



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B53679

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, 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, 2018 to June 30, 2019. 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, 2019 and the results of its operations for the period then ended, on the basis of accounting described in the 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, 2019 and 2018



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
 FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities and Change in Net Deficiency	4
Statements of Functional Expenses	5
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7 - 11
 OTHER REPORT	 12



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, 2019 and 2018 and the related statements of activities and change in net 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. 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 opinion.

www.cpadonovan.com

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Higher Institute of Arts and Technology, Inc. as of June 30, 2019 and 2018 and the changes in its net deficiency, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the financial statements, the 2018 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent initial "D".

Indianapolis, Indiana
October 30, 2019

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.**STATEMENTS OF FINANCIAL POSITION****June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 188,521	\$ 285,313
Accounts receivable:		
Grants	54,415	10,745
Other	76	661
Prepaid expense	<u>36,931</u>	<u>5,555</u>
<i>Total current assets</i>	<u>279,943</u>	<u>302,274</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	418,988	418,988
Furniture and equipment	74,261	74,261
Textbooks	42,434	37,123
Less: accumulated depreciation	<u>(281,015)</u>	<u>(166,933)</u>
<i>Property and equipment, net</i>	<u>254,668</u>	<u>363,439</u>
TOTAL ASSETS	<u><u>\$ 534,611</u></u>	<u><u>\$ 665,713</u></u>
LIABILITIES AND NET DEFICIENCY		
CURRENT LIABILITIES		
Current portion of note payable	\$ 100,000	\$ 100,000
Accounts payable and accrued expenses	95,480	77,255
Refundable advance	<u>-</u>	<u>18,910</u>
<i>Total current liabilities</i>	195,480	196,165
NOTE PAYABLE, NET OF CURRENT PORTION	<u>750,000</u>	<u>850,000</u>
<i>Total liabilities</i>	945,480	1,046,165
NET DEFICIENCY, WITHOUT DONOR RESTRICTIONS	<u>(410,869)</u>	<u>(380,452)</u>
TOTAL LIABILITIES AND NET DEFICIENCY	<u><u>\$ 534,611</u></u>	<u><u>\$ 665,713</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 DEFICIENCY
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUE AND SUPPORT		
State education support	\$ 1,165,789	\$ 1,578,164
Grant revenue	473,762	425,027
Student fees	3,207	17,146
Interest income	59	59
Other income	840	4,893
	<u>1,643,657</u>	<u>2,025,289</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	1,202,203	1,543,594
Management and general	471,871	290,211
	<u>1,674,074</u>	<u>1,833,805</u>
<i>Total expenses</i>		
CHANGE IN NET DEFICIENCY	(30,417)	191,484
NET DEFICIENCY, BEGINNING OF YEAR	<u>(380,452)</u>	<u>(571,936)</u>
NET DEFICIENCY, END OF YEAR	<u>\$ (410,869)</u>	<u>\$ (380,452)</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, 2019 and 2018

	<u>2019</u>			<u>2018</u>		
	<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	\$ 523,620	\$ 189,551	\$ 713,171	\$ 658,938	\$ 197,834	\$ 856,772
Employee benefits	34,871	43,210	78,081	65,563	62,148	127,711
Staff development	72	-	72	400	-	400
Professional services	133,340	232,580	365,920	227,030	15,954	242,984
Food costs	111,787	-	111,787	137,633	-	137,633
Student transportation	57,805	-	57,805	67,353	-	67,353
Travel	1,657	858	2,515	8,255	4,753	13,008
Equipment	13,944	-	13,944	21,469	-	21,469
Information technology	5,053	-	5,053	-	-	-
Advertising	-	-	-	-	79	79
Classroom, kitchen, and office supplies	25,136	2,430	27,566	31,248	7,298	38,546
Occupancy	160,852	-	160,852	165,381	-	165,381
Depreciation	114,082	-	114,082	101,697	-	101,697
Interest	9,250	-	9,250	13,589	-	13,589
Insurance	8,526	-	8,526	18,775	-	18,775
Other	2,208	3,242	5,450	26,263	2,145	28,408
<i>Total functional expenses</i>	<u>\$ 1,202,203</u>	<u>\$ 471,871</u>	<u>\$ 1,674,074</u>	<u>\$ 1,543,594</u>	<u>\$ 290,211</u>	<u>\$ 1,833,805</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net deficiency	\$ (30,417)	\$ 191,484
Adjustments to reconcile change in net deficiency to net cash provided by operating activities:		
Depreciation	114,082	101,697
Change in certain assets and liabilities:		
Grants receivable	(43,670)	21,347
Other receivables	585	(76)
Prepaid expenses	(31,376)	(5,555)
Accounts payable and accrued expenses	18,225	(6,270)
Refundable advance	<u>(18,910)</u>	<u>18,910</u>
<i>Net cash provided by operating activities</i>	8,519	321,537
INVESTING ACTIVITIES		
Purchases of property and equipment	(5,311)	(89,876)
FINANCING ACTIVITIES		
Principal payments on note payable	<u>(100,000)</u>	<u>(50,000)</u>
NET CHANGE IN CASH	(96,792)	181,661
CASH, BEGINNING OF YEAR	<u>285,313</u>	<u>103,652</u>
CASH, END OF YEAR	<u>\$ 188,521</u>	<u>\$ 285,313</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 9,250	\$ 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, 2019 and 2018

