98,164	-	94,954	-
Insurance	-	102,199	-	63,828
Interest	728,166	-	844,905	-
Occupancy	117,533	-	124,519	-
Professional fees	40,912	83,540	61,190	69,564
Repairs and maintenance	18,009	-	11,914	-
Staff development	2,788	-	13,333	-
Other	12,075	27,730	9,836	20,812
Total expenses	<u>\$ 4,331,955</u>	<u>\$ 761,152</u>	<u>\$ 4,054,859</u>	<u>\$ 648,534</u>

The Hammond Urban Academy, Inc.

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*.