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302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

March 11, 2024

Charter School Board
Herron High School, Inc.
d/b/a Herron Classical Schools
Marion County, Indiana

We have reviewed the audit report of Herron High School, Inc. d/b/a Herron Classical Schools which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2022 to June 30, 2023. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Herron High School, Inc. d/b/a Herron Classical Schools as of June 30, 2023 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report on pages 38 through 40. Please see the Schedule of Findings and Questioned Costs for complete details related to the findings. Management's Corrective Action Plan appears on pages 43 and 44.

In addition to the report presented herein, a Supplemental Audit Report for Herron High School, Inc. d/b/a Herron Classical Schools, was prepared in accordance with the guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

A handwritten signature in cursive script that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner

HERRON HIGH SCHOOL, INC.
d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2023 and 2022



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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Herron High School, Inc.

Opinion

We audited the consolidated financial statements of Herron High School, Inc. d/b/a Herron Classical Schools and its Wholly-Owned Subsidiaries (collectively, the “Organization”), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (“GAAS”) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audits of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about the Organization’s ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

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

Auditors' Responsibilities for the Audits of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report including our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters we identified during the audits.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated 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 consolidated financial statements. Likewise, the consolidating schedules of financial position on pages 27 and 28 and the consolidating schedules of activities and change in net assets on pages 29 and 30 are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the consolidated schedule of expenditures of federal awards and the consolidating schedules are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also issued our report dated February 29, 2024 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

DONOVAN

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

Indianapolis, Indiana
February 29, 2024

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 916,458	\$ 2,024,835
Restricted cash	1,187,993	1,616,597
Grants receivable	2,341,354	1,775,239
Prepaid expenses and other current assets	138,940	105,921
<i>Total current assets</i>	<u>4,584,745</u>	<u>5,522,592</u>
PROPERTY AND EQUIPMENT		
Land	1,384,000	614,000
Buildings and improvements	21,986,408	20,148,432
Furniture and equipment	1,363,095	1,252,185
Computer and office equipment	1,996,924	1,808,502
Books and educational materials	495,640	466,306
Vehicles	305,536	209,581
Construction in progress	6,061,912	155,680
Less: accumulated depreciation	<u>(8,073,149)</u>	<u>(6,828,040)</u>
<i>Property and equipment, net</i>	<u>25,520,366</u>	<u>17,826,646</u>
OTHER ASSETS		
Restricted certificates of deposit	400,000	400,000
Equity investment	125,462	36,538
New Market Tax Credit note receivable	6,108,240	6,108,240
Intangible assets, net	8,168	8,168
<i>Total other assets</i>	<u>6,641,870</u>	<u>6,552,946</u>
TOTAL ASSETS	<u>\$ 36,746,981</u>	<u>\$ 29,902,184</u>
LIABILITIES AND NET ASSETS/MEMBERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of bonds and notes payable	\$ 1,308,451	\$ 358,411
Line of credit	1,884,060	-
Accounts payable and accrued expenses	2,178,273	1,951,273
Construction costs payable	1,035,871	-
<i>Total current liabilities</i>	<u>6,406,655</u>	<u>2,309,684</u>
LONG-TERM LIABILITIES		
Bonds and notes payable, less current maturities and unamortized deferred financing costs	4,092,753	4,644,345
New Market Tax Credit notes payable, less unamortized deferred financing costs	8,894,977	8,887,162
<i>Total long-term liabilities</i>	<u>12,987,730</u>	<u>13,531,507</u>
TOTAL LIABILITIES	<u>19,394,385</u>	<u>15,841,191</u>
NET ASSETS/MEMBERS' EQUITY		
Without donor restrictions	13,512,912	10,403,048
With donor restrictions	3,799,393	3,375,738
Noncontrolling interest in members' equity	40,291	282,207
<i>Total net assets/members' equity</i>	<u>17,352,596</u>	<u>14,060,993</u>
TOTAL LIABILITIES AND NET ASSETS/MEMBERS' EQUITY	<u>\$ 36,746,981</u>	<u>\$ 29,902,184</u>

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

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NETS ASSETS
For the Years Ended June 30, 2023 and 2022

