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April 5, 2019

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


We have reviewed the audit report of Higher Institute of Arts and Technology, Inc. which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2017 to June 30, 2018. 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, 2018 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 2017 Statements of Activities and Change in Net Assets (Deficiency), Functional Expenses, and Cash Flows in the Independent Auditors' Report.

In our opinion, Donovan CPAs prepared the audit report in accordance with 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, CPA
State Examiner

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2018 and 2017



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
 FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities and Change in Net Assets (Deficiency).....	4
Statements of Functional Expenses	5
Statements 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.

Report on the Financial Statements

We have audited the accompanying financial statements of Higher Institute of Arts and Technology, Inc., which comprise the statements of financial position as of June 30, 2018 and 2017 and the related statements of activities and change in net assets (deficiency), functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinions on the statements of financial position as of June 30, 2018 and 2017, and the statements of activities and change in net assets (deficiency), functional expenses, and cash flows for the year ended June 30, 2018.

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Basis for Disclaimer of Opinion on 2017 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 recorded during the year ended June 30, 2017. 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 for the year ended June 30, 2017.

Disclaimer of Opinion on 2017 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 for the year ended June 30, 2017. 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

In our opinion, the statements of financial position of Higher Institute of Arts and Technology as of June 30, 2018 and 2017, and the statements of activities and changes in net assets (deficiency), functional expenses, and cash flows for the year ended June 30, 2018, present fairly, in all material respects, the financial position of Higher Institute of Arts and Technology as of June 30, 2018 and 2017, and the changes in its net assets (deficiency), functional expenses, and cash flows for the year ended June 30, 2018 in accordance with accounting principles generally accepted in the United States of America.

DONOVAN



Indianapolis, Indiana
December 17, 2018

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 285,313	\$ 103,652
Accounts receivable:		
Grants	10,745	32,092
Other	661	585
Prepaid expense	<u>5,555</u>	<u>-</u>
<i>Total current assets</i>	<u>302,274</u>	<u>136,329</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	418,988	418,988
Furniture and equipment	74,261	21,508
Textbooks	37,123	-
Less: accumulated depreciation	<u>(110,712)</u>	<u>(65,236)</u>
<i>Property and equipment, net</i>	<u>419,660</u>	<u>375,260</u>
TOTAL ASSETS	<u><u>\$ 721,934</u></u>	<u><u>\$ 511,589</u></u>
LIABILITIES AND NET ASSETS (DEFICIENCY)		
CURRENT LIABILITIES		
Current portion of note payable	\$ 100,000	\$ 50,000
Accounts payable and accrued expenses	77,255	83,525
Refundable advance	<u>18,910</u>	<u>-</u>
<i>Total current liabilities</i>	196,165	133,525
NOTE PAYABLE, NET OF CURRENT PORTION	<u>850,000</u>	<u>950,000</u>
<i>Total liabilities</i>	1,046,165	1,083,525
NET DEFICIENCY, UNRESTRICTED	<u>(324,231)</u>	<u>(571,936)</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)	<u><u>\$ 721,934</u></u>	<u><u>\$ 511,589</u></u>

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

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIENCY)
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u> <u>(Unaudited)</u>
REVENUE AND SUPPORT		
State education support	\$ 1,578,164	\$ 1,101,988
Grant revenue	425,027	178,871
Student fees	17,146	5,374
Interest income	59	119
Other income	4,893	13,194
	<u>2,025,289</u>	<u>1,299,546</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	1,487,373	1,610,501
Management and general	290,211	261,704
	<u>1,777,584</u>	<u>1,872,205</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS (DEFICIENCY)	247,705	(572,659)
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	<u>(571,936)</u>	<u>723</u>
NET DEFICIENCY, END OF YEAR	<u><u>\$ (324,231)</u></u>	<u><u>\$ (571,936)</u></u>

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

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2018 and 2017

	2018			2017 (Unaudited)		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
FUNCTIONAL EXPENSES						
Salaries and wages	\$ 658,938	\$ 197,834	\$ 856,772	\$ 554,581	\$ 178,046	\$ 732,627
Employee benefits	65,563	62,148	127,711	94,342	15,263	109,605
Staff development	400	-	400	3,999	-	3,999
Professional services	227,030	15,954	242,984	126,357	628	126,985
Food costs	137,633	-	137,633	100,918	-	100,918
Student transportation	67,353	-	67,353	65,310	-	65,310
Travel	8,255	4,753	13,008	9,326	9,145	18,471
Equipment	21,469	-	21,469	220,466	5,899	226,365
Information technology	-	-	-	49,260	438	49,698
Advertising	-	79	79	-	32,409	32,409
Classroom, kitchen, and office supplies	31,248	7,298	38,546	106,722	16,618	123,340
Occupancy	165,381	-	165,381	192,476	-	192,476
Depreciation	45,476	-	45,476	65,236	-	65,236
Interest	13,589	-	13,589	-	-	-
Insurance	18,775	-	18,775	16,360	-	16,360
Other	26,263	2,145	28,408	5,148	3,258	8,406
<i>Total functional expenses</i>	<u><u>\$ 1,487,373</u></u>	<u><u>\$ 290,211</u></u>	<u><u>\$ 1,777,584</u></u>	<u><u>\$ 1,610,501</u></u>	<u><u>\$ 261,704</u></u>	<u><u>\$ 1,872,205</u></u>

