



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B53782

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

November 20, 2019

Charter School Board
URBAN ACT Academy, Inc.
1250 E Market Street
Indianapolis, IN 46202

We have reviewed the audit report of URBAN ACT Academy, Inc. which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2018 to June 30, 2019. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of URBAN ACT Academy, Inc. as of June 30, 2019 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 Emphasis of Matter paragraph included in the Independent Auditors' Report and further detailed in Note 5.

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 URBAN ACT 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 blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

URBAN ACT ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Year Ended June 30, 2019



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
 FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities and Change in Net Assets.....	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements.....	7 - 10
 OTHER REPORT	 11



Donovan CPAs

Independent Auditors' Report

The Board of Directors
URBAN ACT Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of URBAN ACT Academy, Inc., which comprise the statement of financial position as of June 30, 2019, 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.

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.

Auditors' Responsibility

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

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

www.cpadonovan.com

Avon | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Indianapolis | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of URBAN ACT Academy, Inc. as of June 30, 2019, and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 5 to the financial statements, URBAN ACT Academy, Inc. recorded in-kind contributions and offsetting expenses from Indianapolis Public Schools, a related party, totaling \$1,592,540 during the year ended June 30, 2019. These in-kind transactions represent approximately 28% of total revenue and support and 32% of total expenses for the year ended June 30, 2019. These amounts are calculated by Indianapolis Public Schools using significant estimates and judgments and are recorded by management of URBAN ACT Academy, Inc. as presented. Our opinion is not modified with respect to this matter.

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
November 12, 2019

URBAN ACT ACADEMY, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

CURRENT ASSETS

Cash	\$ 760,227
Grants receivable	<u>127,811</u>
 <i>Total current assets</i>	 <u>888,038</u>

PROPERTY AND EQUIPMENT

Furniture and equipment	104,456
Less: accumulated depreciation	<u>(20,891)</u>
 <i>Property and equipment, net</i>	 <u>83,565</u>

TOTAL ASSETS

\$ 971,603

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 5,546
Accrued expenses	112,123
Refundable advance	<u>55,730</u>
 <i>Total liabilities</i>	 173,399

NET ASSETS, WITHOUT DONOR RESTRICTIONS

798,204

TOTAL LIABILITIES AND NET ASSETS

\$ 971,603

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

URBAN ACT ACADEMY, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2019

REVENUE AND SUPPORT	
Student-based allocation funding from IPS	\$ 2,529,832
Grants	1,565,731
In-kind contributions from IPS	1,592,540
Contributions	4,150
Interest	621
Other	<u>9,641</u>
<i>Total revenue and support</i>	<u>5,702,515</u>
EXPENSES	
Program services	4,095,151
Management and general	<u>894,582</u>
<i>Total expenses</i>	<u>4,989,733</u>
CHANGE IN NET ASSETS	712,782
NET ASSETS, BEGINNING OF YEAR	<u>85,422</u>
NET ASSETS, END OF YEAR	<u><u>\$ 798,204</u></u>

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

URBAN ACT ACADEMY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
In-kind expenses:			
Occupancy	\$ 822,845	\$ -	\$ 822,845
Repairs and maintenance	196,725	-	196,725
Student transportation	533,555	-	533,555
Security services	39,415	-	39,415
	<u>1,592,540</u>	<u>-</u>	<u>1,592,540</u>
<i>Total in-kind expenses</i>			
Direct expenses:			
Salaries and wages	1,335,189	662,997	1,998,186
Employee benefits	225,662	58,495	284,157
Staff development	54,159	-	54,159
Professional services	235,591	158,412	394,003
Repairs and maintenance	120,976	-	120,976
Food costs	192,838	-	192,838
Travel and meetings	-	2,480	2,480
Classroom and office supplies	98,148	661	98,809
Information technology	182,180	-	182,180
Depreciation	20,891	-	20,891
Equipment	14,448	-	14,448
Insurance	20,203	-	20,203
Advertising	-	9,136	9,136
Other	2,326	2,401	4,727
	<u>2,502,611</u>	<u>894,582</u>	<u>3,397,193</u>
<i>Total direct expenses</i>			
	<u>\$ 4,095,151</u>	<u>\$ 894,582</u>	<u>\$ 4,989,733</u>
<i>Total functional expenses</i>			

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

URBAN ACT ACADEMY, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

OPERATING ACTIVITIES

Change in net assets	\$ 712,782
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	20,891
Changes in certain assets and liabilities:	
Grants receivable	(69,618)
Accounts payable	5,546
Accrued expenses	112,123
Refundable advance	<u>(239,481)</u>
<i>Net cash provided by operating activities</i>	542,243

INVESTING ACTIVITIES

Purchases of property and equipment	(104,456)
-------------------------------------	-----------

FINANCING ACTIVITIES

Principal repayment on note payable to IPS	<u>(300,000)</u>
--	------------------

NET CHANGE IN CASH

137,787

CASH, BEGINNING OF YEAR

622,440

CASH, END OF YEAR

\$ 760,227

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

URBAN ACT ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – URBAN ACT Academy, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School commenced operations as a public charter school on July 1, 2018 under Indiana Code 20-24. The School is sponsored by the Office of Education Innovation of the Mayor of the City of Indianapolis. The charter is effective through June 30, 2026 and is renewable thereafter by mutual consent. The School served approximately 350 students in grades kindergarten through eighth during the 2018-2019 school year.