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 operates a public charter school under Indiana Code 20-24 and is sponsored by the Indiana Charter School Board. During the 2018-2019 school year, the School served approximately 160 students in grades kindergarten through seventh.

Financial Statement Presentation – Effective with the June 30, 2019 year end, the School adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires changes to the financial reporting model for not-for-profit entities, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires additional disclosures regarding the liquidity of financial assets. ASU 2016-14 must be applied on a retrospective basis, therefore the net deficiency as of and for the year ended June 30, 2018 has been restated to comply with ASU 2016-14.

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.

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.

Cash and Cash Equivalents – Cash and cash equivalents consist of cash held in bank accounts and short-term, highly liquid investments with original maturities of three months or less.

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

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

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, 2019, 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. 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 October 30, 2019, 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 - NOTE PAYABLE

Note payable consisted of the following at June 30:

	<u>2019</u>	<u>2018</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	\$ 850,000	\$ 950,000
Less: current portion	<u>(100,000)</u>	<u>(100,000)</u>
Long-term portion	<u>\$ 750,000</u>	<u>\$ 850,000</u>

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

2020	\$ 100,000
2021	100,000
2022	100,000
2023	100,000
2024	100,000
Thereafter	<u>350,000</u>
	<u>\$ 850,000</u>

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 3 - LEASES

The School leases its building (expiring July 31, 2021) and certain equipment under operating leases. Total expense under these operating leases was \$87,371 and \$91,753 for the years ended June 30, 2019 and 2018, respectively.

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

2020	\$	93,248
2021		89,387
2022		17,080
2023		1,766

NOTE 4 - 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.

The School has contracted with Entrepreneurial Ventures in Education (“EVE”) to provide management, administrative, and educational programming services. Under the terms of the agreement, the School has agreed to pay an amount equal to 12% of revenue, as defined, for such services, plus any necessary travel costs. Expenses under the agreement were \$180,940 and \$14,803 for the years ended June 30, 2019 and 2018, respectively. This contract remains in effect until June 30, 2023 and is automatically renewed on a year-to-year basis commencing on the last day of the expiring contract, unless written notice of intent to terminate or renegotiate is given by either party at least 120 days prior to expiration of the agreement.

NOTE 5 - 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, 2019, 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.

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 6 - 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 independent 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. The School has recorded no accrual for this contingency.

In April 2018, the School contracted with EVE to operate the School beginning July 1, 2018. Upon being informed of this decision, the School's then-acting 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 \$148,144 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. 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 7 - LIQUIDITY

Under ASU 2016-14, the School is required to disclose the assets it has available at June 30, 2019 to meet its cash needs for general expenditures within one year of the date of the statement of financial position. The School's financial assets include cash, grants receivable, and other receivables. The School's financial assets at June 30, 2019 total \$243,012, all of which are available to meet cash needs for general expenditures within the next 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 8 - 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 deficiency. 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.

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 9 - PRIOR PERIOD ADJUSTMENT

Net deficiency as of June 30, 2018 has been adjusted to correct a calculation error in the reported depreciation expense during the year ended June 30, 2018. The amount of the adjustment is \$56,221, which is reflected in the accompanying financial statements as an increase in depreciation expense during the year ended June 30, 2018, a corresponding increase in accumulated depreciation as of June 30, 2018, and an increase in net deficiency as of June 30, 2018.

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
OTHER REPORT
For the Year Ended June 30, 2019

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*.