Hobart Institute of Welding Technology

Financial Statements

December 31, 2019 and 2018

with Independent Auditors' Report

CLARK SCHAEFER HACKETT

CPAS & ADVISORS

TABLE OF CONTENTS

CLARK SCHAEFER HACKETT
CPAS & ADVISORS

14 East Main Street, Suite 500, Springfield, Ohio 45502
P. 937.399.2000 | F. 937.399.5433 | cshco.com

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Hobart Institute of Welding Technology
Troy, Ohio

Report on the Financial Statements
We have audited the accompanying financial statements of Hobart Institute of Welding Technology (the "Institute"), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, 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 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 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 auditor considers internal control relevant to the Institute'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 Institute'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.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position Hobart Institute of Welding Technology as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 June 5, 2020 on our consideration of the Institute'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 solely 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 the effectiveness of the Institute's 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 the Institute's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
June 5, 2020

Hobart Institute of Welding Technology
Statements of Financial Position
December 31, 2019 and 2018

		2019	2018
Assets:			
Cash and cash equivalents	$	2,784,534	2,324,546
Investments		6,551,736	5,950,677
Accounts receivable, net		1,920,598	1,898,107
Inventories		360,904	309,020
Prepaid expenses		49,856	-
Prepaid production costs		202,610	203,356
Interest in assets held by community foundation		752,159	624,905
Land, buildings, and equipment, net		9,465,549	10,102,568
	$	22,087,946	21,413,179
Liabilities:			
Accounts payable	$	97,269	232,731
Accrued liabilities		215,142	241,797
Accrued interest		392	605
Deferred tuition revenue		2,895,463	2,743,206
Payable to affiliate		-	363,726
Note payable		616,341	950,288
		3,824,607	4,532,353
Net assets:			
Without donor restrictions		18,180,983	16,806,930
With donor restrictions		82,356	73,896
		18,263,339	16,880,826
	$	22,087,946	21,413,179

See accompanying notes to the financial statements.

Hobart Institute of Welding Technology
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2019

		Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue:				
Tuition and fees	$	7,436,912	-	7,436,912
Less: grants and scholarships		(73,033)	-	(73,033)
Net tuition and fees		7,363,879	-	7,363,879
Contributions		-	10,000	10,000
Investment income, net		768,290	-	768,290
Other income		55,774	-	55,774
Rental income		295,452	-	295,452
Gain on interest in assets held by community foundation		104,593	12,860	117,453
Gain on disposal of assets		8,607	-	8,607
Auxiliary enterprises		1,067,849	-	1,067,849
Net assets released from restrictions		14,400	(14,400)	-
		9,678,844	8,460	9,687,304
Operating expenses:				
Instruction		4,331,257	-	4,331,257
Academic support		19,359	-	19,359
Institutional support		1,592,501	-	1,592,501
Operations and maintenance of plant		821,567	-	821,567
Auxiliary enterprises		546,276	-	546,276
Interest expense		30,698	-	30,698
Depreciation		963,133	-	963,133
		8,304,791	-	8,304,791
Change in net assets		1,374,053	8,460	1,382,513
Net assets, beginning of year		16,806,930	73,896	16,880,826
Net assets, end of year	$	18,180,983	82,356	18,263,339

See accompanying notes to the financial statements.

Hobart Institute of Welding Technology
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue:			
Tuition and fees	$ 8,167,721	-	8,167,721
Less: grants and scholarships	(62,466)	-	(62,466)
Net tuition and fees	8,105,255	-	8,105,255
Contributions	-	20,000	20,000
Investment income, net	(193,941)	-	(193,941)
Other income	12,672	-	12,672
Rental income	295,452	-	295,452
Loss on interest in assets held by community foundation	(25,318)	(3,836)	(29,154)
Auxiliary enterprises	1,266,722	-	1,266,722
Net assets released from restrictions	7,400	(7,400)	-
	9,468,242	8,764	9,477,006
Operating expenses:			
Instruction	4,727,006	-	4,727,006
Academic support	33,000	-	33,000
Institutional support	1,665,798	-	1,665,798
Operations and maintenance of plant	887,843	-	887,843
Auxiliary enterprises	587,977	-	587,977
Interest expense	43,373	-	43,373
Depreciation	1,042,779	-	1,042,779
	8,987,776	-	8,987,776
Change in net assets	480,466	8,764	489,230
Net assets, beginning of year	16,326,464	65,132	16,391,596
Net assets, end of year	$ 16,806,930	73,896	16,880,826

See accompanying notes to the financial statements.

