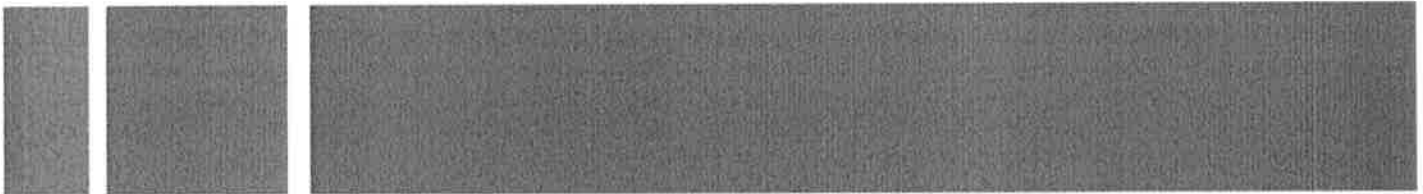


The Hammond Urban Academy

Report to the Board of Directors
January 16, 2020





RSM US LLP

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January 16, 2020

Board of Directors
The Hammond Urban Academy, Inc.
Hammond, Indiana

Attention: Kris Sakelaris, Board President

We are pleased to present this report related to our audit of the financial statements of The Hammond Urban Academy, Inc. (the School) as of and for the year ended June 30, 2018. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for The Hammond Urban Academy, Inc.'s financial reporting process.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to The Hammond Urban Academy, Inc.

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Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and related compliance reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated January 2, 2019. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication dated January 2, 2019 regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement.
Accounting Policies and Practices	<p>Preferability of Accounting Policies and Practices Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p>Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by the School. The School did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.</p> <p>Significant or Unusual Transactions We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p>
Audit Adjustments	Audit adjustments, other than those that are clearly trivial, proposed by us and recorded by the School are shown in the attached Summary of Recorded Audit Adjustments.
Uncorrected Misstatements	Uncorrected misstatements are summarized in the attached Summary of Uncorrected Misstatements.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Area	Comments
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed with or were the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Significant Written Communications Between Management and Our Firm	Copies of material written communications between our firm and the management of the School, including the representation letter provided to us by management, are attached as Exhibit A.

Summary of Recorded Audit Adjustments

Description	Effect - increase (Decrease)				
	Assets	Liabilities	Net Assets	Revenue	Expenses
To adjust interest accrual	\$ -	\$ 14,567	\$ (14,567)	\$ -	\$ 14,567
To adjust restricted cash to actual	10,604	-	10,604	10,604	-
Total change in net assets effect				<u>\$ 10,604</u>	<u>\$ 14,567</u>
Total financial position effect	<u>\$ 10,604</u>	<u>\$ 14,567</u>	<u>\$ (3,963)</u>		

Summary of Uncorrected Misstatements

During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the financial position, results of operations, cash flows and related financial statement disclosures. Following is a summary of those differences.

Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Net Assets	Revenue	Expenses
Reversed opening misstatements	\$ -	\$ -	\$ 11,500	\$ -	\$ (11,500)
Current year misstatements:					
None	-	-	-	-	-
Total	\$ -	\$ -	\$ 11,500	\$ -	\$ (11,500)

**Exhibit A—Significant Written Communications Between Management
and Our Firm**

January 16, 2020

RSM US LLP
P.O. Box 99
Elkhart, IN 46515-0099

This representation letter is provided in connection with your audits of the financial statements of Hammond Urban Academy, Inc. (the School), which comprise the statements of financial position as of June 30, 2018 and 2017, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of the date of this letter:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated January 2, 2019, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility 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.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. There are no events subsequent to the date of the financial statements for which U.S. GAAP requires adjustment or disclosure.
7. There are no known actual or possible litigation or claims to be accounted for or disclosed in accordance with U.S. GAAP.
8. The following have been recognized, measured, presented, or disclosed in accordance with U.S. GAAP.
 - a. Plans or intentions that may affect the carrying value or classification of assets and liabilities

- b. Liabilities, both actual and contingent
- c. Title of, or control over assets and the liens or encumbrances on assets pledged as collateral
- d. Aspects of laws, regulations, and contractual agreements that may affect the financial statements, including noncompliance

9. We have informed you of all uncorrected misstatements.

As of and for the year ended June 30, 2018, we believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Net Assets	Revenue	Expenses
Reversed opening misstatements	\$ -	\$ -	\$ 11,500	\$ -	\$ (11,500)
Current year misstatements:					
None	-	-	-	-	-
Total	\$ -	\$ -	\$ 11,500	\$ -	\$ (11,500)

