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January 15, 2021

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, 2019 to June 30, 2020. 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, 2020 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.

A handwritten signature in blue ink that reads "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 Years Ended June 30, 2020 and 2019



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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, 2020 and 2019 and the related statements of activities and change in net deficits, 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 audits 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 Higher Institute of Arts and Technology, Inc. as of June 30, 2020 and 2019 and the changes in its net deficits, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

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

Indianapolis, Indiana

December 18, 2020

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 266,733	\$ 188,521
Accounts receivable:		
Grants	5,987	54,415
Other	13,772	76
Prepaid expenses	<u>29,092</u>	<u>36,931</u>
<i>Total current assets</i>	<u>315,584</u>	<u>279,943</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	443,988	418,988
Furniture and equipment	80,934	74,261
Textbooks	67,461	42,434
Less: accumulated depreciation	<u>(406,497)</u>	<u>(281,015)</u>
<i>Property and equipment, net</i>	<u>185,886</u>	<u>254,668</u>
TOTAL ASSETS	<u><u>\$ 501,470</u></u>	<u><u>\$ 534,611</u></u>
LIABILITIES AND NET DEFICITS		
CURRENT LIABILITIES		
Current portion of note payable	\$ 100,000	\$ 100,000
Accounts payable and accrued expenses	<u>156,858</u>	<u>95,480</u>
<i>Total current liabilities</i>	256,858	195,480
NOTE PAYABLE, NET OF CURRENT PORTION	<u>650,000</u>	<u>750,000</u>
<i>Total liabilities</i>	906,858	945,480
NET DEFICITS, WITHOUT DONOR RESTRICTIONS	<u>(405,388)</u>	<u>(410,869)</u>
TOTAL LIABILITIES AND NET DEFICITS	<u><u>\$ 501,470</u></u>	<u><u>\$ 534,611</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 DEFICITS

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUE AND SUPPORT		
State education support	\$ 1,752,272	\$ 1,165,789
Grant revenue	700,808	473,762
Interest income	26	59
Other income	8,900	4,047
	<u>2,462,006</u>	<u>1,643,657</u>
<i>Total revenue and support</i>		
	<u>2,462,006</u>	<u>1,643,657</u>
EXPENSES		
Program services	1,865,081	1,202,203
Management and general	591,444	471,871
	<u>2,456,525</u>	<u>1,674,074</u>
<i>Total expenses</i>		
	<u>2,456,525</u>	<u>1,674,074</u>
CHANGE IN NET DEFICITS	5,481	(30,417)
NET DEFICITS, BEGINNING OF YEAR	<u>(410,869)</u>	<u>(380,452)</u>
NET DEFICITS, END OF YEAR	<u>\$ (405,388)</u>	<u>\$ (410,869)</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, 2020 and 2019

	<u>2020</u>			<u>2019</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	\$ 744,142	\$ 156,821	\$ 900,963	\$ 523,620	\$ 189,551	\$ 713,171
Professional services	210,388	167,260	377,648	133,340	44,219	177,559
Management and academic services	-	220,605	220,605	-	180,940	180,940
Classroom, kitchen, and office supplies	196,028	2,022	198,050	25,136	2,430	27,566
Occupancy	193,663	-	193,663	160,852	-	160,852
Food costs	152,274	-	152,274	111,787	-	111,787
Employee benefits	96,350	29,511	125,861	34,871	43,210	78,081
Depreciation	125,482	-	125,482	114,082	-	114,082
Student transportation	55,120	-	55,120	57,805	-	57,805
Equipment	44,531	-	44,531	13,944	-	13,944
Insurance	17,689	-	17,689	8,526	-	8,526
Information technology	13,297	-	13,297	5,053	-	5,053
Interest	8,250	-	8,250	9,250	-	9,250
Authorizer oversight fee	-	6,354	6,354	-	7,421	7,421
Travel	3,683	1,256	4,939	1,657	858	2,515
Advertising	-	4,336	4,336	-	-	-
Staff development	1,650	-	1,650	72	-	72
Other	2,534	3,279	5,813	2,208	3,242	5,450
<i>Total functional expenses</i>	<u>\$ 1,865,081</u>	<u>\$ 591,444</u>	<u>\$ 2,456,525</u>	<u>\$ 1,202,203</u>	<u>\$ 471,871</u>	<u>\$ 1,674,074</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Change in net deficits	\$ 5,481	\$ (30,417)
Adjustments to reconcile change in net deficits to net cash provided by operating activities:		
Depreciation	125,482	114,082
Change in certain assets and liabilities:		
Grants receivable	48,428	(43,670)
Other receivables	(13,696)	585
Prepaid expenses	7,839	(31,376)
Accounts payable and accrued expenses	61,378	18,225
Refundable advance	<u>-</u>	<u>(18,910)</u>
<i>Net cash provided by operating activities</i>	234,912	8,519
INVESTING ACTIVITIES		
Purchases of property and equipment	(56,700)	(5,311)
FINANCING ACTIVITIES		
Principal payments on note payable	<u>(100,000)</u>	<u>(100,000)</u>
NET CHANGE IN CASH	78,212	(96,792)
CASH, BEGINNING OF YEAR	<u>188,521</u>	<u>285,313</u>
CASH, END OF YEAR	<u>\$ 266,733</u>	<u>\$ 188,521</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 8,250	\$ 9,250