	2023				2022			
	Without Donor Restrictions	With Donor Restrictions	Noncontrolling Interest	Total	Without Donor Restrictions	With Donor Restrictions	Noncontrolling Interest	Total
REVENUE AND SUPPORT								
State education support	\$ 16,030,561	\$ -	\$ -	\$ 16,030,561	\$ 13,514,114	\$ -	\$ -	\$ 13,514,114
Federal and state grant revenue	4,103,816	-	-	4,103,816	4,236,247	-	-	4,236,247
Individual and foundation contributions	3,148,062	1,675,000	-	4,823,062	429,024	1,600,000	-	2,029,024
Student fees	329,038	-	-	329,038	274,936	-	-	274,936
Other income	14,358	-	-	14,358	9,569	-	-	9,569
Net assets released from restrictions	1,265,058	(1,265,058)	-	-	277,930	(277,930)	-	-
<i>Total revenue and support</i>	<u>24,890,893</u>	<u>409,942</u>	<u>-</u>	<u>25,300,835</u>	<u>18,741,820</u>	<u>1,322,070</u>	<u>-</u>	<u>20,063,890</u>
EXPENSES								
Program services	18,058,392	-	-	18,058,392	15,688,453	-	-	15,688,453
Management and general	3,187,004	-	-	3,187,004	2,267,818	-	-	2,267,818
Fundraising	888,397	-	-	888,397	444,430	-	-	444,430
<i>Total expenses</i>	<u>22,133,793</u>	<u>-</u>	<u>-</u>	<u>22,133,793</u>	<u>18,400,701</u>	<u>-</u>	<u>-</u>	<u>18,400,701</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>2,757,100</u>	<u>409,942</u>	<u>-</u>	<u>3,167,042</u>	<u>341,119</u>	<u>1,322,070</u>	<u>-</u>	<u>1,663,189</u>
OTHER INCOME (EXPENSE)								
Equity loss in subsidiary	-	-	-	-	(8,539)	-	-	(8,539)
Interest income	110,848	13,713	-	124,561	93,129	14,307	-	107,436
Paycheck Protection Program loan forgiveness income	-	-	-	-	1,633,812	-	-	1,633,812
<i>Total other income</i>	<u>110,848</u>	<u>13,713</u>	<u>-</u>	<u>124,561</u>	<u>1,718,402</u>	<u>14,307</u>	<u>-</u>	<u>1,732,709</u>
CHANGE IN NET ASSETS	<u>2,867,948</u>	<u>423,655</u>	<u>-</u>	<u>3,291,603</u>	<u>2,059,521</u>	<u>1,336,377</u>	<u>-</u>	<u>3,395,898</u>
CHANGE IN NET ASSETS RELATED TO NONCONTROLLING INTEREST	<u>241,916</u>	<u>-</u>	<u>(241,916)</u>	<u>-</u>	<u>235,065</u>	<u>-</u>	<u>(235,065)</u>	<u>-</u>
NET ASSETS/MEMBERS' EQUITY, BEGINNING OF YEAR	<u>10,403,048</u>	<u>3,375,738</u>	<u>282,207</u>	<u>14,060,993</u>	<u>8,108,462</u>	<u>2,039,361</u>	<u>517,272</u>	<u>10,665,095</u>
NET ASSETS/MEMBERS' EQUITY, END OF YEAR	<u>\$ 13,512,912</u>	<u>\$ 3,799,393</u>	<u>\$ 40,291</u>	<u>\$ 17,352,596</u>	<u>\$ 10,403,048</u>	<u>\$ 3,375,738</u>	<u>\$ 282,207</u>	<u>\$ 14,060,993</u>

