

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2021 and 2020



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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Charter School of the Dunes, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Charter School of the Dunes, Inc. and Affiliate, which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Charter School of the Dunes, Inc. and Affiliate as of June 30, 2021 and 2020 and the consolidated activities and change in net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and is not a required part of the consolidated financial statements. Additionally, the accompanying consolidating schedules of financial position and activities and change in net assets on pages 15 through 18 are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and consolidating schedules of financial position and activities and change in net assets are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2022 on our consideration of Charter School of the Dunes, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Charter School of the Dunes, Inc.'s internal control over financial reporting and compliance.

DONOVAN



Indianapolis, Indiana
January 28, 2022

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 3,925,196	\$ 2,853,890
Grants receivable	<u>201,618</u>	<u>192,732</u>
<i>Total current assets</i>	<u>4,126,814</u>	<u>3,046,622</u>
PROPERTY AND EQUIPMENT		
Land	750,641	750,641
Buildings and improvements	11,306,585	11,306,585
Furniture and equipment	701,619	604,084
Textbooks	299,465	299,465
Less: accumulated depreciation	<u>(3,157,332)</u>	<u>(2,661,297)</u>
<i>Property and equipment, net</i>	<u>9,900,978</u>	<u>10,299,478</u>
TOTAL ASSETS	<u>\$ 14,027,792</u>	<u>\$ 13,346,100</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 377,000	\$ 377,000
Paycheck Protection Program note payable	-	760,200
Accounts payable and accrued expenses	<u>439,136</u>	<u>264,585</u>
<i>Total current liabilities</i>	<u>816,136</u>	<u>1,401,785</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	4,305,500	4,682,500
Less: unamortized debt issuance costs	<u>(497,363)</u>	<u>(549,717)</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>3,808,137</u>	<u>4,132,783</u>
<i>Total liabilities</i>	4,624,273	5,534,568
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>9,403,519</u>	<u>7,811,532</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,027,792</u>	<u>\$ 13,346,100</u>

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

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATED 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	\$ 5,435,827	\$ 5,191,219
Grant revenue	2,321,147	2,041,941
Student fees	1,104	19,851
Interest income	679	57,065
Contributions	4,190	3,317
Fundraising income	-	1,996
Other income	22,014	48,055
	<u>7,784,961</u>	<u>7,363,444</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	5,553,614	5,195,475
Management and general	1,399,560	1,142,323
	<u>6,953,174</u>	<u>6,337,798</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS FROM OPERATIONS	831,787	1,025,646
OTHER INCOME		
Paycheck Protection Program loan forgiveness income	760,200	-
Forgiveness of debt income	-	3,567,544
	<u>-</u>	<u>3,567,544</u>
CHANGE IN NET ASSETS	1,591,987	4,593,190
NET ASSETS, BEGINNING OF YEAR	<u>7,811,532</u>	<u>3,218,342</u>
NET ASSETS, END OF YEAR	<u>\$ 9,403,519</u>	<u>\$ 7,811,532</u>

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

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2021 and 2020

	2021			2020		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	\$ 2,796,534	\$ 787,768	\$ 3,584,302	\$ 2,662,924	\$ 556,508	\$ 3,219,432
Employee benefits	730,932	180,128	911,060	627,373	130,016	757,389
Depreciation	496,055	-	496,055	497,876	-	497,876
Classroom, kitchen, and office supplies	421,728	15,861	437,589	108,533	33,858	142,391
Other professional services	292,063	123,462	415,525	317,515	124,539	442,054
Occupancy	285,674	-	285,674	244,085	-	244,085
Transportation service	225,662	-	225,662	263,312	-	263,312
Authorizer oversight fees	-	172,085	172,085	-	176,675	176,675
Interest	147,210	-	147,210	173,547	-	173,547
Food service	140,020	-	140,020	279,732	-	279,732
Insurance	-	48,289	48,289	-	56,529	56,529
Staff development and recruitment	13,334	-	13,334	19,132	3,255	22,387
Asset management fees	-	-	-	-	20,673	20,673
Other	4,422	71,967	76,389	1,446	40,270	41,716
<i>Total functional expenses</i>	<u>\$ 5,553,614</u>	<u>\$ 1,399,560</u>	<u>\$ 6,953,174</u>	<u>\$ 5,195,475</u>	<u>\$ 1,142,523</u>	<u>\$ 6,337,998</u>

