



STATE OF INDIANA
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STATE BOARD OF ACCOUNTS
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May 10, 2023

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 Donovan CPAs, Independent Public Accountants, for the period July 1, 2021 to June 30, 2022. 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, 2022, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared the audit report in accordance with guidelines established by the Indiana 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 Indiana State Board of Accounts.

The audited Financial Statements and Supplemental Audit Report are filed in our office as a matter of public record.

A handwritten signature in black ink that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner

THE HAMMOND URBAN ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2022 and 2021



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Donovan CPAs

Independent Auditors' Report

The Board of Directors
The Hammond Urban Academy, Inc.

Opinion

We have audited the financial statements of The Hammond Urban Academy, Inc. (the "School"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2022 and 2021, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

We are required to be independent of the School and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

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Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

DONOVAN



Indianapolis, Indiana
January 17, 2023

THE HAMMOND URBAN ACADEMY, INC

STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 755,970	\$ 1,737,605
Grants receivable	174,733	193,161
Prepaid expenses	50,710	71,930
	<hr/>	<hr/>
<i>Total current assets</i>	981,413	2,002,696
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT		
Land	6,213,923	5,683,923
Building and improvements	13,411,269	13,367,868
Furniture and equipment	4,177,272	3,718,005
Textbooks	144,890	144,890
Less: accumulated depreciation	(8,769,931)	(7,945,250)
	<hr/>	<hr/>
<i>Property and equipment, net</i>	15,177,423	14,969,436
	<hr/>	<hr/>
OTHER ASSETS		
Cash restricted for debt service	960,038	960,038
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 17,118,874</u>	<u>\$ 17,932,170</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of capital lease obligations	\$ 265,957	\$ 171,135
Current portion of notes payable	547,698	537,698
Paycheck Protection Program forgivable loan	-	500,000
Accounts payable and accrued expenses	376,838	577,266
Deferred revenue	16,727	93,712
	<hr/>	<hr/>
<i>Total current liabilities</i>	1,207,220	1,879,811
	<hr/>	<hr/>
LONG-TERM LIABILITIES		
Capital lease obligations, net of current portion	712,746	516,072
Notes payable, net of current portion	9,144,443	9,597,140
Less: unamortized debt issuance costs	(207,035)	(223,060)
	<hr/>	<hr/>
<i>Total long-term liabilities</i>	9,650,154	9,890,152
	<hr/>	<hr/>
TOTAL LIABILITIES	10,857,374	11,769,963
	<hr/>	<hr/>
NET ASSETS, WITHOUT DONOR RESTRICTIONS	6,261,500	6,162,207
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,118,874</u>	<u>\$ 17,932,170</u>

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

THE HAMMOND URBAN ACADEMY, INC
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
REVENUE AND SUPPORT		
State education support	\$ 4,016,485	\$ 4,092,117
Grant revenue	1,376,348	1,083,901
Student fees	183,751	186,225
Contributions	151,769	1,417
Other	49,652	9,195
	<u>5,778,005</u>	<u>5,372,855</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	4,974,706	4,670,158
Management and general	1,204,006	1,044,280
	<u>6,178,712</u>	<u>5,714,438</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS FROM OPERATIONS	(400,707)	(341,583)
PAYCHECK PROTECTION PROGRAM LOAN FORGIVENESS INCOME	<u>500,000</u>	<u>500,000</u>
CHANGE IN NET ASSETS	99,293	158,417
NET ASSETS, BEGINNING OF YEAR	<u>6,162,207</u>	<u>6,003,790</u>
NET ASSETS, END OF YEAR	<u>\$ 6,261,500</u>	<u>\$ 6,162,207</u>

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

THE HAMMOND URBAN ACADEMY, INC
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2022 and 2021

