



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B51265

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

November 13, 2018

Charter School Board
Higher Institute of Arts and Technology, Inc.
PO Box 1113
Merrillville, IN 46411

We have reviewed the report prepared by Higher Institute of Arts and Technology, Inc. and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Higher Institute of Arts and Technology, Inc., as of June 30, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the Basis for Disclaimer of Opinion on the Statements of Activities and Change in Net Assets (Deficiency), Functional Expenses, and Cash Flows in the Independent Auditors' Report.

We call your attention to the Emphasis of Matter Regarding Going Concern paragraph included in the Independent Auditors' Report and further detailed in Note 2.

In our opinion, Donovan CPAs prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

In addition to the report presented herein, a Supplemental Audit Report for Higher Institute of Arts and Technology, Inc., was prepared in accordance with the guidelines established by the State Board of Accounts.

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

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Year Ended June 30, 2017



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
 FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities and Change in Net Assets (Deficiency)	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 10
 OTHER REPORT	 11



Donovan CPAs

Independent Auditors' Report

The Board of Directors
Higher Institute of Arts and Technology, Inc.

We have audited the accompanying statement of financial position of Higher Institute of Arts and Technology, Inc. as of June 30, 2017 and were engaged to audit the related statements of activities and change in net assets (deficiency), 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 conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of activities and change in net assets (deficiency), functional expenses, and cash flows.

We conducted our audit of the statement of financial position 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 statement of financial position is free of 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 unmodified opinion on the statement of financial position.

www.cpadonovan.com

Westside Office | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Northside Office | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

Basis for Disclaimer of Opinion on the Statements of Activities and Change in Net Assets (Deficiency), Functional Expenses, and Cash Flows

Higher Institute of Arts and Technology, Inc. was unable to locate invoices to support a material amount of expenses. Since this documentation was not made available, we were unable to determine whether any adjustments might have been necessary in respect of the statements of activities and change in net assets (deficiency), functional expenses, and cash flows.

Disclaimer of Opinion on the Statements of Activities and Change in Net Assets (Deficiency), Functional Expenses, and Cash Flows

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of activities and change in net assets (deficiency), functional expenses, and cash flows. Accordingly, we do not express an opinion on the statements of activities and change in net assets (deficiency), functional expenses, and cash flows for the year ended June 30, 2017.

Opinion on the Statement of Financial Position

In our opinion, the statement of financial position presents fairly, in all material respects, the financial position of Higher Institute of Arts and Technology, Inc. as of June 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As discussed in Note 2 to the financial statements, the School has incurred a significant loss from operations and has a deficiency in net assets of \$571,936 as of June 30, 2017. Additionally, the School incurred negative cash flows from operations during the year ended June 30, 2017 of \$456,575. These factors combined raise substantial doubt about the School's ability to continue as a going concern. Management's intentions with respect to this matter are also described in Note 2. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

DONOVAN



Indianapolis, Indiana
October 19, 2018

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2017

ASSETS

CURRENT ASSETS

Cash	\$ 103,652
Accounts receivable:	
Grants	32,092
Other	<u>585</u>
<i>Total current assets</i>	<u>136,329</u>

PROPERTY AND EQUIPMENT

Leasehold improvements	418,988
Furniture and equipment	21,508
Less: accumulated depreciation	<u>(65,236)</u>
<i>Property and equipment, net</i>	<u>375,260</u>

TOTAL ASSETS

\$ 511,589

LIABILITIES AND NET ASSETS (DEFICIENCY)

CURRENT LIABILITIES

Current portion of note payable	\$ 50,000
Accounts payable and accrued expenses	<u>83,525</u>
<i>Total current liabilities</i>	133,525

NOTE PAYABLE, NET OF CURRENT PORTION

950,000

Total liabilities

1,083,525

NET DEFICIENCY, UNRESTRICTED

(571,936)

TOTAL LIABILITIES AND NET ASSETS

\$ 511,589

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

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIENCY)
For the Year Ended June 30, 2017

REVENUE AND SUPPORT

State education support	\$ 1,101,988
Grant revenue	178,871
Student fees	5,374
Interest income	119
Other income	<u>13,194</u>

<i>Total revenue and support</i>	<u>1,299,546</u>
----------------------------------	------------------

EXPENSES

Program services	1,610,501
Management and general	<u>261,704</u>

<i>Total expenses</i>	<u>1,872,205</u>
-----------------------	------------------

CHANGE IN NET ASSETS	(572,659)
-----------------------------	-----------

NET ASSETS, BEGINNING OF YEAR	<u>723</u>
--------------------------------------	------------

NET DEFICIENCY, END OF YEAR	<u><u>\$ (571,936)</u></u>
------------------------------------	----------------------------

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

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
FUNCTIONAL EXPENSES			
Salaries and wages	\$ 554,581	\$ 178,046	\$ 732,627
Employee benefits	94,342	15,263	109,605
Staff development	3,999	-	3,999
Professional services	126,357	628	126,985
Food costs	100,918	-	100,918
Student transportation	65,310	-	65,310
Travel	9,326	9,145	18,471
Equipment	220,466	5,899	226,365
Information technology	49,260	438	49,698
Advertising	-	32,409	32,409
Classroom, kitchen, and office supplies	106,722	16,618	123,340
Occupancy	192,476	-	192,476
Depreciation	65,236	-	65,236
Insurance	16,360	-	16,360
Other	5,148	3,258	8,406
	<u>5,148</u>	<u>3,258</u>	<u>8,406</u>
<i>Total functional expenses</i>	<u>\$ 1,610,501</u>	<u>\$ 261,704</u>	<u>\$ 1,872,205</u>