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

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATED 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	\$ 1,591,987	\$ 4,593,190
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Paycheck Protection Program loan forgiveness income	(760,200)	-
Forgiveness of debt	-	(3,567,544)
Depreciation	496,035	497,876
Amortization of debt issuance costs	52,354	52,354
Changes in certain assets and liabilities:		
Grants receivable	(8,886)	(57,306)
Interest income receivable	-	53,885
Accounts payable and accrued expenses	174,551	(205,613)
<i>Net cash provided by operating activities</i>	<u>1,545,841</u>	<u>1,366,842</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(97,535)</u>	<u>(432,792)</u>
FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program note payable	-	760,200
Principal repayment of notes payable	<u>(377,000)</u>	<u>(613,913)</u>
<i>Net cash provided by (used in) financing activities</i>	<u>(377,000)</u>	<u>146,287</u>
NET CHANGE IN CASH	1,071,306	1,080,337
CASH, BEGINNING OF YEAR	<u>2,853,890</u>	<u>1,773,553</u>
CASH, END OF YEAR	<u>\$ 3,925,196</u>	<u>\$ 2,853,890</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 119,731	\$ 192,828

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

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Charter School of the Dunes, Inc. is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana operating a public charter school established under Indiana Code 20-24 which served approximately 680 students in kindergarten through eighth grade during the 2020-2021 school year (650 students during the 2019-2020 school year). Charter School of the Dunes, Inc. maintains control over CSOTD Holdings, Inc., a public benefit not-for-profit organization established for the purpose of constructing and owning a building to serve as an educational facility.

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of Charter School of the Dunes, Inc. and its affiliate, CSOTD Holdings, Inc., collectively referred to as the “School.” All significant intercompany transactions and balances have been eliminated in consolidation.

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 consolidated 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. There were no cash equivalents at June 30, 2021 and 2020.

Grants Receivable – Grants receivable relate 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 – The School incurred costs totaling \$725,304 associated with securing financing for the construction of the school facility. Amortization of these debt issuance costs is provided on a straight-line basis over the term of the agreements. Accumulated amortization was \$227,941 and \$175,587 as of June 30, 2021 and 2020, respectively. Amortization expense was \$52,354 for each of the years ended June 30, 2021 and 2020, and is included in interest expense. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability on the consolidated statements of financial position.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED 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 and minor replacement costs are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

Buildings and improvements	35 years
Furniture and equipment	3 to 5 years
Textbooks	5 years

Taxes on Income – Charter School of the Dunes, Inc. and its affiliate, CSOTD Holdings, Inc., have received determinations from the U.S. Treasury Department stating that they qualify under the provisions of Section 501(c)(3) of the Internal Revenue Code as tax-exempt organizations; however, each entity 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 consolidated 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. The 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 January 28, 2022, the date these consolidated financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the consolidated financial statements or related disclosures would be required.

NOTE 2 - 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 and 2020 financial statements. There was no material impact on the financial statements.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 2 - REVENUE RECOGNITION, Continued

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 is paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which educational services are rendered.

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

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

NOTE 3 - PAYCHECK PROTECTION PROGRAM

On April 29, 2020, the School was granted a loan from BMO Harris Bank in the amount of \$760,200, pursuant to the Paycheck Protection Program ("PPP") under Division A, Title I of the CARES Act. Under the terms of the PPP, the loan funds would be forgiven if they were used for qualifying expenses as described in the CARES Act. 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 January 4, 2021, and therefore recognized the entire amount as PPP loan forgiveness income as of that date.

NOTE 4 - NOTES RECEIVABLE AND PAYABLE

To facilitate the construction of its school facilities, during 2011 the School borrowed funds from BMO Harris Bank, which when combined with its own resources were loaned to Chase NMTC CSOTD Investment Fund, LLC ("Chase NMTC"). Chase NMTC was able to secure an additional equity investment in order to complete the funding required for the project. Chase NMTC, in turn, loaned the amount necessary for construction of the facility to CSOTD Holdings, Inc. through an affiliated entity, NNMF SUB-CDE XVII, LLC ("SUB-CDE").

During December 2019 on the eighth anniversary of the financing, as part of a put/call agreement, Chase NMTC and SUB-CDE were removed from the financing structure. The note receivable on Charter School of the Dunes, Inc.'s books was assigned by Chase NMTC to CSOTD Holdings, Inc. and the corresponding note payable on CSOTD Holdings, Inc.'s books was assigned by SUB-CDE to Charter School of the Dunes, Inc. The \$9,237,456 note receivable and payable are eliminated in consolidation as of both June 30, 2021 and 2020.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 4 - NOTES RECEIVABLE AND PAYABLE, Continued

In addition, as part of the original financing agreement, the note payable from CSOTD Holdings, Inc. to SUB-CDE in the amount of \$3,567,544 was canceled. This was possible due to the tax credits received by SUB-CDE as part of the financing structure.