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

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u> <u>(Unaudited)</u>
OPERATING ACTIVITIES		
Change in net assets (deficiency)	\$ 247,705	\$ (572,659)
Adjustments to reconcile change in net assets (deficiency) to net cash provided by (used in) operating activities:		
Depreciation	45,476	65,236
Change in certain assets and liabilities:		
Grants receivable	21,347	(32,092)
Other receivables	(76)	(585)
Prepaid expenses	(5,555)	-
Accounts payable and accrued expenses	(6,270)	83,525
Refundable advance	18,910	-
	<u>321,537</u>	<u>(456,575)</u>
<i>Net cash provided by (used in) by operating activities</i>		
	<u>321,537</u>	<u>(456,575)</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(89,876)</u>	<u>(440,496)</u>
FINANCING ACTIVITIES		
Proceeds from note payable	-	1,000,000
Repayment of note payable	<u>(50,000)</u>	<u>-</u>
<i>Net cash provided (used) by financing activities</i>	<u>(50,000)</u>	<u>1,000,000</u>
NET CHANGE IN CASH	181,661	102,929
CASH, BEGINNING OF YEAR	<u>103,652</u>	<u>723</u>
CASH, END OF YEAR	<u><u>\$ 285,313</u></u>	<u><u>\$ 103,652</u></u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 13,589	\$ -

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 Years Ended June 30, 2018 and 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 in July 2016 under Indiana Code 20-24. During the 2017-2018 school year, the School served approximately 230 students in grades kindergarten through sixth 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.

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.

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.

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	3 to 5 years
Textbooks	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, 2018, 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 Years Ended June 30, 2018 and 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. Since the School commenced operations in 2016, all tax years are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 17, 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 - UNSUPPORTED EXPENSES

During the year ended June 30, 2017, 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. No such material unsupported expenses were identified during the year ended June 30, 2018.

NOTE 3 - REFUNDABLE ADVANCE

The School has been awarded a grant to provide educational instruction that is considered to be an exchange transaction. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. The School had a refundable grant advance in excess of expenditures of \$18,910 as of June 30, 2018.

NOTE 4 - NOTE PAYABLE

Note payable consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
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.	\$ 950,000	\$ 1,000,000
Less: current portion	<u>(100,000)</u>	<u>(50,000)</u>
Long-term portion	<u>\$ 850,000</u>	<u>\$ 950,000</u>

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 4 - NOTE PAYABLE, Continued

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

2019	\$	100,000
2020		100,000
2021		100,000
2022		100,000
2023		100,000
Thereafter		<u>450,000</u>
	\$	<u>950,000</u>

NOTE 5 - LEASES

The School leases its building and certain equipment under operating leases. Total expense under these operating leases was \$91,753 and \$75,595 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments as of June 30, 2018 for all operating leases with initial non-cancellable lease terms in excess of one year are as follows for the years ending June 30:

2019	\$	92,700
2020		91,384
2021		90,945
2022		7,590

NOTE 6 - 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 7 - 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.

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

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, 2018, 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 8 - CONTINGENCIES

Effective June 16, 2017, the School terminated an agreement with its student transportation service, citing breach of contract. The initial term of the contract was three years and commenced September 2, 2016. The transportation service provider unilaterally began charging the School a higher rate for services than what was specified in the contract. Legal counsel for the transportation service provider threatened legal action, but as of the date of the auditors' report, there has been no legal claim filed. It is the opinion of the School's legal counsel that it properly terminated the agreement, and as such, no further liability under the contract exists.

In April 2018, the School contracted with Phalen Leadership Academies to operate the School beginning July 1, 2018. Upon being informed of this decision, the School's Principal and Superintendent went on leave of absence and claimed the School was breaching her contract, which extends through the 2018-2019 school year. The employee's legal counsel demanded legal settlement of \$130,000 for the remaining payments of her salary for the 2017-2018 school year and for the upcoming 2018-2019 school year. The School's position is that the employee's contract ended with the end of the 2017-2018 school year and that she violated the terms of her contract requiring attendance, that she was guilty of intentionally destroying records, and that there were other improprieties which violated the terms of her employment contract, thereby justifying her termination for cause. An agreement was reached to settle the claim for \$10,000. A draft of the claim was sent to her attorney on September 27, 2018. As of the date of the auditors' report, the employee had not signed the agreement and no further correspondence had occurred between her legal counsel and the School. The School has recorded no accrual for this contingency.

NOTE 9 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements 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, 2018

The reports presented herein were prepared in addition to another official report prepared for the School as 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*.