

The Hammond Urban Academy, Inc.

Financial Report
June 30, 2020

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RSM US LLP

Independent Auditor's Report

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, 2020 and 2019, 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, 2020 and 2019, 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.

RSM US LLP

Indianapolis, Indiana
November 8, 2021

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The Hammond Urban Academy, Inc.

**Statements of Financial Position
June 30, 2020 and 2019**

	2020	2019
Assets		
Current assets:		
Cash	\$ 1,884,306	\$ 1,073,981
Grants receivable	8,024	29,364
Prepaid expenses	60,352	51,295
Total current assets	1,952,682	1,154,640
Property and equipment:		
Land	5,671,123	5,671,123
Building and improvements	13,367,868	13,354,515
Furniture and equipment	3,218,622	2,808,951
Textbooks	144,890	144,890
	22,402,503	21,979,479
Accumulated depreciation	7,220,673	6,516,430
	15,181,830	15,463,049
Cash restricted for debt service	960,038	946,431
	\$ 18,094,550	\$ 17,564,120
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 128,641	\$ 105,108
Accrued salaries and related benefits	279,679	274,402
Accrued interest	206,617	17,981
Current portion of obligations under capital lease	118,424	100,739
Current portion of long-term debt, net	527,698	432,698
Current portion of Paycheck Protection Program forgivable loan	194,446	-
Deferred revenue	63,759	50,473
Total current liabilities	1,519,264	981,401
Long-term liabilities:		
Obligations under capital lease	376,183	197,059
Paycheck Protection Program forgivable loan	305,554	-
Long-term debt, net	9,990,753	10,502,426
Total long-term liabilities	10,672,490	10,699,485
Net assets without donor restrictions	5,902,796	5,883,234
Total net assets	5,902,796	5,883,234
	\$ 18,094,550	\$ 17,564,120

See notes to financial statements.

The Hammond Urban Academy, Inc.

**Statements of Activities
Years Ended June 30, 2020 and 2019**

	2020	2019
Changes in net assets without donor restrictions:		
Revenues:		
State education support	\$ 3,891,787	\$ 3,648,227
Grant revenue	753,339	762,638
Student fees	161,660	180,301
Contributions	652,613	697,867
Other	38,010	54,096
Total revenues	<u>5,497,409</u>	<u>5,343,129</u>
Expenses:		
Program services	4,438,838	4,538,511
Management and general	1,039,009	944,484
Total expenses	<u>5,477,847</u>	<u>5,482,995</u>
Change in net assets	19,562	(139,866)
Net assets, beginning of year	<u>5,883,234</u>	<u>6,023,100</u>
Net assets, end of year	<u>\$ 5,902,796</u>	<u>\$ 5,883,234</u>

See notes to financial statements.

The Hammond Urban Academy, Inc.

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 19,562	\$ (139,866)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	720,269	726,151
Change in current assets and liabilities:		
Grants receivable	21,340	24,786
Prepaid expenses	(9,057)	5,754
Accounts payable	23,533	(27,116)
Accrued expenses	193,913	(153,268)
Deferred revenue	13,286	50,473
Net cash provided by operating activities	<u>982,846</u>	<u>486,914</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(120,710)	(126,624)
Net cash used in investing activities	<u>(120,710)</u>	<u>(126,624)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(432,698)	(592,698)
Principal payments on obligations under capital lease	(105,506)	(145,261)
Proceeds from Paycheck Protection Program forgivable loan	500,000	-
Net cash used in financing activities	<u>(38,204)</u>	<u>(737,959)</u>
Increase (decrease) in cash and restricted cash	<u>823,932</u>	<u>(377,669)</u>
Cash and restricted cash held in escrow:		
Beginning of year	<u>2,020,412</u>	<u>2,398,081</u>
End of year	<u>\$ 2,844,344</u>	<u>\$ 2,020,412</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 280,872</u>	<u>\$ 683,550</u>
Equipment acquired in exchange for capital lease	<u>\$ 302,314</u>	<u>\$ 260,912</u>

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).

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.