	2022			2021		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 2,073,193	\$ 480,613	\$ 2,553,806	\$ 2,196,953	\$ 463,793	\$ 2,660,746
Employee benefits	723,414	129,394	852,808	706,753	133,099	839,852
Depreciation	700,979	123,702	824,681	615,890	108,687	724,577
Interest	411,815	72,673	484,488	405,164	71,499	476,663
Classroom and office supplies	288,271	12,791	301,062	123,593	9,118	132,711
Professional services	110,088	163,086	273,174	70,229	126,698	196,927
Information technology	181,163	31,970	213,133	168,676	29,766	198,442
Occupancy	152,290	26,875	179,165	88,080	15,544	103,624
Staff development	122,183	-	122,183	129,226	-	129,226
Authorizer fees	-	109,833	109,833	-	113,999	113,999
Food costs	82,303	-	82,303	8,126	-	8,126
Insurance	69,823	-	69,823	87,681	-	87,681
Repairs and maintenance	52,198	-	52,198	69,694	-	69,694
Gain on sale of property and equipment	-	-	-	-	(68,663)	(68,663)
Other	6,986	53,069	60,055	93	40,740	40,833
<i>Total functional expenses</i>	<u>\$ 4,974,706</u>	<u>\$ 1,204,006</u>	<u>\$ 6,178,712</u>	<u>\$ 4,670,158</u>	<u>\$ 1,044,280</u>	<u>\$ 5,714,438</u>

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

THE HAMMOND URBAN ACADEMY, INC

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 99,293	\$ 158,417
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Paycheck Protection Program loan forgiveness income	(500,000)	(500,000)
Depreciation expense	824,681	724,577
Amortization of debt issuance costs	16,025	16,025
Gain on sale of property and equipment	-	(68,663)
Change in certain assets and liabilities:		
Grants receivable	18,428	(84,143)
Prepaid expenses	21,220	(11,578)
Accounts payable and accrued expenses	(200,428)	(37,671)
Deferred revenue	(76,985)	29,953
<i>Net cash provided by operating activities</i>	<u>202,234</u>	<u>226,917</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(577,845)	(17,626)
Proceeds from sale of property and equipment	-	68,663
<i>Net cash provided by (used in) investing activities</i>	<u>(577,845)</u>	<u>51,037</u>
FINANCING ACTIVITIES		
Principal payments on notes payable	(442,697)	(622,698)
Principal payments on capital lease obligations	(163,327)	(301,957)
Proceeds from Paycheck Protection Program forgivable loan	-	500,000
<i>Net cash used in financing activities</i>	<u>(606,024)</u>	<u>(424,655)</u>
NET CHANGE IN CASH	(981,635)	(146,701)
CASH, BEGINNING OF YEAR	<u>2,697,643</u>	<u>2,844,344</u>
CASH, END OF YEAR	<u>\$ 1,716,008</u>	<u>\$ 2,697,643</u>
CASH, END OF YEAR		
Cash - unrestricted	\$ 755,970	\$ 1,737,605
Cash - restricted for debt service	<u>960,038</u>	<u>960,038</u>
<i>Total cash, end of year</i>	<u>\$ 1,716,008</u>	<u>\$ 2,697,643</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 281,692	\$ 667,255
Equipment financed under capital lease arrangements	454,823	494,557

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

THE HAMMOND URBAN ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – 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 (“Calumet”). The School is dedicated to providing the highest quality level of education to students in grades six to twelve by implementing state of the art technology and research-based instruction in an environment conducive to learning. The School educated approximately 545 students during the 2021-2022 school year (565 during the 2020-2021 school year).

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

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

As of June 30, 2022 and 2021, the School had only net assets without donor restrictions.

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

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. As of June 30, 2022 and 2021, there were no cash equivalents.

As of both June 30, 2022 and 2021 and regularly throughout the years, the School has cash on deposit at a financial institution which exceeds the limits of coverage provided by the Federal Deposit Insurance Corporation.

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

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

Debt Issuance Costs – Costs associated with debt issuance are amortized over the life of the related debt obligation using the straight-line method. Amortization of deferred loan costs totaled \$16,025 for both years ended June 30, 2022 and 2021 and is included in interest expense.

THE HAMMOND URBAN ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

Taxes on Income – The School has received a determination from the U.S. Treasury Department stating it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2022 and 2021, 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 there are no material contingent tax liabilities or questionable tax positions. Tax years ended after June 30, 2018 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through January 17, 2023, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

NOTE 2 - REVENUE RECOGNITION

Revenue Recognition – Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment and paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which the educational services are rendered.

A significant portion of the School’s revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred. Incurring approved costs is considered satisfaction of the performance obligations.