In March 2018, the School entered into an Innovation Network Charter School Agreement with Indianapolis Public Schools ("IPS") to operate a charter school within an IPS building. The agreement is for a term of five years, ending June 30, 2023, and renews automatically for an additional five-year term unless either party provides written notice at least 180 days prior to the expiration of the agreement. Under the agreement, IPS will pay to the School the amount the School would receive from the State of Indiana for state basic tuition support and complexity grant funding as if the School were a traditional charter school. The agreement can be terminated by either party within 30 days of written notice for material breach of the agreement, by IPS at the end of the school year for poor academic performance given written notice to the school 180 days prior, or by both parties by mutual consent effective as of a mutually agreeable date.

Financial Statement Presentation – The School adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires changes to the financial reporting model for not-for-profit entities, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires additional disclosures regarding the liquidity of financial assets.

Accounting Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition – The majority of the revenue comes from IPS as part of the Innovation Network Charter School Agreement. Under the agreement with IPS, the School receives an amount per student in equal portion as if the School were organized as a traditional charter school. Funding from IPS is received monthly. Revenue is recognized in the year in which 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.

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. There were no cash equivalents at June 30, 2019 and 2018.

URBAN ACT ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

Property and Equipment – Purchases of assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and small equipment purchases are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful life for furniture and equipment is 5 years.

Taxes on Income – URBAN ACT Academy, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the year ended June 30, 2019, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Since the School commenced operations in 2019, all tax years are currently open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through November 12, 2019, 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 - PRIOR PERIOD FINANCIAL ACTIVITY

Prior to the year ended June 30, 2019 (the School's first year of operations), the School received income from several grants and contributions to fund necessary startup costs. The School had a cash balance of \$622,440, grants receivable of \$58,193, a refundable advance of \$295,211, a short-term note payable to IPS of \$300,000, and a net assets balance of \$85,422 as of July 1, 2018.

URBAN ACT ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 3 - REFUNDABLE ADVANCE

The School was awarded a grant from the Walton Family Foundation, Inc. of \$325,000 during the year ended June 30, 2018. The grant is for the purpose of providing start-up funding and must be utilized for its intended purpose, in line with an approved budget, no later than October 15, 2020, after which any remaining unused portion of the grant is subject to reversion to the grantor organization. The unused portion of the grant is shown as a refundable advance on the statement of financial position.

NOTE 4 - NOTE PAYABLE

During 2018, the School acquired short-term financing through IPS as part of its Innovation Network Charter School Agreement. The School requested preoperational funds as set forth in the agreement in the amount of \$300,000. The preoperational funds were acquired interest free and had a term of 12 months. The note payable was repaid in full during the year ended June 30, 2019.

NOTE 5 - VALUATION OF IN-KIND SERVICES

The School has recorded in-kind contributions and offsetting expenses from IPS, a related party, totaling \$1,592,540 during the year ended June 30, 2019. These in-kind transactions represent approximately 28% of total revenue and support and 32% of total expenses for the year ended June 30, 2019. The values of these in-kind services are calculated by IPS using significant estimates and judgments and are recorded by management of the School as presented. Management has not performed an analysis of the reasonability of the valuations.

NOTE 6 - RETIREMENT PLANS

The School maintains a defined contribution Section 401(k) retirement plan covering substantially all employees. The plan allows employees to make salary deferral contributions and provides that the School will make contributions at its discretion. Alternatively, an employee may participate in the Indiana State Teachers' Retirement Plan ("TRF"), which is a cost-sharing multiple-employer defined benefit retirement plan sponsored by the State of Indiana and administered by the Indiana Public Retirement System Board. For the year ended June 30, 2019, the School contributed 5% of defined compensation to each employee's retirement plan account of choice. Retirement plan expense was \$6,103 for the year ended June 30, 2019.

URBAN ACT ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

NOTE 7 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Marion 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 and/or the Innovation Network Charter School Agreement with IPS could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2019, all of the receivable balance was due from the State of Indiana. In addition, deposits are maintained at Chase Bank and are insured up to the FDIC insurance limit. At some points during the year, and at the end of the year, the cash balance at Chase Bank exceeded the \$250,000 federally insured limit.

NOTE 8 - LIQUIDITY

Under ASU 2016-14, the School is required to disclose the assets it has available at June 30, 2019 to meet its cash needs for general expenditures within one year of the date of the statement of financial position. The School's financial assets include cash and grants receivable. The financial assets at June 30, 2019 total \$888,038, all of which are available to meet cash needs for general expenditures within a year.

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 9 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities and change in net assets. Management of the School has categorized expenses as program services or management and general according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.

URBAN ACT ACADEMY, INC.
OTHER REPORT
For the Year Ended June 30, 2019

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

Supplemental Audit Report of URBAN ACT 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*.