The following table provides a reconciliation of cash and cash restricted for debt service reported within the statements of financial position to the total of the corresponding amounts shown in the statements of cash flows at June 30:

	2020	2019
Cash	\$ 1,884,306	\$ 1,073,981
Cash held in escrow and restricted for debt service	960,038	946,431
	<u>\$ 2,844,344</u>	<u>\$ 2,020,412</u>

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 for both years ended June 30, 2020 and 2019.

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.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

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

Depreciation is computed using the straight-line method 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 \$704,000 and \$710,000 for the years ended June 30, 2020 and 2019, respectively.

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 the carrying value exceeds the fair value of long-lived assets. There was no impairment at June 30, 2020 and 2019.

Classification and reporting of net assets: Accounting standards require the School to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. A description of each class of net assets follows:

- Net assets without donor restrictions represent the portion of net assets of the School that is not restricted by donor-imposed stipulations. Net assets without donor restrictions include expendable funds available for the support of the School.
- Net assets with donor restrictions 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. At June 30, 2020 and 2019, the School had no net assets with donor restrictions.

Revenue recognition: Revenues are substantially received from resources provided under the Indiana Charter Schools Act (the 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. Deferred revenue is recorded for amounts received for student tuition and fees prior to fiscal year-end, which relate to the subsequent fiscal year.

A portion of the School's revenue is from 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 in the statement of activities as net assets without donor restrictions.

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 2017.

Recently adopted accounting pronouncements: In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The School adopted the new guidance for its June 30, 2020 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 School adopted the new guidance for its June 30, 2020 financial statements and determined the adoption did not have a material impact.

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is permitted. The updated standard is effective for the School's June 30, 2021, 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, 2023, 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.

Subsequent events: The School has evaluated subsequent events for potential recognition and/or disclosure through November 8, 2021, the date the financial statements were available to be issued.

In February 2021, the School applied for and received a second forgivable loan under the United States Small Business Administration Paycheck Protection Program in the amount of \$500,000.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one-year of the date of statement of financial position, comprise the following at June 30:

	<u>2020</u>	<u>2019</u>
Cash and restricted cash	\$ 2,844,344	\$ 2,020,412
Grants receivable	8,024	29,364
	<u>2,852,368</u>	<u>2,049,776</u>
Less amounts not available to be used within one-year:		
Cash restricted for debt service	960,038	946,431
Financial assets available to meet general expenditures within one-year	<u>\$ 1,892,330</u>	<u>\$ 1,103,345</u>

General expenditures include program expenses and supporting services expected to be paid in the subsequent year. The School regularly monitors liquidity required to meet its annual operating needs and other contractual commitments.

Note 3. Paycheck Protection Program Loan

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law and is meant to address the economic fallout from the COVID-19 pandemic. In connection with the CARES Act, the School received a Small Business Administration (SBA) Paycheck Protection Program (PPP) loan for \$500,000 on April 11, 2020. The School determined they qualified for the loan because the School has fewer than 500 employees. The loan is unsecured, bears interest at 1.00%, and matures on April 11, 2022. Under the provisions of the CARES Act and related loans, this loan will be forgiven if certain conditions are met related to the use of the proceeds and maintenance of employment with the School employees. The School has elected to account for the loan as a financial liability in accordance with Accounting Standards Codification (ASC) Topic 740, Debt. Subsequent to year-end, the School applied for and received full forgiveness by the SBA.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 4. Long-Term Debt

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

	2020	2019
\$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%, secured by building, until maturity in August 2035	\$ 8,530,000	\$ 8,620,000
Common School Loan, State of Indiana, payable in semi-annual installments of \$171,349, plus interest at 1.00%, until maturity in July 2026	2,227,536	2,570,234
Small Business Administration (SBA) Paycheck Protection Program Forgivable Loan (see Note 3)	500,000	-
	<u>11,257,536</u>	<u>11,190,234</u>
Less current maturities	722,144	432,698
	<u>10,535,392</u>	<u>10,757,536</u>
Less deferred loan costs, net of amortization	239,085	255,110
	<u>\$ 10,296,307</u>	<u>\$ 10,502,426</u>

Aggregate maturities of long-term debt outstanding at June 30, 2020, are as follows:

2021	\$ 722,144
2022	843,252
2023	547,698
2024	557,698
2025	567,698
Thereafter	8,019,046
	<u>\$ 11,257,536</u>

The interest expense was approximately \$470,000 and \$515,000 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, 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 School has also received funding from the City of Hammond in the amount of \$650,000 for fiscal year 2021.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 5. Capital Leases

The School is leasing computer, television and office equipment under capital lease agreements which expire at various dates from July 2023 through May 2025. The lease agreements require minimum monthly principal payments of approximately \$5,949, \$2,998 and \$1,404, respectively. A summary of the equipment under capital lease agreements at June 30, is as follows:

	2020	2019
Cost	\$ 805,758	\$ 503,444
Less accumulated depreciation	278,558	159,842
Net leased assets included in property and equipment	<u>\$ 527,200</u>	<u>\$ 343,602</u>

Future minimum lease payments under the lease are as follows:

Year ending June 30,		
2021		\$ 131,956
2022		136,793
2023		136,793
2024		125,479
2025		3,416
Total minimum lease payments		<u>534,437</u>
Less amount representing interest		39,830
Present value of minimum lease payments		<u>\$ 494,607</u>

The interest expense was approximately \$19,000 and \$12,000 for the years ended June 30, 2020 and 2019, respectively.

Note 6. 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 authorizer's fee equal to 3% of state tuition payments received. The charter is effective until June 2023. Payments under this agreement were approximately \$110,100 and \$88,800 for the years ended June 30, 2020 and 2019, respectively.

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.

The Hammond Urban Academy, Inc.

Notes to Financial Statements

Note 7. Risk and Uncertainties (Continued)

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2021 and 2020, substantially all of the grants 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.

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. This coronavirus outbreak severely impacted the level of economic activity around the world and in the United States, and continues to create uncertainty for the near-term revenues and expenses of the School due to its detrimental impact on the economy, jobs, and family incomes.

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, 2020 and 2019, 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 \$209,000 and \$235,200 for the years ended June 30, 2020 and 2019, respectively.

Note 9. Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and amortization, network support and equipment, insurance, interest, occupancy, and repairs and maintenance, which 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.

Notes to Financial Statements

Note 9. Functional Allocation of Expenses (Continued)

Expenses by functional and natural classification consist of the following:

	2020		
	Program Services	Management and General	Total
Salaries and wages	\$ 2,056,432	\$ 437,000	\$ 2,493,432
Employee benefits	690,890	132,271	823,161
Authorizer's fees	-	110,138	110,138
Supplies and materials	108,212	3,586	111,798
Depreciation and amortization	612,229	108,040	720,269
Network support and equipment	111,469	19,671	131,140
Food service	110,505	-	110,505
Insurance	7,029	1,241	8,270
Interest	399,082	70,426	469,508
Occupancy	123,992	21,881	145,873
Professional fees	71,852	109,189	181,041
Repairs and maintenance	52,595	-	52,595
Staff development	89,404	-	89,404
Other	5,147	25,566	30,713
Total expenses	<u>\$ 4,438,838</u>	<u>\$ 1,039,009</u>	<u>\$ 5,477,847</u>

	2019		
	Program Services	Management and General	Total
Salaries and wages	\$ 2,095,335	\$ 349,503	\$ 2,444,838
Employee benefits	668,196	118,664	786,860
Authorizer's fees	-	88,790	88,790
Supplies and materials	84,640	4,976	89,616
Depreciation and amortization	617,228	108,923	726,151
Network support and equipment	95,701	16,888	112,589
Food service	133,202	-	133,202
Insurance	107,551	18,980	126,531
Interest	437,908	77,278	515,186
Occupancy	129,990	22,939	152,929
Professional fees	56,113	106,751	162,864
Repairs and maintenance	18,072	-	18,072
Staff development	85,976	320	86,296
Other	8,599	30,472	39,071
Total expenses	<u>\$ 4,538,511</u>	<u>\$ 944,484</u>	<u>\$ 5,482,995</u>

Supplementary Information

The Hammond Urban Academy, Inc.

Supplemental Report Information

The Independent Auditor's Report presented on page 1 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*.