The note receivable was due from Chase NMTC, an entity created to facilitate the funding and construction of the School's facility. The note carried an interest rate of 1% per annum and was secured by all assets of Chase NMTC, consisting primarily of its interest in SUB-CDE. Interest only was payable on the note until December 1, 2019.

Notes payable consisted of the following at June 30:

	<u>2021</u>	<u>2020</u>
Note payable to BMO Harris Bank	\$ 4,435,000	\$ 4,767,000
Note payable to the Indiana Common School Fund	247,500	292,500
	<u>4,682,500</u>	<u>5,059,500</u>
Less: current portion	(377,000)	(377,000)
Long-term portion	<u>\$ 4,305,500</u>	<u>\$ 4,682,500</u>

The note payable to BMO Harris Bank provides for interest at 5.39%, of which interest at 4.91% is subsidized by the U.S. Treasury from the purchase of Qualified School Construction Bonds; however, the subsidy is subject to reduction dependent upon federal sequestration adjustments. The note payable amortizes through December 2030. The loan is secured by a blanket lien on all school assets. The loan agreement contains certain covenants that limit the School's ability to create liens, incur debt, and change management. The School met all debt covenants as of and for the year ended June 30, 2021.

The note payable to SUB-CDE related to borrowings by CSOTD Holdings, Inc. to finance the construction of the school facility. The note provided for interest only at .9% per annum through December 1, 2019. This note was canceled effective December 1, 2019.

The note payable to Indiana Common School Fund requires semi-annual payments of \$22,500 plus interest through July 2026. Interest accrues at 1% per annum.

Annual principal maturities of the notes payable are as follows for the years ending June 30:

2022	\$ 377,000	
2023	377,000	
2024	377,000	
2025	377,000	
2026	377,000	
Thereafter	<u>2,797,500</u>	
	<u>\$ 4,682,500</u>	

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 5 - COMMITMENTS

The School operates under a charter granted by Calumet College of Saint Joseph. As the sponsoring organization, Calumet College of Saint Joseph exercises certain oversight responsibilities. Under the charter, the School agreed to pay the sponsor an annual administrative fee not to exceed 3% of state tuition support. Payments under this agreement were \$172,085 and \$176,675 for the years ended June 30, 2021 and 2020, respectively.

As part of the financing of the school facilities, the School agreed to pay SUB-CDE an asset management fee in the amount of \$78,571 per year for as long as the construction project loans remained outstanding. In addition, the School was responsible for certain tax and accounting fees incurred by SUB-CDE. The management fee ended in December 2019 with the exit of SUB-CDE from the financing structure. Expense for the year ended June 30, 2020 relating to these fees was \$20,673. There were no asset management fees for the year ended June 30, 2021.

NOTE 6 - RETIREMENT PLAN

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 eligible teaching faculty to TRF and 11.2% of compensation for other eligible employees to PERF for the year ended June 30, 2021 (7.5% of compensation for TRF and 11.2% of compensation for PERF for 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. Retirement plan expense was \$314,445 and \$290,998 for the years ended June 30, 2021 and 2020, respectively.

NOTE 7 - RISKS AND UNCERTAINTIES

The School provides education 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.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 7 - RISKS 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. In addition, deposits are maintained at BMO Harris Bank and are insured up to the FDIC insurance limit. As of June 30, 2021 and 2020, cash balances exceeded FDIC insurance limits.

NOTE 8 - LIQUIDITY

Financial assets held by the School include cash and grants receivable totaling \$4,126,814 and \$3,046,622 as of June 30, 2021 and 2020, respectively, all of which was available to meet cash needs for general expenditures within one year.

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

NOTE 9 - FUNCTIONAL EXPENSE REPORTING

The costs of providing educational activities have been summarized on a functional basis in the consolidated statements of activities and change in net assets. Management of the School has categorized expenses as program services or management and general according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.