Information Provided

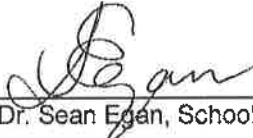
10. We have provided you with:
- a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
 - b. Additional information that you have requested from us for the purpose of the audits;
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence; and
 - d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- a. Recordable contributions, by appropriate net asset class
 - b. Reclassification between net asset classes
 - c. Allocations of functional expenses based on reasonable basis
 - d. Composition of assets in amounts needed to comply with all donor restrictions

- e. Deferred revenue from exchange transactions
 - f. Refundable advances
 - g. Board designated net assets without donor restrictions
12. We have received a determination from the Internal Revenue Service that the Organization is exempt from federal income taxes as a section 501(c)(3) not-for-profit corporation, and that the Organization has complied with the IRS regulations regarding this exemption.
 13. All transactions have been recorded in the accounting records and are reflected in the financial statements.
 14. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
 15. We have no knowledge of allegations of fraud or suspected fraud affecting the entity's financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
 16. We have no knowledge of any allegations of fraud or suspected fraud affecting the School's financial statements received in communications from employees, former employees, regulators or others.
 17. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations, other than Audit Results and Comments noted in the supplemental audit report. Additionally, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
 18. We are not aware of any pending or threatened litigation and claims whose effects were considered when preparing the financial statements.
 19. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.
 20. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the School's ability to record, process, summarize and report financial data.
 21. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
 22. During the course of your audits, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Supplementary Information

23. With respect to supplementary information presented in relation to the financial statements as a whole:
- a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

Hammond Urban Academy, Inc.



Dr. Sean Egan, School Leader



Dennis Small, Business Manager



RSM US LLP

January 16, 2020

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To Management and the Board of Directors
The Hammond Urban Academy, Inc.
Hammond, Indiana

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This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of The Hammond Urban Academy, Inc. (the School) as of and for the year ended June 30, 2018. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the School's practices and procedures.

Student Receivables

We found that the School does not record student receivables during the school year. The School records tuition revenue when cash is received from the student. We recommend the School record tuition revenue when earned during the year and monthly reconcile balances due from students as receivable and record any bad debt provision to properly reflect the School's financial position and activity during the year.

Following is a description of another identified item that we consider to be management advice related to an area of noncompliance with the Indiana State Board of Accounts Charter School Manual:

Review Ticket Sale Procedures

We noted that the School has multiple extra-curricular events and pre-numbered tickets are used. According to Part 8 of the manual, the School-designated charter school employee shall be responsible for the proper accounting for all tickets and must keep a record of the number purchased, the number issued for sale, and the number returned. The designee must see that proper accounting is made for the cash received from those sold. All tickets shall be pre-numbered, with a different ticket color and numerical series for each price group. When cash for ticket sales is deposited with the charter school, the charter school's receipt issued therefore must show the number of tickets issued to the seller, the number returned unsold and the balance remitted in cash. All tickets (including free or reduced) must be listed and accounted for on the SA-4 Ticket Sales Form. We recommend the client begins tracking ticket sales based on the requirements of the manual noted above.

This letter is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties. We appreciate serving The Hammond Urban Academy, Inc. and would be happy to assist you in addressing and implementing any of the suggestions in this letter.

RSM US LLP

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The Hammond Urban Academy, Inc.

Financial Report
June 30, 2018

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
The Hammond Urban Academy, Inc.

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, 2018 and 2017, 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.

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, 2018 and 2017, 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 accompanying supplementary information is presented for purposes of additional analysis 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
January 16, 2020

The Hammond Urban Academy, Inc.

Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash	\$ 1,472,477	\$ 1,196,321
Grants receivable	54,150	10,056
Prepaid expenses	57,049	83,779
Total current assets	1,583,676	1,290,156
Property and equipment:		
Land	5,671,123	5,671,123
Building and improvements	13,337,095	13,337,095
Furniture and equipment	2,438,835	2,327,035
Textbooks	144,890	127,524
	21,591,943	21,462,777
Accumulated depreciation	5,806,304	5,105,595
	15,785,639	16,357,182
Cash restricted for debt service	925,604	915,000
	\$ 18,294,919	\$ 18,562,338
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 132,224	\$ 78,870
Accrued salaries and related benefits	259,306	252,464
Accrued interest	186,345	185,591
Current portion of obligations under capital lease	116,454	52,654
Current portion of long-term debt	507,698	502,698
Total current liabilities	1,202,027	1,072,277
Long-term liabilities:		
Obligations under capital lease	65,693	110,249
Long-term debt, net	11,004,099	11,495,772
Total long-term liabilities	11,069,792	11,606,021
Net assets:		
Unrestricted	6,023,100	5,834,607
Temporarily restricted	-	49,433
Total net assets	6,023,100	5,884,040
	\$ 18,294,919	\$ 18,562,338

See notes to financial statements.