	Program	Management and General	Totals
Payroll, taxes and benefits	$ 3,671,427	649,992	4,321,419
Professional fees	-	33,082	33,082
Other contract services	31,837	70,261	102,098
Advertising and promotion	129,116	-	129,116
Office expenses	27,614	2,761	30,375
Information technology	157,594	29,213	186,807
Occupancy	258,099	13,250	271,349
Travel	59,026	9,112	68,138
Interest	30,698	-	30,698
Depreciation	950,475	12,658	963,133
Insurance	69,642	14,508	84,150
Supplies	1,409,050	-	1,409,050
Maintenance	453,826	387	454,213
Miscellaneous expenses	162,653	58,510	221,163
Total expenses	$ 7,411,057	893,734	8,304,791

See accompanying notes to the financial statements.

	Program	Management and General	Totals
Payroll, taxes and benefits	$ 3,997,130	608,227	4,605,357
Professional fees	-	22,660	22,660
Other contract services	163,467	166,914	330,381
Advertising and promotion	144,595	-	144,595
Office expenses	26,627	2,770	29,397
Information technology	12,493	-	12,493
Occupancy	303,834	13,702	317,536
Travel	54,984	8,620	63,604
Interest	43,373	-	43,373
Depreciation	1,026,221	16,558	1,042,779
Insurance	64,834	8,712	73,546
Supplies	1,615,553	-	1,615,553
Maintenance	488,133	2,866	490,999
Miscellaneous expenses	163,782	31,721	195,503
Total expenses	$ 8,105,026	882,750	8,987,776

See accompanying notes to the financial statements.

Hobart Institute of Welding Technology
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	1,382,513	489,230
Adjustments to reconcile change in net assets to net cash from operating activities:			
Depreciation		963,133	1,042,779
Realized and unrealized (gain) loss on investments		(629,236)	339,664
(Gain) loss on interest in assets held by community foundation		(117,454)	29,154
Gain on disposal of assets		(8,607)	-
Change in operating assets and liabilities:			
Accounts receivable		(22,491)	297,664
Inventories		(51,884)	(69,287)
Prepaid expenses		(49,856)	-
Prepaid production costs		746	(52,223)
Accounts payable		(382,915)	(119,255)
Accrued liabilities		(26,655)	29,109
Accrued interest		(213)	(205)
Deferred tuition revenue		152,257	(713,521)
Net cash from operating activities		1,209,338	1,273,109
Cash flows from investing activities:			
Capital expenditures		(433,780)	(432,763)
Investment in assets held by community foundation		(10,000)	(20,000)
Net funds transferred from assets held by community foundation		200	58,030
Proceeds from sale of investments		1,050,975	1,307,367
Purchase of investments		(1,022,798)	(1,412,619)
Net cash from investing activities		(415,403)	(499,985)
Cash flows from financing activities:			
Principal payments on note payable		(333,947)	(321,281)
Net change in cash and cash equivalents		459,988	451,843
Cash and cash equivalents at beginning of year		2,324,546	1,872,703
Cash and cash equivalents at end of year	$	2,784,534	2,324,546
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	30,911	43,578
Noncash investing activities:			
Fixed asset additions in accounts payable at end of year	$	-	116,273

See accompanying notes to the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization
Founded in 1940, Hobart Institute of Welding Technology (the "Institute") provides education and training to individuals in the use and application of welding technologies. The Institute develops and disseminates welding training and educational materials and conducts certification research and qualifications for the welding industry, which are reported as auxiliary enterprises. The Institute's operations are supported by tuition and fees, sales of training and education materials, investment income and income from rental of facilities.

The following is a summary of significant accounting policies followed in the preparation of the accompanying financial statements.

Basis of Accounting
The financial statements of the Institute have been prepared on the accrual basis of accounting, whereby revenue is recognized as earned and expenditures are recognized as obligations are incurred.

Adoption of New Accounting Standards
During 2019, the Institute adopted the following Financial Accounting Standards Board (FASB) Accounting Standards Updates (ASU), as follows:

ASU 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets. The majority of the Institute's in-scope revenues come from tuition, fees and bookstore sales. Revenues outside of the scope of ASC 606 include rental income, investment income and contributions.

