

THE HAMMOND URBAN ACADEMY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2021 and 2020



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Independent Auditors' Report

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 statement of financial position as of June 30, 2021, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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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, 2021, and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of The Hammond Urban Academy, Inc. as of and for the year ended June 30, 2020, with the exception of the prior period adjustment described in Note 2, were audited by another auditor whose report dated November 8, 2021 expressed an unmodified opinion on those financial statements.

As part of our audit of the June 30, 2021 financial statements, we also audited the adjustment described in Note 2 that was applied to restate the 2020 financial statements. In our opinion, the adjustment is appropriate and has been properly applied. We were not engaged to audit, review, nor apply any procedures to the 2020 financial statements of The Hammond Urban Academy, Inc. other than with respect to the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the 2020 financial statements.

DONOVAN



Indianapolis, Indiana

March 30, 2022

THE HAMMOND URBAN ACADEMY, INC
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,737,605	\$ 1,884,306
Grants receivable	193,161	109,018
Prepaid expenses	<u>71,930</u>	<u>60,352</u>
<i>Total current assets</i>	<u>2,002,696</u>	<u>2,053,676</u>
PROPERTY AND EQUIPMENT		
Land	5,683,923	5,671,123
Building and improvements	13,367,868	13,367,868
Furniture and equipment	3,718,005	3,218,622
Textbooks	144,890	144,890
Less: accumulated depreciation	<u>(7,945,250)</u>	<u>(7,220,673)</u>
<i>Property and equipment, net</i>	<u>14,969,436</u>	<u>15,181,830</u>
OTHER ASSETS		
Cash restricted for debt service	<u>960,038</u>	<u>960,038</u>
TOTAL ASSETS	<u>\$ 17,932,170</u>	<u>\$ 18,195,544</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of capital lease obligations	\$ 171,135	\$ 118,424
Current portion of notes payable	537,698	527,698
Current portion of Paycheck Protection Program forgivable loan	500,000	194,446
Accounts payable and accrued expenses	577,266	614,937
Deferred revenue	<u>93,712</u>	<u>63,759</u>
<i>Total current liabilities</i>	<u>1,879,811</u>	<u>1,519,264</u>
LONG-TERM LIABILITIES		
Paycheck Protection Program forgivable loan, net of current portion	-	305,554
Capital lease obligations, net of current portion	516,072	376,183
Notes payable, net of current portion	9,597,140	10,229,838
Less: unamortized debt issuance costs	<u>(223,060)</u>	<u>(239,085)</u>
<i>Total long-term liabilities</i>	<u>9,890,152</u>	<u>10,672,490</u>
TOTAL LIABILITIES	11,769,963	12,191,754
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>6,162,207</u>	<u>6,003,790</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,932,170</u>	<u>\$ 18,195,544</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
REVENUE AND SUPPORT		
State education support	\$ 4,092,117	\$ 3,992,781
Grant revenue	1,083,901	753,339
Student fees	186,225	161,660
Contributions:		
City of Hammond	-	650,000
Other contributions	1,417	2,613
Other	9,195	38,010
	<u>5,372,855</u>	<u>5,598,403</u>
 <i>Total revenue and support</i>		
EXPENSES		
Program services	4,670,158	4,438,838
Management and general	1,044,280	1,039,009
	<u>5,714,438</u>	<u>5,477,847</u>
 <i>Total expenses</i>		
CHANGE IN NET ASSETS FROM OPERATIONS	(341,583)	120,556
PAYCHECK PROTECTION PROGRAM LOAN FORGIVENESS INCOME	<u>500,000</u>	<u>-</u>
CHANGE IN NET ASSETS	158,417	120,556
NET ASSETS, BEGINNING OF YEAR	<u>6,003,790</u>	<u>5,883,234</u>
NET ASSETS, END OF YEAR	<u>\$ 6,162,207</u>	<u>\$ 6,003,790</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, 2021 and 2020