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, 2020 and 2019

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 2019-2020 school year, the School served approximately 230 students in grades kindergarten through eighth (160 students in kindergarten through seventh during the 2018-2019 school year).

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.

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 and purpose.

As of June 30, 2020 and 2019, the School had only net assets without donor restrictions.

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. Therefore, the School recognizes revenue under these grants in the amounts of costs and expenses at the time they are incurred.

The School has elected to defer implementation of Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 replaces most existing revenue recognition guidance under U.S. GAAP and requires disclosure relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 was to take effect for fiscal years beginning after December 15, 2018, but in May 2020, the Financial Accounting Standards Board allowed for a one-year deferral. Management believes the implementation of ASU 2014-09 will not significantly affect how the School reports revenue.

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. There were no cash equivalents at June 30, 2020 and 2019.

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs and legislation enacted by the State of Indiana. 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

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, 2020 and 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. Tax years ending after 2016 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 18, 2020, 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.

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 2 - NOTE PAYABLE

The note payable consists of the following as of June 30:

	<u>2020</u>	<u>2019</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, maturing in July 2027	\$ 750,000	\$ 850,000
Less: current portion	<u>(100,000)</u>	<u>(100,000)</u>
Long-term portion	\$ <u>650,000</u>	\$ <u>750,000</u>

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

2021	\$ 100,000
2022	100,000
2023	100,000
2024	100,000
2025	100,000
Thereafter	<u>250,000</u>
	\$ <u>750,000</u>

NOTE 3 - CARES ACT FUNDING

In response to the COVID-19 pandemic, the United States federal government adopted the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act which includes the Paycheck Protection Program (“PPP”) administered through the Small Business Administration. The proceeds from the PPP notes payable can be used for costs related to payroll, employee healthcare, rent, and utilities. On June 30, 2020, the School was granted a loan from immito, LLC in the amount of \$165,500, pursuant to the PPP under Division A, Title I of the CARES Act. The note was funded subsequent to June 30, 2020. The note matures 24 months from the date of funding and bears interest at a rate of 1.00%. To the extent the funds are used for qualifying expenses under the program during the 24-week period beginning on the date of the loan funding, the School may apply for loan forgiveness. The School plans to use the funds for qualifying expenses and anticipates the loan will be forgiven in full.

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 4 - LEASES

The School leases its building (expiring July 31, 2021) and certain equipment under operating leases. Total expense under these operating leases was \$121,046 and \$87,371 for the years ended June 30, 2020 and 2019, 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:

2021	\$	110,506
2022		17,957
2023		1,766

NOTE 5 - 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. Under this charter, the School has agreed to pay the Indiana Charter School Board an annual administrative fee not to exceed 3% of state tuition support received. Expense under this charter agreement was \$6,354 and \$7,421 during the years ended June 30, 2020 and 2019, respectively. The charter remains in effect until June 30, 2026 and is renewable thereafter by mutual consent.

The charter agreement requires the School to establish an escrow account of no less than \$30,000 should a dissolution occur. As of June 30, 2020, this account has not been established.

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 \$220,605 and \$180,940 for the years ended June 30, 2020 and 2019, 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.

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 6 - 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. In addition, bank deposits are maintained primarily at Fifth Third Bank, and are insured up to the FDIC insurance limit. Cash balances at the end of the year and periodically throughout the year exceeded the FDIC insured limit.

NOTE 7 - RETIREMENT PLAN

Effective March 2019, the School adopted a defined contribution Section 403(b) retirement plan covering substantially all employees. The plan allows employees to make salary deferral contributions. The School does provide an employer match contribution. Retirement plan expenses totaled \$4,232 and \$1,125 for the years ended June 30, 2020 and 2019, respectively.

NOTE 8 - LIQUIDITY

Financial assets held by the School include cash, grants receivable, and other receivables. Financial assets available to meet cash needs for general expenditures within one year totaled \$286,492 and \$243,012 as of June 30, 2020 and 2019, 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 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 deficits. 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.
OTHER REPORT
For the Year Ended June 30, 2020

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*.