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

THE HAMMOND URBAN ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021

NOTE 2 - REVENUE RECOGNITION, Continued

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

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

NOTE 3 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Note payable to City of Hammond, issued through Economic Development Revenue Bonds, Series 2016B, payable in semi-annual installments ranging from \$70,000 to \$475,000, plus interest at 5.00%, secured by building, maturing August 2035	\$ 8,150,000	\$ 8,250,000
Common School Loan, payable to State of Indiana in semi-annual installments of \$171,349, plus interest at 1.00%, maturing July 2026	<u>1,542,141</u>	<u>1,884,838</u>
Less: current portion	<u>(547,698)</u>	<u>(537,698)</u>
Long-term portion	<u>\$ 9,144,443</u>	<u>\$ 9,597,140</u>

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

2023	\$ 547,698
2024	557,698
2025	567,698
2026	577,698
2027	786,349
Thereafter	<u>6,655,000</u>
	<u>\$ 9,692,141</u>

THE HAMMOND URBAN ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021

NOTE 4 - CAPITAL LEASES

The School leases computers, televisions, and office equipment under capital lease agreements with monthly payments ranging from \$343 to \$8,841 which mature at various dates from July 2023 through September 2027. A summary of the assets under capital lease agreements is as follows as of June 30:

	<u>2022</u>	<u>2021</u>
Leased assets costs	\$ 1,327,831	\$ 868,593
Less: accumulated depreciation	<u>(451,094)</u>	<u>(145,842)</u>
Net book value of leased assets	\$ <u>876,737</u>	\$ <u>722,751</u>

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

2023	\$ 309,569
2024	307,347
2025	215,733
2026	214,960
2027	<u>35,316</u>
Total minimum lease payments	1,082,925
Less: amount representing interest	<u>(104,222)</u>
Present value of future minimum lease payments	978,703
Less: current portion	<u>(265,957)</u>
Long-term portion	\$ <u>712,746</u>

NOTE 5 - PAYCHECK PROTECTION PROGRAM

In response to the COVID-19 pandemic, the United States federal government adopted the Coronavirus Aid, Relief, and Economic Security Act and the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (collectively, the “Acts”). The Acts include provisions for the Paycheck Protection Program (“PPP”) administered through the Small Business Administration. The proceeds from PPP notes payable can be used for costs related to payroll, employee healthcare, rent, and utilities. Under the terms of the PPP, the note payable funds will be forgiven if they are used for qualifying expenses as described in the Acts.

THE HAMMOND URBAN ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021

NOTE 5 - PAYCHECK PROTECTION PROGRAM, Continued

On April 11, 2020, the School was granted a PPP note payable from First Midwest Bank in the amount of \$500,000. As of June 30, 2020, the School determined the PPP note payable represented a financial liability and accounted for it in accordance with FASB ASC 470, *Simplifying the Classification of Debt*, until forgiveness was obtained. The School received notification that the loan was forgiven in full effective August 10, 2021, and therefore recognized the entire amount as PPP loan forgiveness income during the year ended June 30, 2021.

On February 5, 2021, the School was granted a second-round PPP note payable from First Midwest Bank in the amount of \$500,000. The School received notification that the loan was forgiven in full effective June 3, 2022, and therefore recognized the entire amount as PPP loan forgiveness income during the year ended June 30, 2022.

NOTE 6 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plans, the School contributed 8.5% of compensation for electing teaching faculty to TRF and 14.2% of compensation for other electing employees to PERF during the years ended June 30, 2022 and 2021. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2021 (the latest year reported), TRF was over 100% funded and PERF was over 92% funded. Retirement plan expenses were \$222,490 and \$204,391 for the years ended June 30, 2022 and 2021, respectively.

NOTE 7 - COMMITMENT

The School operates under a charter granted by Calumet. As the sponsoring organization, Calumet exercises certain oversight responsibilities. Under this charter, the School agrees to pay to Calumet an annual authorizer's fee equal to 3% of state tuition payments received. Payments under this agreement were approximately \$110,000 and \$114,000 for the years ended June 30, 2022 and 2021, respectively. The charter is effective until June 2023 and is renewable thereafter by mutual consent.

THE HAMMOND URBAN ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021

NOTE 8 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Lake and surrounding counties in Indiana and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

NOTE 9 - LIQUIDITY

Financial assets available to meet cash needs for general expenditures within one year include cash (excluding cash restricted for debt service) and grants receivable totaling \$930,703 and \$1,930,766 as of June 30, 2022 and 2021, respectively.

From time to time, the School receives donor-restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 10 - FUNCTIONAL EXPENSE REPORTING

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

THE HAMMOND URBAN ACADEMY, INC.
OTHER REPORT
For the Year Ended June 30, 2022

The report presented herein 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*.