SUPPLEMENTARY INFORMATION

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021

Federal Grantor Agency/Pass-Through Entity/Cluster Title/Program Title/ Project Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 44,468
National School Lunch Program	10.555		72,975
Commodities - Noncash Assistance	10.555		<u>26,867</u>
<i>Total U.S. Department of Agriculture</i>			<u>144,310</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Part A: Grants to Local Educational Agencies	84.010	S010A190014	136,654
Title I, Part A: Grants to Local Educational Agencies	84.010	S010A200014	752,484
Title I, School Improvement Grants	84.377A		11,644
Title I, School Improvement Grants	84.377A		28,146
Title II, Supporting Effective Instruction State Grants	84.367	S367A200013	27,192
Title IV, Student Support and Academic Enrichment Grants	84.424A	S424A190015	11,775
Title IV, Student Support and Academic Enrichment Grants	84.424A	S424A200015	35,891
Special Education Cluster			
Special Education - Grants to States	84.027	20611-564-PN01	11,256
Education Stabilization Fund			
Governor's Emergency Education Relief Fund	84.425C		355,389
Elementary and Secondary School Emergency Relief Fund	84.425D	S425D200013	<u>135,225</u>
<i>Total U.S. Department of Education</i>			<u>1,505,656</u>
<i>Total federal awards expended</i>			<u>\$ 1,649,966</u>

See independent auditors' report and accompanying notes to this schedule

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Charter School of the Dunes, Inc. (the "School") under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, functional expenses, or cash flows of the School.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

The School has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

June 30, 2021

	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consolidating Entries	Consolidated
ASSETS				
CURRENT ASSETS				
Cash	\$ 3,925,196	\$ -	\$ -	\$ 3,925,196
Grants receivable	201,618	-	-	201,618
<i>Total current assets</i>	<u>4,126,814</u>	<u>-</u>	<u>-</u>	<u>4,126,814</u>
PROPERTY AND EQUIPMENT				
Land	264,799	485,842	-	750,641
Building and improvements	211,155	11,095,430	-	11,306,585
Furniture and equipment	701,619	-	-	701,619
Textbooks	299,465	-	-	299,465
Less: accumulated depreciation	(674,071)	(2,483,261)	-	(3,157,332)
<i>Property and equipment, net</i>	<u>802,967</u>	<u>9,098,011</u>	<u>-</u>	<u>9,900,978</u>
OTHER ASSETS				
Note receivable	9,237,456	-	(9,237,456)	-
	<u>\$ 14,167,237</u>	<u>\$ 9,098,011</u>	<u>\$ (9,237,456)</u>	<u>\$ 14,027,792</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current portion of notes payable	\$ 377,000	\$ -	\$ -	\$ 377,000
Accounts payable and accrued expenses	439,136	-	-	439,136
<i>Total current liabilities</i>	<u>816,136</u>	<u>-</u>	<u>-</u>	<u>816,136</u>
LONG-TERM LIABILITIES				
Notes payable, net of current portion	4,305,500	9,237,456	(9,237,456)	4,305,500
Less: unamortized debt issuance costs	(80,222)	(417,141)	-	(497,363)
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>4,225,278</u>	<u>8,820,315</u>	<u>(9,237,456)</u>	<u>3,808,137</u>
<i>Total liabilities</i>	5,041,414	8,820,315	(9,237,456)	4,624,273
NET ASSETS				
	<u>9,125,823</u>	<u>277,696</u>	<u>-</u>	<u>9,403,519</u>
	<u>\$ 14,167,237</u>	<u>\$ 9,098,011</u>	<u>\$ (9,237,456)</u>	<u>\$ 14,027,792</u>

