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February 12, 2021

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, 2019 to June 30, 2020. 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, 2020 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 findings in the report on pages 18 through 20. Please see the Schedule of Findings and Questioned Costs for complete details related to the findings. Management's Corrective Action Plan appears on page 21.

We call your attention to the Emphasis of Matter paragraph included in the Independent Auditors' Report and further detailed in Note 2.

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.


Paul D. Joyce, CPA
State Examiner

URBAN ACT ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2020 and 2019



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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 statements of financial position as of June 30, 2020 and 2019, 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.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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.

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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, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, URBAN ACT Academy, Inc. recorded in-kind contributions and offsetting expenses from Commissioners of the City of Indianapolis, also known as Indianapolis Public Schools (“IPS”), a related party, totaling \$1,346,411 and \$1,592,540 during the years ended June 30, 2020 and 2019, respectively. These in-kind transactions represent approximately 25% and 28% of total revenue and support and 30% and 32% of total expenses for the years ended June 30, 2020 and 2019, respectively. These amounts are calculated by IPS 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.

Other Matter

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 is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”) 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 has been subjected to the auditing 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2021 on our consideration of URBAN ACT Academy, Inc.’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 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 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 URBAN ACT Academy, Inc.’s internal control over financial reporting and compliance.

DONOVAN



Indianapolis, Indiana
January 28, 2021

URBAN ACT ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,438,933	\$ 760,227
Grants receivable	<u>155,516</u>	<u>127,811</u>
<i>Total current assets</i>	<u>1,594,449</u>	<u>888,038</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	169,502	104,456
Less: accumulated depreciation	<u>(52,089)</u>	<u>(20,891)</u>
<i>Property and equipment, net</i>	<u>117,413</u>	<u>83,565</u>
TOTAL ASSETS	<u><u>\$ 1,711,862</u></u>	<u><u>\$ 971,603</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 6,345	\$ 5,546
Accrued expenses	-	112,123
Refundable advances	<u>20,000</u>	<u>55,730</u>
<i>Total liabilities</i>	26,345	173,399
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>1,685,517</u>	<u>798,204</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,711,862</u></u>	<u><u>\$ 971,603</u></u>

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

URBAN ACT ACADEMY, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUE AND SUPPORT		
Student-based allocation funding from Indianapolis Public Schools	\$ 2,507,598	\$ 2,529,832
Grants	1,520,464	1,565,731
In-kind contributions from Indianapolis Public Schools	1,346,411	1,592,540
Contributions	26,718	4,150
Interest	308	621
Other	8,651	9,641
	<u>5,410,150</u>	<u>5,702,515</u>
 <i>Total revenue and support</i>		
EXPENSES		
Program services	3,620,349	4,095,151
Management and general	902,488	894,582
	<u>4,522,837</u>	<u>4,989,733</u>
 <i>Total expenses</i>		
CHANGE IN NET ASSETS	887,313	712,782
NET ASSETS, BEGINNING OF YEAR	<u>798,204</u>	<u>85,422</u>
NET ASSETS, END OF YEAR	<u>\$ 1,685,517</u>	<u>\$ 798,204</u>