The Institute adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2019. As part of the adoption of the ASU, the Institute elected the following transition practical expedients: (i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; and (ii) to apply the standard only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

Results for reporting periods beginning after January 1, 2019 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy U.S. generally accepted accounting principles (GAAP). The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The Institute has implemented this guidance on a modified retrospective basis to all periods presented as permitted under the ASU. There was no material impact to the financial statements presented upon adoption of this standard.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standards (Continued)
ASU 2018-13, *Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The standard addresses the disclosures required for level 3 fair value measurements, including the valuation process, transfers, purchases and issues, and simplifies the presentation of that information. The Institute has early implemented this guidance on a modified retrospective basis to all periods presented as permitted under the ASU.

Financial Statement Presentation
The financial statements of the Institute have been prepared in accordance with GAAP, which requires the Institute to report information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions represent funds available for expenditures which are not otherwise limited by donor restrictions. When a donor-imposed restriction is met in the same reporting period as received, the support is recorded as net assets without donor restrictions.

Net assets with donor restrictions consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time.

Cash and Cash Equivalents
Cash and cash equivalents include checking, savings and money market accounts. Deposits in banks are insured by an agency of the federal government up to $250,000 at December 31, 2019 and 2018. The Institute has not experienced any losses on these accounts and does not believe it is exposed to any significant risk.

Investments
The Institute carries investments in marketable equity securities with readily determinable fair values and all investments in debt securities at their fair values based on quoted prices in active markets in the statements of financial position. Realized investment gains and losses are calculated and recorded on a first-in, first-out basis and represent the difference between the proceeds on sales of investments and their cost when acquired or fair value at the end of the preceding year. Unrealized gains and losses are determined by the difference between carrying value and fair value. Investment return includes interest, dividends, and both realized and unrealized gains and losses.

Accounts Receivable
Accounts receivable primarily consist of tuition and fee charges to students and sales of training and education materials to external customers less an estimate made for doubtful receivables based on a review of all outstanding accounts and knowledge of students. Receivable balances are not concentrated with any specific student. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Inventories
Inventories consist primarily of items for sale through the bookstore of the Institute. They are stated at the lower of cost (first-in, first-out basis) or market.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Production Costs
The Institute capitalizes the costs of producing masters of video educational materials that benefit future periods and amortizes those costs over the useful life of each master. The Institute has determined that production costs associated with these masters will be recovered from future sales.

Land, Buildings, Equipment, and Depreciation and Amortization
Land, buildings, and equipment, including equipment under capital leases, are stated at cost at date of acquisition or fair value, if donated. The Institute typically capitalizes items that exceed $2,500 and have a useful life greater than one year. Depreciation and amortization on physical plant and equipment is recorded on an accelerated basis beginning in the year of acquisition over the estimated useful life for each major category of assets. These estimated useful lives are summarized in the following table:

Buildings and improvements	5 - 40 years
Machinery and equipment	5 - 10 years
Computer equipment	3 - 8 years
Furniture and fixtures	5 - 30 years

The carrying value of the Institute's long-lived assets is reviewed to determine if facts or circumstances suggest that the assets may be impaired or that the remaining useful, depreciable life may need to be changed. The Institute considers internal and external factors related to each asset, including future asset utilization and business climate. If these factors indicate that the asset will not be recoverable, the carrying value will be adjusted down to the estimated fair value, if less that book value. As of December 31, 2019 and 2018, management believes no impairments existed.

Revenue Recognition

The Institute derives its revenues primarily from the sale of educational services to its students. Revenues are recognized as these services are provided to its students, in an amount that reflects the consideration the Institute expects to be entitled to in exchange for those products and services. The Institute does not have any significant financing components as payment is generally received prior to the beginning of the academic semester or within one year.

Revenue from performance obligations satisfied over time consists of the educational services and certain fees charged to students for providing access to Institute resources (tuition and fees). For these performance obligations, control transfers to the student over the academic semester/period. Revenue is recognized throughout the semester as time passes and services are provided to students. Revenue from performance obligations satisfied at a point in time consists of the sale of welding supplies and training materials (auxiliary enterprises). For these performance obligations, control transfers at a point in time. The Institute transfers control and records revenue for these sales upon delivery.

