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June 28, 2019

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

We have reviewed the audit report of The Hammond Urban Academy, Inc. which was opined upon by RSM US LLP, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. 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, 2017, 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 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 audited Financial Statements and 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
6.30.17

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Contents

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, 2017 and 2016, 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, 2017 and 2016, 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
November 15, 2018

The Hammond Urban Academy, Inc.

Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current Assets		
Cash	$ 1,196,321	$ 871,238
Grants receivable	10,056	23,865
Prepaid expenses	83,779	65,983
Total current assets	1,290,156	961,086
Property and Equipment		
Land	5,671,123	5,671,123
Building and improvements	13,337,095	13,337,095
Furniture and equipment	2,327,035	1,866,336
Textbooks	127,524	127,845
	21,462,777	21,002,399
Accumulated depreciation	5,105,595	4,306,965
	16,357,182	16,695,434
Cash Restricted for Debt Service	915,000	915,000
	$ 18,562,338	$ 18,571,520
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 78,870	$ 19,620
Accrued salaries and related benefits	252,464	184,540
Accrued interest	185,591	188,356
Current portion of obligations under capital lease	52,654	-
Current portion of long-term debt	502,698	316,349
Total current liabilities	1,072,277	708,865
Long-Term Liabilities		
Obligations under capital lease	110,249	-
Long-term debt	11,495,772	11,982,948
Total long-term liabilities	11,606,021	11,982,948
Net Assets		
Unrestricted	5,834,607	5,870,180
Temporarily restricted	49,433	9,527
Total net assets	5,884,040	5,879,707
	$ 18,562,338	$ 18,571,520

See notes to financial statements.

The Hammond Urban Academy, Inc.

Statements of Activities
Years Ended June 30, 2017 and 2016

	2017	2016
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and Support:		
State education support	$ 3,418,203	$ 3,366,168
Grant revenue	516,310	656,015
Student fees	225,955	231,151
Unrestricted contributions	658,596	675,378
Other	26,524	64,427
Releases from restrictions for teachers' performance-based awards	9,527	-
Total unrestricted revenues	4,855,115	4,993,139
Expenses:		
Program services	4,097,726	4,331,955
Management and general	792,962	761,152
Total expenses	4,890,688	5,093,107
Change in unrestricted net assets	(35,573)	(99,968)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Restricted contributions	12,001	-
Restricted grant revenue	37,432	9,527
Releases from restrictions for teachers' performance-based awards	(9,527)	-
Change in temporarily restricted net assets	39,906	9,527
Change in net assets	4,333	(90,441)
Net assets, beginning of year	5,879,707	5,970,148
Net assets, end of year	$ 5,884,040	$ 5,879,707

See notes to financial statements.

The Hammond Urban Academy, Inc.

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

		2017		2016
Cash Flows From Operating Activities				
Change in net assets	**$**	**4,333**	$	(90,441)
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization		**814,151**		860,897
Change in current assets and liabilities:				
(Increase) decrease in:				
Grants receivable		**13,809**		(12,426)
Prepaid expenses		**(17,796)**		(4,818)
Increase (decrease) in:				
Accounts payable		**59,250**		6,639
Other current liabilities		**65,159**		(199,263)
Net cash provided by operating activities		**938,906**		560,588
Cash Flows From Investing Activities				
Acquisition of property and equipment		**(246,402)**		(213,116)
Release of cash restricted for debt service		**-**		233,500
Net cash (used in) provided by investing activities		**(246,402)**		20,384
Cash Flows From Financing Activities				
Principal payments on long-term debt		**(316,349)**		(12,730,000)
Principal payments on obligations under capital lease		**(51,072)**		-
Payment of deferred loan costs		**-**		(320,500)
Proceeds from long-term borrowings		**-**		12,601,979
Net cash used in financing activities		**(367,421)**		(448,521)
Increase in cash		**325,083**		132,451
Cash, beginning		**871,238**		738,787
Cash, ending	**$**	**1,196,321**	$	871,238
Supplemental disclosure of cash flow information:				
Cash paid for interest	**$**	**455,443**	$	913,711
Equipment acquired in exchange for capital lease	**$**	**213,975**	$	-

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 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 (FDIC).

For purposes of the statements 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, which approximates the effective interest method. Amortization of deferred loan costs is included in interest expense and amounted to approximately $15,500 and $219,600 for the years ended June 30, 2017 and 2016, respectively. Amortization expense for the year ended June 30, 2016, included approximately $201,800 related to debt that was extinguished.

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:

	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 recognizes 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, 2017 and 2016.

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 statements 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, 2017 and 2016.

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 2014.