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

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2017

OPERATING ACTIVITIES

Change in net assets	\$ (572,659)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	65,236
Change in certain assets and liabilities:	
Grants receivable	(32,092)
Other receivables	(585)
Accounts payable and accrued expenses	<u>83,525</u>
<i>Net cash used in operating activities</i>	(456,575)

INVESTING ACTIVITIES

Purchases of property and equipment	(440,496)
-------------------------------------	-----------

FINANCING ACTIVITIES

Proceeds from note payable	<u>1,000,000</u>
----------------------------	------------------

NET CHANGE IN CASH

102,929

CASH, BEGINNING OF YEAR

723

CASH, END OF YEAR

\$ 103,652

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

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Higher Institute of Arts and Technology, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School commenced operations as a public charter school on July 1, 2016 under Indiana Code 20-24, serving approximately 180 students in grades kindergarten through fifth and is sponsored by the Indiana Charter School Board.

Accounting 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 certain reported amounts and disclosures. Actual results could differ from those estimates.

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

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 portion of the School's revenue is the product of cost reimbursement grants. Therefore, the School recognizes revenue under these grants in the amounts of costs and expenses at the time they are incurred.

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

Leasehold improvements	5 years
Furniture and equipment	5 years

Taxes on Income – Higher Institute of Arts and Technology, Inc. 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 year ended June 30, 2017, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income, Continued – 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.

Subsequent Events – The School evaluated subsequent events through October 19, 2018, 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 - GOING CONCERN CONSIDERATION

As reflected in the accompanying financial statements, the School incurred a significant loss for the year ended June 30, 2017, and had a deficiency in net assets of \$571,936 as of June 30, 2017. Additionally, the School incurred negative cash flows from operations during the year ended June 30, 2017 of \$456,575. Without the proceeds from the \$1,000,000 note payable to the Indiana State Board of Education, the School may not have been able to meet its cash obligations necessary to operate. These factors raise substantial doubt about the School's ability to continue as a going concern. The ability of the School to continue as a going concern is dependent upon the School obtaining new sources of funding or financing, controlling its operating expenses, and the continued support of its authorizing sponsor. The accompanying financial statements do not include any adjustments that might be necessary if the School is unable to continue as a going concern.

In response to the going concern consideration, management has instituted several measures to improve the financial and operational performance of the School. The School's Board of Directors has developed an initiative to increase enrollment and revenue derived therefrom, has hired an outside management company to establish internal control processes and to control expenses, and has been utilizing previously-unused grant fund resources to increase grant revenue.

Management believes that outsourcing key financial responsibilities to the outside management company will allow for improved segregation of duties, better control of expenses, and additional resources to be devoted to efficient and impactful academic operations.

Management believes its response will allow the School to continue as a going concern for the foreseeable future.

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 3 - UNSUPPORTED EXPENSES

The School was unable to locate invoices to support a material amount of expenses totaling approximately \$128,000. As a result, the financial statements were adjusted to reduce the value of leasehold improvements and furniture and equipment by this amount, with a corresponding increase in equipment expense.

NOTE 4 - NOTE PAYABLE

Note payable consisted of the following at June 30, 2017:

Note payable to Indiana State Board of Education, payable \$50,000 semi-annually (January 1 and July 1) plus interest at 1.00% per annum, advanced in December 2016, and maturing in July 2027. First payment due January 1, 2018.	\$ 1,000,000
Less: current portion	<u>(50,000)</u>
Long-term portion	<u>\$ 950,000</u>

Principal maturities of long-term debt are as follows for the years ending June 30:

2018	\$ 50,000
2019	100,000
2020	100,000
2021	100,000
2022	100,000
Thereafter	<u>550,000</u>
	<u>\$ 1,000,000</u>

NOTE 5 - LEASES

The School leases its building and certain equipment under operating leases. Total expense under these operating leases for the year ended June 30, 2017 was \$75,595.

Future minimum lease payments as of June 30, 2017 for all operating leases with initial non-cancellable lease terms in excess of one year are as follows for the years ending June 30:

2018	\$ 86,465
2019	88,007
2020	86,691
2021	86,252
2022	7,199

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 6 - RETIREMENT PLANS

The School did not participate in a retirement plan during the year ended June 30, 2017. For teaching staff, the School had applied for approval to participate in the Indiana State Teachers' Retirement Fund ("TRF"), which is a cost-sharing multiple-employer defined benefit retirement plan 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. Subsequent to year end, the School has been approved for TRF. For non-teaching staff, a 403(b) plan was established subsequent to year end through VALIC.

NOTE 7 - COMMITMENTS

The School operates under a charter granted by the Indiana Charter School Board. As the sponsoring organization, the Indiana Charter School Board exercises certain oversight responsibilities. The charter remains in effect until June 30, 2021, and is renewable thereafter by mutual consent.

NOTE 8 - RISKS AND UNCERTAINTIES

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

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

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2017, substantially all of the receivable balance was due from the State of Indiana. In addition, bank deposits are maintained primarily at Fifth Third Bank, and are insured up to the FDIC insurance limit.

NOTE 9 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities and change in net assets (deficiency). Accordingly, certain expenses have been allocated between program services and management and general expenses.

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.

OTHER REPORT

For the Year Ended June 30, 2017

The reports presented herein were prepared in addition to another official report prepared for the School is listed below:

Supplemental Audit Report of Higher Institute of Arts and Technology, 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*.