Contract liabilities include unearned tuition and fees totaling $2,895,463 and $2,743,206 at December 31, 2019 and 2018, respectively. Funds advanced from students and federal and state grants are reflected as deferred revenue until such funds are expended during the period of service.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs
The Institute expenses advertising costs as incurred. Advertising costs totaled $129,116 and $144,595 during the years ended December 31, 2019 and 2018, respectively.

Federal Income Tax
The Internal Revenue Service has ruled that the Institute is a tax-exempt educational institution under §501(a) of the Internal Revenue Code as an organization described in §501(c)(3).

The Institute considers the accounting and recognition for income tax positions taken or expected to be taken in the Institute's income tax returns. The Institute's income tax filings are subject to audit by various taxing authorities. The Institute's policy with regards to interest and penalties is to recognize interest through interest expense and penalties through other expense. In evaluating the Institute's tax provision and tax-exempt status, interpretations and tax planning strategies were considered. The Institute believes its estimates are appropriate based on the current facts and circumstances.

Use of Estimates
The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expense Allocations
The financial statements report certain categories of expenses that are attributable to programming or supporting functions of the Institute. Expenses are directly applied when applicable and are allocated to program or support services based on the table shown below. Such allocations are determined by management on an equitable basis. Expenses are allocated as follows:

Expense	Allocation Method
Payroll, taxes and benefits	Time and Effort
Other contract services	Full Time Equivalents
Office expenses	Full Time Equivalents
Occupancy	Full Time Equivalents
Travel	Full Time Equivalents
Depreciation	Square Footage
Insurance	Full Time Equivalents
Maintenance	Full Time Equivalents
Miscellaneous expenses	Full Time Equivalents

Reclassifications
Certain amounts reported in 2018 have been reclassified to conform to 2019 financial statement presentation.

NOTE 2 – INVESTMENTS

The Institute's investments consist of the following at December 31:

		2019	2018
U.S. government and government securities	$	238,303	122,109
Corporate bonds		3,751,688	3,663,063
Mutual funds - equities		2,561,745	2,165,505
	$	6,551,736	5,950,677

The composition of investment income, net is as follows:

		2019	2018
Interest and dividends	$	184,765	189,825
Investment expenses		(45,711)	(44,102)
Net realized loss		4,222	(49,152)
Net unrealized gain (loss)		625,014	(290,512)
Total investment income, net	$	768,290	(193,941)

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31:

		2019	2018
Students	$	1,763,204	1,652,857
Other		170,894	256,250
		1,934,098	1,909,107
Less allowance for doubtful accounts		(13,500)	(11,000)
	$	1,920,598	1,898,107

NOTE 4 – LAND, BUILDINGS, AND EQUIPMENT

The following is a summary of land, buildings, and equipment as of December 31:

		2019	2018
Land	$	211,064	211,064
Buildings and improvements		15,590,805	15,512,438
Machinery and equipment		3,368,504	3,244,298
Computer equipment		1,408,378	1,348,961
Furniture and fixtures		531,636	539,949
Construction in process		-	5,013
		21,110,387	20,861,723
Less accumulated depreciation		(11,644,838)	(10,759,155)
	$	9,465,549	10,102,568

NOTE 5 – RELATED PARTY TRANSACTIONS

The Institute and Hobart Brothers Company ("HBC") entered into an employee lease agreement. Under this agreement, the Institute reimbursed HBC on a monthly basis for the actual cost of making the leased employees available to the Institute. Actual costs of employees include compensation, employment taxes, workers' compensation, health insurance and retirement plan benefits. The employee lease agreement ended in May 2019.

Additionally, the Institute and HBC entered into an administrative services agreement. Pursuant to the terms of this agreement, the Institute paid $10,712 monthly for support related to the following administrative services: administration of employee benefits and payroll; recruiting; interviewing and screening and hiring of employees, along with any indirect costs associated with the leased employees. Administrative service fees totaled $42,850 and $128,544 for 2019 and 2018, respectively. The administrative services agreement ended in May 2019.

The Institute also reimbursed HBC for various other costs incurred by HBC on their behalf. The total amount owed to HBC at December 31, 2019 and 2018 amounted to $-0- and $363,726, respectively.

HBC rents a portion of the Institute's building space. The total rental income for 2019 and 2018 was $295,452.