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

URBAN ACT ACADEMY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>			<u>2019</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
In-kind expenses:						
Occupancy	\$ 710,517	\$ -	\$ 710,517	\$ 822,845	\$ -	\$ 822,845
Student transportation	363,038	-	363,038	533,555	-	533,555
Repairs and maintenance	233,233	-	233,233	196,725	-	196,725
Security services	39,623	-	39,623	39,415	-	39,415
<i>Total in-kind expenses</i>	<u>1,346,411</u>	<u>-</u>	<u>1,346,411</u>	<u>1,592,540</u>	<u>-</u>	<u>1,592,540</u>
Direct expenses:						
Salaries and wages	1,241,660	652,357	1,894,017	1,335,189	662,997	1,998,186
Professional services	215,044	166,884	381,928	235,591	158,412	394,003
Employee benefits	239,816	48,336	288,152	225,662	58,495	284,157
Repairs and maintenance	193,930	-	193,930	120,976	-	120,976
Food costs	144,931	-	144,931	192,838	-	192,838
Classroom and office supplies	87,464	10,591	98,055	98,148	661	98,809
Information technology	58,346	-	58,346	182,180	-	182,180
Depreciation	31,198	-	31,198	20,891	-	20,891
Staff development	27,332	-	27,332	54,159	-	54,159
Insurance	26,590	-	26,590	20,203	-	20,203
Advertising	-	10,632	10,632	-	9,136	9,136
Travel and meetings	-	1,742	1,742	-	2,480	2,480
Equipment	1,491	-	1,491	14,448	-	14,448
Other	6,136	11,946	18,082	2,326	2,401	4,727
<i>Total direct expenses</i>	<u>2,273,938</u>	<u>902,488</u>	<u>3,176,426</u>	<u>2,502,611</u>	<u>894,582</u>	<u>3,397,193</u>
<i>Total functional expenses</i>	<u>\$ 3,620,349</u>	<u>\$ 902,488</u>	<u>\$ 4,522,837</u>	<u>\$ 4,095,151</u>	<u>\$ 894,582</u>	<u>\$ 4,989,733</u>

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

URBAN ACT ACADEMY, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 887,313	\$ 712,782
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	31,198	20,891
Changes in certain assets and liabilities:		
Grants receivable	(27,705)	(69,618)
Accounts payable	799	5,546
Accrued expenses	(112,123)	112,123
Refundable advances	(35,730)	(239,481)
	743,752	542,243
 <i>Net cash provided by operating activities</i>	 743,752	 542,243
INVESTING ACTIVITIES		
Purchases of property and equipment	(65,046)	(104,456)
FINANCING ACTIVITIES		
Principal repayment on note payable to Indianapolis Public Schools	-	(300,000)
NET CHANGE IN CASH	678,706	137,787
CASH, BEGINNING OF YEAR	760,227	622,440
CASH, END OF YEAR	\$ 1,438,933	\$ 760,227

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

URBAN ACT ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 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 ("OEI") 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 330 students in grades kindergarten through eighth during the 2019-2020 school year (350 students during the 2018-2019 school year).

In March 2018, the School entered into an Innovation Network Charter School Agreement with Commissioners of the City of Indianapolis, also known as 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.

Basis of Accounting and Use of Estimates – The School prepares its financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

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 that are 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, 2020 and 2019, the School had only net assets without donor restrictions.

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 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.

URBAN ACT ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The School has elected to defer implementation of Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 replaces most existing revenue recognition guidance under U.S. GAAP and requires disclosures relating to the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. ASU 2014-09 was to take effect for fiscal years beginning after December 15, 2018, but in May 2020, the Financial Accounting Standards Board allowed for a one-year deferral. Management believes the implementation of ASU 2014-09 will not significantly affect how the School reports revenue.

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. There were no cash equivalents at June 30, 2020 and 2019.

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 over \$5,000 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 – The School 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 years ended June 30, 2020 and 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 was established as a nonprofit organization effective August 2017, all tax years are currently open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through January 28, 2021, 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.

URBAN ACT ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 2 - VALUATION OF IN-KIND SERVICES

The School has recorded in-kind contributions and offsetting expenses from IPS, a related party, totaling \$1,346,411 and \$1,592,540 during the years ended June 30, 2020 and 2019, respectively. These in-kind transactions represent approximately 25% and 28% of total revenue and support and 30% and 32% of total expenses for the years ended June 30, 2020 and 2019, respectively. 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.

NOTE 3 - REFUNDABLE ADVANCES

The School was awarded a grant from the Walton Family Foundation, Inc. of \$20,000 during the year ended June 30, 2020. The grant is for the purpose of providing high-quality remote learning, professional development, support for students, families, and staff, and recruitment and must be utilized for its intended purpose, in line with an approved budget, by no later than October 31, 2020. Any remaining unused portion of the grant is subject to reversion to the grantor organization. The entire grant is shown as a refundable advance on the statement of financial position as of June 30, 2020.