	2021		2020			
	<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	\$ 2,196,953	\$ 463,793	\$ 2,660,746	\$ 2,056,432	\$ 437,000	\$ 2,493,432
Employee benefits	706,753	133,099	839,852	690,890	132,271	823,161
Depreciation and amortization	629,512	111,090	740,602	612,229	108,040	720,269
Interest	391,542	69,096	460,638	399,082	70,426	469,508
Information technology	168,676	29,766	198,442	111,469	19,671	131,140
Professional services	70,229	126,698	196,927	71,852	109,189	181,041
Classroom and office supplies	123,593	9,118	132,711	108,212	3,586	111,798
Staff development	129,226	-	129,226	89,404	-	89,404
Authorizer fees	-	113,999	113,999	-	110,138	110,138
Occupancy	88,080	15,544	103,624	123,992	21,881	145,873
Insurance	87,681	-	87,681	7,029	1,241	8,270
Repairs and maintenance	69,694	-	69,694	52,595	-	52,595
Food costs	8,126	-	8,126	110,505	-	110,505
Gain on sale of property and equipment	-	(68,663)	(68,663)	-	-	-
Other	93	40,740	40,833	5,147	25,566	30,713
<i>Total functional expenses</i>	<u>\$ 4,670,158</u>	<u>\$ 1,044,280</u>	<u>\$ 5,714,438</u>	<u>\$ 4,438,838</u>	<u>\$ 1,039,009</u>	<u>\$ 5,477,847</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 158,417	\$ 120,556
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Paycheck Protection Program loan forgiveness income	(500,000)	-
Depreciation and amortization	740,602	720,269
Gain on sale of property and equipment	(68,663)	-
Change in certain assets and liabilities:		
Grants receivable	(84,143)	(79,654)
Prepaid expenses	(11,578)	(9,057)
Accounts payable and accrued expenses	(37,671)	217,446
Deferred revenue	29,953	13,286
	<u>226,917</u>	<u>982,846</u>
<i>Net cash provided by operating activities</i>	<u>226,917</u>	<u>982,846</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(17,626)	(120,710)
Proceeds from sale of property and equipment	68,663	-
	<u>51,037</u>	<u>(120,710)</u>
<i>Net cash provided by (used in) investing activities</i>	<u>51,037</u>	<u>(120,710)</u>
FINANCING ACTIVITIES		
Principal payments on notes payable	(622,698)	(432,698)
Principal payments on capital lease obligations	(301,957)	(105,506)
Proceeds from Paycheck Protection Program forgivable loan	500,000	500,000
	<u>(424,655)</u>	<u>(38,204)</u>
<i>Net cash used in financing activities</i>	<u>(424,655)</u>	<u>(38,204)</u>
NET CHANGE IN CASH	(146,701)	823,932
CASH, BEGINNING OF YEAR	<u>2,844,344</u>	<u>2,020,412</u>
CASH, END OF YEAR	<u>\$ 2,697,643</u>	<u>\$ 2,844,344</u>
CASH, END OF YEAR		
Cash - unrestricted	\$ 1,737,605	\$ 1,884,306
Cash - restricted for debt service	960,038	960,038
	<u>\$ 2,697,643</u>	<u>\$ 2,844,344</u>
<i>Total cash, end of year</i>	<u>\$ 2,697,643</u>	<u>\$ 2,844,344</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 667,255	\$ 280,872
Equipment acquired in exchange for capital lease	494,557	302,314

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, 2021 and 2020

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. 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.

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

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

As of June 30, 2021 and 2020, the School had only net assets without donor restrictions.

Basis of Accounting and Use of Estimates – The accompanying 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”), 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, 2021 and 2020, there were no cash equivalents.

As of both June 30, 2021 and 2020 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, which approximates the effective interest method. Amortization of deferred loan costs amounted to approximately \$16,000 for both years ended June 30, 2021 and 2020.