NOTE 6 – INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

The Institute has transferred assets to the Troy Foundation and retained a beneficial interest in those assets. The Institute is allocated their funds' proportionate share of the pooled funds' investment returns on an annual basis. Distributions from the fund balances may be withdrawn each year in accordance with the terms of each scholarship fund agreement, and undistributed earnings are retained in the fund. As of December 31, 2019 and 2018, the fair value of the Institute's interest in community foundation's assets was $752,159 and $624,905, respectively.

Amounts invested in the Troy Foundation's pooled investment funds are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments in the pooled fund, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the Institute's financial statements.

NOTE 7 – FAIR VALUE MEASUREMENTS

Accounting principles define fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Institute's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Institute has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair value methods and assumptions for publicly traded securities and mutual funds are based on Level 1 market approach. Investments in short term, U.S. Government obligations and corporate and municipal bonds are valued on Level 2 inputs using prices obtained from custodians, which used third party data service providers.

The fair value of beneficial interest in assets held by the community foundation is based upon the Institute's proportionate share of the community foundation's pooled investment portfolio. The Institute's management and Finance Committee review the valuations and returns in comparison to industry benchmarks and other information provided by the community foundation.

The Institute recognizes transfers into and out of levels at the end of the reporting period. There were no transfers between levels in the years ended December 31, 2019 and 2018.

Investment securities are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that a change in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

NOTE 7 – FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a recurring basis at December 31, 2019, are summarized below:

	Fair Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019:				
U.S. government and government securities	$ 238,303	-	238,303	-
Corporate bonds	3,751,688	-	3,751,688	-
Mutual funds - equities	2,561,745	2,561,745	-	-
Interest in assets held by community foundation	752,159	-	-	752,159
	$ 7,303,895	2,561,745	3,989,991	752,159

Assets measured at fair value on a recurring basis at December 31, 2018, are summarized below:

	Fair Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018:				
U.S. government and government securities	$ 122,109	-	122,109	-
Corporate bonds	3,663,063	-	3,663,063	-
Mutual funds - equities	2,165,505	2,165,505	-	-
Interest in assets held by community foundation	624,905	-	-	624,905
	$ 6,575,582	2,165,505	3,785,172	624,905

NOTE 8 – DEBT

On September 25, 2017, the Institute entered into a promissory note agreement secured by the Institute's unrestricted investment account with US Bank for $1,350,000. This note has a maturity date of September 25, 2021, when the balance of principal and interest will be due. Payments of $30,405 are paid in monthly installments and commenced on October 25, 2017 and will continue the same day of each month thereafter until maturity. The interest rate on this loan is 3.82%.

Future maturities of the promissory note are as follows:

2020	$ 347,052
2021	269,289
	$ 616,341

NOTE 9 – ENDOWMENT FUND

The Institute endowment primarily consists of five funds held at the Troy Foundation. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by applicable standards, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The donor-restricted funds are subject to expenditure for the specific purpose of scholarships.

Endowment net asset composition by type of fund as of December 31:

	Without Donor Restrictions	With Donor Restrictions	Total
2019			
Donor-restricted	$ -	82,356	82,356
Board designated	669,803	-	669,803
Total	$ 669,803	82,356	752,159
2018			
Donor-restricted	$ -	73,896	73,896
Board designated	551,009	-	551,009
Total	$ 551,009	73,896	624,905

NOTE 9 – ENDOWMENT FUND (CONTINUED)

		Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2018	$	626,957	65,132	692,089
Investment income, net		6,967	829	7,796
Net appreciation		(32,285)	(4,665)	(36,950)
Contributions		-	20,000	20,000
Appropriation of assets for expenditure		(50,630)	(7,400)	(58,030)
Endowment net assets, December 31, 2018		551,009	73,896	624,905
Investment income, net		6,481	788	7,269
Net depreciation		98,112	12,072	110,184
Contributions/transfers		66,450	10,000	76,450
Appropriation of assets for expenditure		(52,249)	(14,400)	(66,649)
Endowment net assets, December 31, 2019	$	669,803	82,356	752,159

Return Objectives and Risk Parameters
The Institute has invested its endowments with the Troy Foundation, which has investment and spending policies for endowment assets that attempt to accumulate a pool of assets sufficient to build capital for future use while providing a predictable level of funding to meet current needs. Endowment assets include those assets of donor-restricted funds that the Institute must hold for a donor-specified purpose as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives
To satisfy its long-term rate-of-return objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Institute relies on the Troy Foundation to provide a diversified asset allocation within both equity and fixed income securities, so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Institute receives significant financial assistance from governmental agencies in the form of grants. The disbursement of funds received under such programs generally requires compliance with terms and conditions specified in grant agreements and is subject to audit by grantor agencies and possible disallowance of certain expenditures. The Institute has not had any disallowance of expenditures in the past and expects such amounts, if any, to be immaterial.