The School was awarded a separate grant from the Walton Family Foundation, Inc. of \$325,000 during the year ended June 30, 2018, which was for the purpose of providing start-up funding to be utilized by no later than October 15, 2020. The unused portion of the grant was shown as a refundable advance on the statement of financial position as of June 30, 2019. The remaining funds were fully spent during the year ended June 30, 2020.

NOTE 4 – COMMITMENTS

The School operates under a charter granted by OEI. As the sponsoring organization, OEI exercises certain oversight responsibilities. Beginning on July 1st before the School's fourth school year, OEI will assess a fee equal to 1% of the basic tuition support received by the School. No management fees were paid during the years ended June 30, 2020 and 2019. Also, the charter agreement requires the School to establish an escrow account of no less than \$30,000 should a dissolution occur. As of June 30, 2020, this account has not been established.

NOTE 5 - 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 Fund ("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 years ended June 30, 2020 and 2019, the School contributed 5% of defined compensation to each employee's retirement plan account of choice. Retirement plan expense was \$15,163 and \$3,726 for the years ended June 30, 2020 and 2019, respectively.

URBAN ACT ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 6 - 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, 2020 and 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 years, and at the end of the year, the cash balance at Chase Bank exceeded the \$250,000 federally insured limit.

NOTE 7 - LIQUIDITY

The School's financial assets include cash and grants receivable totaling \$1,594,449 and \$888,038 as of June 30, 2020 and 2019, respectively, all of which were available to meet cash needs for general expenditures within one 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 8 - FUNCTIONAL EXPENSE REPORTING

The costs of providing educational activities have been summarized on a functional basis in the statements 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.

SUPPLEMENTARY INFORMATION

URBAN ACT ACADEMY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2020

Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/ Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 38,007
National School Lunch Program	10.555		<u>114,721</u>
<i>Total U.S. Department of Agriculture</i>			<u>152,728</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I Grants to Local Education Agencies	84.010	18611-001-PN01	605,017
Title II, Part A			
Supporting Effective Instruction State Grants	84.367	S367A190013	30,719
Title IV, Part A			
Student Support and Academic Enrichment	84.424A	S424A180015	21,414
Special Education Cluster			
Special Education Grants to States	84.027		130,218
Charter Schools Program			
State Educational Agencies Grant	84.282A		<u>130,489</u>
<i>Total U.S. Department of Education</i>			<u>917,857</u>
<i>Total federal awards expended</i>			<u>\$ 1,070,585</u>

See independent auditors' report and accompanying notes to this schedule

URBAN ACT ACADEMY, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2020

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of URBAN ACT Academy, Inc. (the “School”) under programs of the federal government for the year ended June 30, 2020. The information in the 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, change 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 has 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
URBAN ACT Academy, Inc.

We have 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 URBAN ACT Academy, Inc., which comprise the statement of financial position as of June 30, 2020, 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 have issued our report thereon dated January 28, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered URBAN ACT Academy, Inc.'s internal control over financial reporting ("internal control") to determine the audit procedures that are 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 URBAN ACT Academy, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of URBAN ACT Academy, Inc.'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 that 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 that 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether URBAN ACT Academy, Inc.'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 that are 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 URBAN ACT Academy, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering URBAN ACT Academy, Inc.'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
January 28, 2021



Donovan CPAs

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

The Board of Directors
URBAN ACT Academy, Inc.

Report on Compliance for Each Major Federal Program

We have audited URBAN ACT Academy, Inc.'s compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on URBAN ACT Academy, Inc.'s major federal programs for the year ended June 30, 2020. URBAN ACT Academy, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of URBAN ACT Academy, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about URBAN ACT Academy, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of URBAN ACT Academy, Inc.'s compliance.