The Hammond Urban Academy, Inc.

Statements of Activities
Years Ended June 30, 2018 and 2017

	2018	2017
Changes in unrestricted net assets:		
Revenue and support:		
State education support	\$ 3,410,191	\$ 3,418,203
Grant revenue	696,957	516,310
Student fees	246,689	225,955
Unrestricted contributions	668,373	658,596
Other	89,956	26,524
Releases from purpose restrictions	49,433	9,527
Total unrestricted revenues	5,161,599	4,855,115
Expenses:		
Program services	4,243,864	4,097,726
Management and general	729,242	792,962
Total expenses	4,973,106	4,890,688
Change in unrestricted net assets	188,493	(35,573)
Changes in temporarily restricted net assets:		
Restricted contributions	-	12,001
Restricted grant revenue	-	37,432
Releases from purpose restrictions	(49,433)	(9,527)
Change in temporarily restricted net assets	(49,433)	39,906
Change in net assets	139,060	4,333
Net assets, beginning of year	5,884,040	5,879,707
Net assets, end of year	\$ 6,023,100	\$ 5,884,040

See notes to financial statements.

The Hammond Urban Academy, Inc.

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 139,060	\$ 4,333
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	716,734	814,151
Change in current assets and liabilities:		
(Increase) decrease in:		
Grants receivable	(44,094)	13,809
Prepaid expenses	26,730	(17,796)
Increase in:		
Accounts payable	53,354	59,250
Other current liabilities	7,596	65,159
Net cash provided by operating activities	899,380	938,906
Cash flows from investing activities:		
Acquisition of property and equipment	(100,609)	(246,402)
Interest earned on cash restricted for debt service	(10,604)	-
Net cash used in investing activities	(111,213)	(246,402)
Cash flows from financing activities:		
Principal payments on long-term debt	(502,698)	(316,349)
Principal payments on obligations under capital lease	(9,313)	(51,072)
Payment of deferred loan costs	-	-
Proceeds from long-term borrowings	-	-
Net cash used in financing activities	(512,011)	(367,421)
Increase in cash	276,156	325,083
Cash, beginning	1,196,321	871,238
Cash, ending	\$ 1,472,477	\$ 1,196,321
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 482,912	\$ 455,443
Equipment acquired in exchange for capital lease	\$ 28,557	\$ 213,975

See notes to financial statements.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 1. Nature of School and Significant Accounting Policies

Nature of school: The Hammond Urban Academy, Inc. (the School) is a public benefit not-for-profit school incorporated under the laws of the State of Indiana. The School operates a public charter school established under Indiana Code 20-24 and is sponsored by Calumet College of St. Joseph. The School is dedicated to providing the highest quality level of education to students in grades six to twelve by implementing state of the art technology and research-based instruction in an environment conducive to learning.

Significant accounting policies:

Basis of accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash: 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 amounted to approximately \$16,000 and \$15,500 for the years ended June 30, 2018 and 2017, respectively.

Property and equipment: Property and equipment are stated at cost or, if donated to the School, at fair value on the date of acquisition. Additions and improvements are capitalized; expenditures for routine maintenance are charged to operations. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is credited to or charged against income for the period.

Depreciation is computed using the straight-line and accelerated methods for property and equipment over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	30 to 40
Furniture and equipment	3 to 5
Textbooks	5

The School has a capitalization policy that states all property and equipment in excess of \$1,000 are to be capitalized and depreciated. Depreciation expense totaled approximately \$701,000 and 799,000 for the years ended June 30, 2018 and 2017, respectively.

Notes to Financial Statements

Note 1. Nature of School and Significant Accounting Policies (Continued)

Long-lived assets: The School reviews its long-lived assets periodically to determine potential impairment by comparing the carrying value of the long-lived assets with the estimated future net undiscounted cash flows expected to result from the use of assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the School would recognize an impairment loss at that date. An impairment loss would be measured by comparing the amount by which they carrying value exceeds the fair value of long-lived assets. There was no impairment at June 30, 2018 and 2017.