The Institute from time to time is subject to litigation in the ordinary course of its business. It is the opinion of management that the outcome of these actions are either adequately covered by insurance, or if not insured, will not have a material adverse impact on the Institute’s financial position or results of future operations.

NOTE 11 – AVAILABILITY OF FINANCIAL ASSETS

The following table presents the financial assets available to meet cash needs for general expenditures within one year at December 31, 2019 and 2018:

	2019	2018
Financial assets:		
Cash and cash equivalents	$ 2,784,534	2,324,546
Investments	6,551,736	5,950,677
Accounts receivable, net	1,920,598	1,898,107
Interest in assets held by community foundation	752,159	624,905
Financial assets available at year-end	12,009,027	10,798,235
Less those unavailable for general expenditures within one year due to:		
Investments held in donor restricted endowment	82,356	73,896
Board designated funds to function as endowments	669,802	551,009
Financial assets available to meet cash needs for general expenditures within one year	$ 11,256,869	10,173,330

As part of the Institute'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. Excess cash is invested in short-term, highly liquid investments during the year. If additional financial assets are needed based on unexpected needs, certain amounts from the board designated funds functioning as endowments could be made available as necessary.

NOTE 12 – SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to December 31, 2019 to determine the need for any adjustments to and/or disclosures within the financial statement for the year ended December 31, 2019. Management has performed this analysis through June 5, 2020, the date the financial statements were available to be issued.

Subsequent to year end, an outbreak of a novel strain of coronavirus (COVID-19) has disrupted operations of the Institute. The United States, as well as state and local governments, have taken significant steps in response to the outbreak. Accordingly, the Institute temporarily closed campus to its students. The extent of the impact of COVID-19 on the Institute's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak. The impact on the Institute's students, employees, and vendors cannot be predicted and the extent to which COVID-19 may impact the Institute's financial condition or results of operations cannot be determined at this time.

Additionally, on April 20, 2020, the Institute received a $800,350 loan under the U.S. Small Business Administration's Paycheck Protection Program (PPP). The loan bears interest at 1% and is due in April 2022. The PPP program allows for a portion of the loan (up to the full amount) to be forgiven based on qualifying expenses. The amount of the loan that will be forgiven is uncertain at this time. The Institute anticipates that the entire amount will be forgiven.

Federal Grantor/Program Title	CFDA Number	Grant or Pass Through Number		Expenditures
U.S. Department of Education:				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007	Various	$	19,148
Federal Pell Grant	84.063	Various		628,836
Federal Direct Student Loans	84.268	Various		2,313,014
Total Student Financial Assistance Cluster				2,960,998
Total U.S. Department of Education				2,960,998
Total expenditures of federal awards			$	2,960,998

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) reflects the expenditures of Hobart Institute of Welding Technology (the “Institute”) under programs of the federal government for the year ended December 31, 2019.

The information in this Schedule is presented in accordance with the 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”). Because the Schedule presents only a selected portion of the operations of the Institute, it is not intended to, and does not, present the financial position, activities and cash flows of the Institute for the year ended December 31, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR FEDERAL AWARD EXPENDITURES

Expenditures for Federal student financial aid programs are recognized as incurred and include Pell program grants to students, the Federal share of students' FSEOG program grants and administrative cost allowances, where applicable. 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. The Institute also makes loans to certain eligible students under Federal student loan programs directly through the U.S. Department of Education; however, only the current loan disbursements under the William D. Ford Federal Direct Loan program are included in the Schedule of Expenditures of Federal Awards, as the related outstanding loan balances are not included as current federal expenditures, as required.

Pass-through entity identifying numbers are presented where available. In addition, the Institute did not pass-through any federal awards to subrecipients during the year ended December 31, 2019.

The Institute has elected not to use the 10 percent de minimus indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

3. MATCHING REQUIREMENTS

Certain federal programs require the Institute to contribute non-federal funds (matching funds) to support federally-funded programs. The Institute has complied with the matching requirements. The expenditure of non-federal (matching) funds is not included on the Schedule.