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Opinion on Each Major Federal Program

In our opinion, URBAN ACT Academy, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control over Compliance

Management of URBAN ACT Academy, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered URBAN ACT Academy, Inc. internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of URBAN ACT Academy, Inc. 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 combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that 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 that 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 to be significant deficiencies.

URBAN ACT Academy, Inc.'s response to the noncompliance findings identified in our audit is included on page 21. URBAN ACT Academy, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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
January 28, 2021

URBAN ACT ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

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 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:	

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Educational Agencies

Dollar threshold use to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

II. Financial Statement Findings

No matters are reportable.

URBAN ACT ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

III. Federal Award Findings and Questioned Costs

FINDING 2020-001 RECORDS RETENTION
SIGNIFICANT DEFICIENCY

Federal Program: Title I
CFDA Number: 84.010

Condition

The School was unable to provide documentation to support enrollment, transfers out of the School, and poverty-level data for some students selected for testing from the October 1, 2018 Real Time Data report submitted to the State of Indiana. This report is used as part of the application for Title I funds. Data for enrollment and poverty-level are used to assess eligibility of students for Title I funds. Data on transfers provides information on students removed from the regularly adjusted cohort.

Criteria

2 CFR part 200.334 requires that “Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient.”

Cause

The School did not properly maintain documentation.

Effect

Compliance with eligibility and special tests and provisions requirements from the Compliance Supplement could not be verified.

Recommendation

We recommend the School develop internal controls requiring the maintenance of documentation used in preparation of the Real Time Data reports.

Views of Responsible Officials

The School’s Corrective Action Plan is included on page 21.

URBAN ACT ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

III. Federal Award Findings and Questioned Costs, Continued

FINDING 2020-002 MAINTENANCE OF EFFORT
SIGNIFICANT DEFICIENCY

Federal Program: Title I
CFDA Number: 84.010

Condition

The Indiana Department of Education completes the maintenance of effort calculation using the Form 9 report issued by the School, which is a cash-basis report. The School included depreciation expense, which is a non-cash expense, on this report.

Criteria

2 CFR part 200, Appendix XI, Compliance Supplement 2020, Section 4-84.000-13, states “An LEA may receive funds under an applicable program only if the SEA finds that the combined fiscal effort per student or the aggregate expenditures of the LEA from state and local funds for free public education for the preceding year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding year, unless specifically waived”.

Cause

The School did not properly exclude non-cash transactions from the trial balance accounts from reporting on the Form 9.

Effect

Maintenance of effort calculations prepared by the Indiana Department of Education could be impacted by incorrect reporting of expense transactions.

Recommendation

We recommend the School develop internal controls to ensure non-cash expenses are excluded from the Form 9 report.

Views of Responsible Officials

The School’s Corrective Action Plan is included on page 21.



January 28, 2021

Donovan CPAs
9292 N. Meridian Street, Suite 150
Indianapolis, IN 46260

URBAN ACT Academy already or will take the following actions to address the FY2020 single audit report findings:

Federal Award Findings and Questioned Costs

FINDING 2020-002 RECORDS RETENTION SIGNIFICANT DEFICIENCY

- Beginning, February 1, 2021 Keesha Green (Office Manager) and Amanda Lee (Receptionist) will ensure improvement of our system in collecting and maintaining documentation to support student enrollment, transfers, and poverty level data.

FINDING 2020-003 MAINTENANCE OF EFFORT SIGNIFICANT DEFICIENCY

- Beginning, February 1, 2021 Theodore Brannum (Director of Finance and Operations) will provide training to ensure non-cash expenses are excluded from the Form 9 report.

Sincerely,

A handwritten signature in cursive script, appearing to read "Nigena Livingston".

URBAN ACT Academy
Nigena Livingston, Founder and Head of School

URBAN ACT ACADEMY, INC.
OTHER REPORT
For the Year Ended June 30, 2020

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*.