See independent auditors' report

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

June 30, 2020

	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consolidating Entries	Consolidated
ASSETS				
CURRENT ASSETS				
Cash	\$ 2,853,890	\$ -	\$ -	\$ 2,853,890
Grants receivable	192,732	-	-	192,732
<i>Total current assets</i>	<u>3,046,622</u>	<u>-</u>	<u>-</u>	<u>3,046,622</u>
PROPERTY AND EQUIPMENT				
Land	264,799	485,842	-	750,641
Building and improvements	211,155	11,095,430	-	11,306,585
Furniture and equipment	604,084	-	-	604,084
Textbooks	299,465	-	-	299,465
Less: accumulated depreciation	(495,048)	(2,166,249)	-	(2,661,297)
<i>Property and equipment, net</i>	<u>884,455</u>	<u>9,415,023</u>	<u>-</u>	<u>10,299,478</u>
OTHER ASSETS				
Note receivable	9,237,456	-	(9,237,456)	-
	<u>\$ 13,168,533</u>	<u>\$ 9,415,023</u>	<u>\$ (9,237,456)</u>	<u>\$ 13,346,100</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current portion of notes payable	\$ 377,000	\$ -	\$ -	\$ 377,000
Paycheck Protection Program note payable	760,200	-	-	760,200
Accounts payable and accrued expenses	264,585	-	-	264,585
<i>Total current liabilities</i>	<u>1,401,785</u>	<u>-</u>	<u>-</u>	<u>1,401,785</u>
LONG-TERM LIABILITIES				
Notes payable, net of current portion	4,682,500	9,237,456	(9,237,456)	4,682,500
Less: unamortized debt issuance costs	(88,666)	(461,051)	-	(549,717)
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>4,593,834</u>	<u>8,776,405</u>	<u>(9,237,456)</u>	<u>4,132,783</u>
<i>Total liabilities</i>	<u>5,995,619</u>	<u>8,776,405</u>	<u>(9,237,456)</u>	<u>5,534,568</u>
NET ASSETS	<u>7,172,914</u>	<u>638,618</u>	<u>-</u>	<u>7,811,532</u>
	<u>\$ 13,168,533</u>	<u>\$ 9,415,023</u>	<u>\$ (9,237,456)</u>	<u>\$ 13,346,100</u>

See independent auditors' report

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Year Ended June 30, 2021

	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consolidated
REVENUE AND SUPPORT			
State education support	\$ 5,435,827	\$ -	\$ 5,435,827
Grant revenue	2,321,147	-	2,321,147
Student fees	1,104	-	1,104
Interest income	679	-	679
Contributions	4,190	-	4,190
Other	22,014	-	22,014
	<u>7,784,961</u>	<u>-</u>	<u>7,784,961</u>
<i>Total revenue and support</i>			
EXPENSES			
Program services	5,192,692	360,922	5,553,614
Management and general	1,399,560	-	1,399,560
	<u>6,592,252</u>	<u>360,922</u>	<u>6,953,174</u>
<i>Total expenses</i>			
CHANGE IN NET ASSETS FROM OPERATIONS	1,192,709	(360,922)	831,787
PAYCHECK PROTECTION PROGRAM LOAN FORGIVENESS INCOME	<u>760,200</u>	<u>-</u>	<u>760,200</u>
CHANGE IN NET ASSETS	1,952,909	(360,922)	1,591,987
NET ASSETS, BEGINNING OF YEAR	<u>7,172,914</u>	<u>638,618</u>	<u>7,811,532</u>
NET ASSETS, END OF YEAR	<u>\$ 9,125,823</u>	<u>\$ 277,696</u>	<u>\$ 9,403,519</u>

See independent auditors' report

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS

For the Year Ended June 30, 2020

	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consolidated
REVENUE AND SUPPORT			
State education support	\$ 5,191,219	\$ -	\$ 5,191,219
Grant revenue	2,041,941	-	2,041,941
Student fees	19,851	-	19,851
Interest income	57,039	26	57,065
Contributions	3,317	-	3,317
Fundraising income	1,996	-	1,996
Other	48,055	-	48,055
<i>Total revenue and support</i>	<u>7,363,418</u>	<u>26</u>	<u>7,363,444</u>
EXPENSES			
Program services	4,760,935	434,540	5,195,475
Management and general	1,118,362	23,961	1,142,323
<i>Total expenses</i>	<u>5,879,297</u>	<u>458,501</u>	<u>6,337,798</u>
CHANGE IN NET ASSETS FROM OPERATIONS	1,484,121	(458,475)	1,025,646
FORGIVENESS OF DEBT INCOME	-	3,567,544	3,567,544
CHANGE IN NET ASSETS	1,484,121	3,109,069	4,593,190
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	5,688,793	(2,470,451)	3,218,342
NET ASSETS, END OF YEAR	<u>\$ 7,172,914</u>	<u>\$ 638,618</u>	<u>\$ 7,811,532</u>

See independent auditors' report

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

A handwritten signature in black ink that reads "DONOVAN". The letters are cursive and slightly slanted.

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	<u>9,195</u>	<u>38,010</u>
<i>Total revenue and support</i>	<u>5,372,855</u>	<u>5,598,403</u>
EXPENSES		
Program services	4,670,158	4,438,838
Management and general	<u>1,044,280</u>	<u>1,039,009</u>
<i>Total expenses</i>	<u>5,714,438</u>	<u>5,477,847</u>
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*.