CLARK SCHAEFER HACKETT
CPAs & Advisors
14 East Main Street, Suite 500, Springfield, Ohio 45502
P. 937.399.2000 | F. 937.399.5433 | cshco.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Hobart Institute of Welding Technology
Troy, Ohio

We have audited, in accordance with the 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, the financial statements of Hobart Institute of Welding Technology (the "Institute"), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 5, 2020.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Institute's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
June 5, 2020

14 East Main Street, Suite 500, Springfield, Ohio 45502
P. 937.399.2000 | F. 937.399.5433 | cshco.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Hobart Institute of Welding Technology
Troy, Ohio

Report on Compliance for Each Major Federal Program
We have audited Hobart Institute of Welding Technology's (the "Institute") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended December 31, 2019. The Institute's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of the Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Institute's compliance.

Opinion on Each Major Federal Program
In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Other Matters
The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to this matter.

Report on Internal Control Over Compliance
Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

The Institute's response to the noncompliance and internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Institute's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
June 5, 2020

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted
Noncompliance material to financial statements noted?	None noted

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance 2 CFR 200.516(a)?	Yes

Identification of major programs:

Student Financial Aid Cluster:
CFDA# 84.007 – Federal Supplemental Educational Opportunity Grant
CFDA# 84.063 – Federal Pell Grant
CFDA# 84.268 – Federal Direct Student Loans

Dollar threshold to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None noted

Section III – Federal Awards Findings and Questioned Costs

Finding 2019-001

Federal Program Information:	CFDA# 84.268 – Federal Direct Student Loans
Criteria:	34 CFR 685.300(b)(5) requires that on a monthly basis, institutions reconcile institutional records with Direct Loan funds received from the Secretary and Direct Loan disbursement records submitted to and accepted by the Secretary. These reconciliations include comparing loan disbursement transactions reported in the Common Origination and Disbursement (COD) system to institutional records that loan amounts and disbursement dates were accurately reported.
Condition:	For two disbursements to students in a sample of twenty-five tested, the disbursement date reported in COD did not agree with the disbursement date on the students' statements of account as required by regulations.
Questioned Costs:	None
Context:	In a sample of twenty-five disbursements that occurred during the year, two disbursement dates were not accurately reported in COD from the students' accounts.
Cause/Effect:	As part of the disbursement process, the Institute originates student loan disbursements in COD, typically two days prior the anticipated disbursement date, using the origination date as the reported loan disbursement date. From the total of accepted records in COD, the Institute will request and disburse the loans to student accounts. Once disbursed to students' accounts, the Institute updates the disbursement dates reported in COD. For these two disbursements, the reported disbursement dates were not updated once disbursed in accordance with Federal guidelines and the monthly reconciliations did not detect the errors.
Recommendation:	We recommend implementing monitoring procedures to ensure accurate information is reported in the COD system in accordance with federal guidelines.
Views of Responsible Officials and Planned Corrective Action:	The Institute agrees with the finding and has implemented appropriate procedures. Please refer to the Institute's corrective action plan presented on page 28.

Section IV – Summary of Prior Audit Findings

None noted

Hobart Institute of Welding Technology

Name of audit firm: Clark, Schaefer, Hackett

Period covered by the audit: Year ended December 31, 2019

The Institute has reviewed the audit finding as presented on the Schedule of Findings and Questioned Costs and provides the following response:

Finding 2019-001: CFDA#84.268 – Federal Direct Student Loans

(1) Contact Person(s) Responsible for Corrective Action:
Sally Church, Financial Aid Administrator

(a) Corrective Action Planned:

HIWT Financial Aid Staff will internally audit all Federal Direct Student Loan records dated January 2019 through May 2020 and review for discrepancies between COD disbursement date and ledger posted date. Any findings will be corrected manually in COD.

(b) Anticipated Completion Date: September, 2020

(2) Contact Person(s) Responsible for Corrective Action:
Jennifer Parin, Compliance and Student Services Manager

(a) Corrective Action Planned:

Internal monthly audit of 10% of Federal Financial Aid recipients' disbursement records starting July 2020 for prior month federal direct loan disbursements. In the event of a finding, all Federal Direct Student Loan records for the prior month will be audited. Any findings will be corrected manually in COD. Internal monthly audits will occur until an audit report is received from a third party auditor with no findings of CFDA#84.268.

(b) Anticipated Completion Date: March, 2021