Newly adopted accounting pronouncement: In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The School adopted the provisions of ASU 2015-03, which require retrospective application, in the accompanying financial statements. Accordingly, the June 30, 2016, statement of financial position has been restated to reclassify $302,682 of net deferred financing costs previously reported as other assets as a reduction of long-term debt.

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 is effective for the School's June 30, 2020, financial statements. 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 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.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU will be effective for the School's June 30, 2020, financial statements. Early adoption is permitted. The School is currently evaluating the impact of the adoption of this guidance on its financial statements.

Subsequent events: The School has evaluated subsequent events for potential recognition and/or disclosure through November 15, 2018, the date the financial statements were available to be issued.

Note 2. Long-Term Debt

Long-term debt at June 30, 2017 and 2016, consisted of the following:

	2017	2016
$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]	$ 9,030,000	$ 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]	3,255,630	3,426,979
	12,285,630	12,601,979
Less current maturities	502,698	316,349
	11,782,932	12,285,630
Less deferred charges, net of amortization	287,160	302,682
	$ 11,495,772	$ 11,982,948

[1] In February 2016, the School entered into an escrow deposit agreement (the 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.

Aggregate maturities of long-term debt outstanding at June 30, 2017, are as follows:

2018	$ 502,698
2019	507,698
2020	517,698
2021	527,698
2022	537,698
Thereafter	9,692,140
	$ 12,285,630

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, 2017 and 2016, is $915,000.

The interest expense was approximately $451,000 and $728,000 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, the City of Hammond provided funding in the amount of $650,000 which is presented in contributions in the statements of activities to meet the debt service obligation.

Note 3. Obligations Under Capital Lease

The School is leasing computer equipment under a capital lease which expires in May 2020. The capital lease agreement contains a $1 bargain purchase option. A summary of the computer equipment under capital lease at June 30, 2017, is as follows:

Cost	$ 213,975
Less accumulated depreciation	11,888
Net leased assets included in property and equipment	$ 202,087

Future minimum lease payments under the lease are as follows:

Year Ending June 30,	
2018	$ 57,698
2019	57,698
2020	57,698
Total minimum lease payments	173,094
Less amount representing interest	10,191
Present value of minimum lease payments	$ 162,903

Note 4. Restrictions on Net Assets

The restrictions on net assets at June 30, 2017 and 2016, relate to contributions received by the School for specific purposes. Cash and unconditional contributions are restricted according to the timing and nature of the donor restrictions.

Temporarily restricted net assets at June 30, 2017 and 2016, consisted of the following:

	2017	2016
Capital projects	$ 36,028	$ -
Counseling services	12,001	-
Teachers' performance-based awards	1,404	9,527
	$ 49,433	$ 9,527

Note 5. 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 June 2023. Payments under this agreement were approximately $84,200 and $81,600 for the years ended June 30, 2017 and 2016, respectively.

Note 6. Operating Lease Commitments

The School has entered into an operating lease for office equipment which requires monthly payments of $880 and expires August 2020. Lease expense for the years ended June 30, 2017 and 2016, totaled approximately $13,600 and $14,000, respectively.

The following schedule presents the future minimum lease payments under the above noncancellable lease as of June 30, 2017:

2018	$ 10,600
2019	10,600
2020	10,600
2021	1,700
	$ 33,500

Note 7. 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, 2017, 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 8. 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, 2017 and 2016, 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 $205,600 and $204,200 for the years ended June 30, 2017 and 2016, respectively.

Supplementary Information

The Hammond Urban Academy, Inc.

Schedules of Functional Expenses
Years Ended June 30, 2017 and 2016
See Independent Auditor's Report

	2017		2016	
	Program Services	**Management and General**	Program Services	Management and General
Salaries and wages	**$ 1,800,356**	**$ 381,752**	$ 1,798,318	$ 361,580
Employee benefits	**573,186**	**110,326**	508,797	100,159
Authorizer's fees	**-**	**84,202**	-	81,567
Supplies and materials	**75,522**	**3,013**	82,257	4,377
Contracted transportation	**738**	**-**	341	-
Depreciation and amortization	**814,151**	**-**	860,897	-
Network support and equipment	**73,577**	**-**	63,698	-
Food service	**96,202**	**-**	98,164	-
Insurance	**-**	**98,962**	-	102,199
Interest	**452,126**	**-**	728,166	-
Occupancy	**140,179**	**-**	117,533	-
Professional fees	**47,201**	**93,352**	40,912	83,540
Repairs and maintenance	**14,967**	**-**	18,009	-
Staff development	**3,664**	**-**	2,788	-
Other	**5,857**	**21,355**	12,075	27,730
Total expenses	**$ 4,097,726**	**$ 792,962**	$ 4,331,955	$ 761,152

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*.