Classification and reporting of net assets: Accounting standards require the School to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. A description of each class of net assets follows:

- Unrestricted net assets represent the portion of net assets of the School that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for the support of the School.
- Temporarily restricted net assets represent contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations.
- Permanently restricted net assets represent contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School. At June 30, 2018 and 2017, the School had no permanently restricted net assets.

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 beginning 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.

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, 2018 and 2017.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 1. Nature of School and Significant Accounting Policies (Continued)

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. With few exceptions, the School is no longer subject to examination for years before 2015.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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, 2022, 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. 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 January 16, 2020, the date the financial statements were available to be issued.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 2. Long-Term Debt

Long-term debt at June 30, 2018 and 2017, consisted of the following:

	2018	2017
\$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	\$ 8,870,000	\$ 9,030,000
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	2,912,932	3,255,630
	11,782,932	12,285,630
Less current maturities	507,698	502,698
	11,275,234	11,782,932
Less deferred charges, net of amortization	271,135	287,160
	\$ 11,004,099	\$ 11,495,772

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, 2018, are as follows:

2019	\$ 507,698
2020	517,698
2021	527,698
2022	537,698
2023	547,698
Thereafter	9,144,442
	\$ 11,782,932

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, 2018 and 2017, is \$925,604 and \$915,000, respectively.

The interest expense was approximately \$484,000 and \$452,000 for the years ended June 30, 2018 and 2017, respectively.

The City of Hammond has also committed to supplement any anticipated shortfall the School may have in meeting the debt service obligation. For each year ended June 30, 2018 and 2017, 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.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 3. Obligations Under Capital Lease

The School is leasing computer equipment under capital lease agreements which expire in May 2020. The agreements contain a \$1 bargain purchase option. A summary of the computer equipment under capital lease at June 30, 2018, is as follows:

Cost	\$ 242,532
Less accumulated depreciation	68,804
Net leased assets included in property and equipment	<u>\$ 173,728</u>

Future minimum lease payments under the lease are as follows:

Year ending June 30,	
2019	\$ 125,473
2020	67,774
Total minimum lease payments	193,247
Less amount representing interest	11,100
Present value of minimum lease payments	<u>\$ 182,147</u>

Note 4. Restrictions on Net Assets

The restrictions on net assets at June 30, 2018 and 2017, 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, 2018 and 2017, consisted of the following:

	2018	2017
Capital projects	\$ -	\$ 36,028
Counseling services	-	12,001
Teachers' performance-based awards	-	1,404
	<u>\$ -</u>	<u>\$ 49,433</u>

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 \$85,100 and \$84,200 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, totaled approximately \$14,700 and \$13,600, respectively.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 6. Operating Lease Commitments (Continued)

The following schedule presents the future minimum lease payments under the above noncancellable lease as of June 30, 2018:

2019	\$	10,560
2020		10,560
2021		1,760
	\$	<u>22,880</u>

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, 2018, 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, 2018 and 2017, 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 \$214,400 and \$205,300 for the years ended June 30, 2018 and 2017, respectively.

Supplementary Information

The Hammond Urban Academy, Inc.

Schedules of Functional Expenses
 Years Ended June 30, 2018 and 2017
 See Independent Auditor's Report

	2018		2017	
	Program Services	Management and General	Program Services	Management and General
Salaries and wages	\$ 1,919,843	\$ 326,663	\$ 1,800,356	\$ 381,752
Employee benefits	580,189	106,790	573,186	110,326
Authorizer's fees	-	85,106	-	84,202
Supplies and materials	70,469	3,753	75,522	3,013
Contracted transportation	882	-	738	-
Depreciation and amortization	716,734	-	814,151	-
Network support and equipment	82,893	-	73,577	-
Food service	110,561	-	96,202	-
Insurance	-	83,908	-	98,962
Interest	483,666	-	452,126	-
Occupancy	147,347	-	140,179	-
Professional fees	49,829	97,783	47,201	93,352
Repairs and maintenance	24,002	-	14,967	-
Staff development	50,200	-	3,664	-
Other	7,249	25,239	5,857	21,355
Total expenses	\$ 4,243,864	\$ 729,242	\$ 4,097,726	\$ 792,962

The Hammond Urban Academy, Inc.

Supplemental Report Information

The Independent Auditor's Report presented on pages 1 and 2 was prepared in addition to another official report prepared for the School as listed below:

Supplemental Audit Report of The Hammond Urban Academy, Inc.

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.