THE HAMMOND URBAN ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

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 that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2021 and 2020, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ended after June 30, 2017 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through March 30, 2022, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

NOTE 2 - PRIOR PERIOD ADJUSTMENT

Net assets as of June 30, 2020 have been adjusted to properly account for an error in the reporting of federal cost-reimbursement grant revenues, which is to be recognized when expenses are incurred. Expenses incurred during the year ended June 30, 2020 totaling \$100,994 were claimed and received during the year ended June 30, 2021. An adjustment was recorded to reflect this revenue and the related receivable as of June 30, 2020.

THE HAMMOND URBAN ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 3 - REVENUE RECOGNITION

Revenue Recognition Standard – Effective July 1, 2020, the School adopted Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 replaced previous revenue recognition guidance under U.S. GAAP and requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. The School has applied the provisions of this ASU to the June 30, 2021 financial statements. There was no material impact on the financial statements.

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 obligation.

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 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 4 - 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.

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.

THE HAMMOND URBAN ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 4 - PAYCHECK PROTECTION PROGRAM, Continued

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 loan is unsecured, bearing interest at 1.00% per annum, and matures on February 5, 2026. As of June 30, 2021, the School has determined the PPP note payable represents a financial liability and has accounted for it in accordance with FASB ASC 470, *Simplifying the Classification of Debt*, until forgiveness is obtained.

NOTE 5 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	<u>2021</u>	<u>2020</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 in August 2035	\$ 8,250,000	\$ 8,530,000
Common School Loan, payable to State of Indiana, payable in semi-annual installments of \$171,349, plus interest at 1.00%, maturing in July 2026	1,884,838	2,227,536
	<u>10,134,838</u>	<u>10,757,536</u>
Less: current portion	<u>(537,698)</u>	<u>(527,698)</u>
Long-term portion	\$ <u>9,597,140</u>	\$ <u>10,229,838</u>

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

2022	\$ 537,698
2023	547,698
2024	557,698
2025	567,698
2026	577,698
Thereafter	<u>7,346,348</u>
	\$ <u>10,134,838</u>

The City of Hammond has also committed to supplement any anticipated shortfall the School may have in meeting the debt service obligation. For the year ended June 30, 2020, the City of Hammond provided funding in the amount of \$650,000, which is presented in contributions in the statements of activities and change in net assets. The School did not receive funding from the City of Hammond during the year ended June 30, 2021.

THE HAMMOND URBAN ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 6 - 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>2021</u>	<u>2020</u>
Leased assets costs	\$ 868,593	\$ 805,758
Less: accumulated depreciation	<u>(145,842)</u>	<u>(278,558)</u>
Net book value of leased assets	\$ <u>722,751</u>	\$ <u>527,200</u>

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

2022	\$ 203,442
2023	204,920
2024	124,978
2025	110,217
2026	108,497
2027	<u>26,523</u>
Total minimum lease payments	778,577
Less: amount representing interest	<u>(91,370)</u>
Present value of future minimum lease payments	687,207
Less: current portion	<u>(171,135)</u>
Long-term portion	\$ <u>516,072</u>

NOTE 7 - 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 year ended June 30, 2021 (10.5% to TRF and 10.75% to PERF during the year ended June 30, 2020). 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, 2020 (the latest year reported), TRF was over 100% funded and PERF was over 80% funded.

THE HAMMOND URBAN ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 8 - COMMITMENT

The School operates under a charter granted by Calumet College of St. Joseph ("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. The charter is effective until June 2023. Payments under this agreement were approximately \$114,000 and \$110,000 for the years ended June 30, 2021 and 2020, respectively.

NOTE 9 - 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 10 - 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. Financial assets available to meet cash needs for general expenditures within one year totaled \$1,930,766 and \$1,993,324 as of June 30, 2021 and 2020, 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 11 - 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, 2021

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*.