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

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2023 and 2022**

	2023					2022				
	<u>Program Services</u>	<u>Management and General</u>				<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>		
<u>School Activities</u>		<u>Real Estate Activities</u>	<u>Fundraising</u>	<u>Real Estate Activities</u>	<u>School Activities</u>			<u>Real Estate Activities</u>	<u>Fundraising</u>	
Salaries and benefits	\$ 13,045,317	\$ 1,652,971	\$ -	\$ 634,948	\$ 15,333,236	\$ 11,240,553	\$ 1,067,490	\$ -	\$ 337,907	\$ 12,645,950
Instructional services	120,133	-	-	-	120,133	140,714	-	-	-	140,714
Information technology	238,014	18,532	-	8,472	265,018	216,780	12,863	-	7,385	237,028
Accounting services	-	74,170	-	-	74,170	-	97,550	-	-	97,550
Other outside services	824,617	185,447	116,215	126,709	1,252,988	682,502	104,624	84,443	27,491	899,060
Authorizer oversight fee	86,386	-	-	-	86,386	82,671	-	-	-	82,671
Innovation management fee	25,000	-	-	-	25,000	25,000	-	-	-	25,000
Course materials and supplies	648,915	22,627	-	18,736	690,278	601,267	16,685	-	23,350	641,302
Nutritional support	681,665	3,905	-	3,001	688,571	692,247	2,195	-	1,792	696,234
Travel and entertainment	22,670	1,168	-	1,224	25,062	21,617	2,113	-	440	24,170
Vehicles and transportation	190,018	-	-	-	190,018	148,343	-	-	-	148,343
Rent and facilities	1,261,819	319,675	-	48,269	1,629,763	986,629	229,912	-	27,252	1,243,793
Depreciation	803,464	181,000	235,119	25,495	1,245,078	729,494	113,119	235,054	12,301	1,089,968
Interest expense	93,704	52,093	98,025	6,358	250,180	68,955	45,176	98,023	3,053	215,207
Insurance	897	193,184	-	-	194,081	32,752	123,331	-	-	156,083
Advertising	1,162	30,864	-	14,902	46,928	2,073	-	33,711	3,293	39,077
Other	14,611	2,009	-	283	16,903	16,856	1,529	-	166	18,551
<i>Total functional expenses</i>	<u>\$ 18,058,392</u>	<u>\$ 2,737,645</u>	<u>\$ 449,359</u>	<u>\$ 888,397</u>	<u>\$ 22,133,793</u>	<u>\$ 15,688,453</u>	<u>\$ 1,816,587</u>	<u>\$ 451,231</u>	<u>\$ 444,430</u>	<u>\$ 18,400,701</u>

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

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 3,291,603	\$ 3,395,898
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Paycheck Protection Program loan forgiveness income	-	(1,633,812)
Depreciation	1,245,078	1,089,968
Amortization of debt issuance costs included in interest expense	14,767	17,105
Change in certain assets and liabilities:		
Grants receivable	(566,115)	(772,946)
Prepaid expenses and other current assets	(33,019)	28,746
Accounts payable and accrued expenses	227,000	380,966
<i>Net cash provided by operating activities</i>	<u>4,179,314</u>	<u>2,505,925</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(5,268,867)	(1,994,775)
Maturity of certificates of deposit	-	200,000
Purchase of equity investment	(88,924)	(36,538)
<i>Net cash used in investing activities</i>	<u>(5,357,791)</u>	<u>(1,831,313)</u>
FINANCING ACTIVITIES		
Repayments of bonds and notes payable	(358,504)	(675,787)
NET CHANGE IN CASH AND RESTRICTED CASH	(1,536,981)	(1,175)
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	<u>3,641,432</u>	<u>3,642,607</u>
CASH AND RESTRICTED CASH, END OF YEAR	<u>\$ 2,104,451</u>	<u>\$ 3,641,432</u>
CASH AND RESTRICTED CASH, END OF YEAR		
Cash	\$ 916,458	\$ 2,024,835
Restricted cash	<u>1,187,993</u>	<u>1,616,597</u>
<i>Total cash and restricted cash, end of year</i>	<u>\$ 2,104,451</u>	<u>\$ 3,641,432</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 235,413	\$ 198,102
Property and equipment acquisitions financed through line of credit and note payable	2,634,060	-
Property and equipment acquisitions in construction costs payable	1,035,871	-

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

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2023 and 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Herron High School, Inc. d/b/a Herron Classical Schools (“HCS”) is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. HCS operates three public charter schools, as follows:

- Herron High School (“HHS”) - opened in 2006 and is located on its historic campus in Herron-Morton Place. HHS served approximately 1,000 students in grades nine through twelve during the 2022-2023 school year (approximately 1,000 in 2021-2022).
- Herron-Riverside High School (“HRHS”) - opened in 2017 and is located in the renovated Heslar Naval Armory. HRHS served approximately 410 students in grades nine through twelve during the 2022-2023 school year (approximately 440 in 2021-2022).
- Herron Preparatory Academy (“Herron Prep”) - opened in 2021 and is temporarily located on the same campus as HHS. Herron Prep served approximately 175 students in kindergarten through third grade during the 2021-2022 school year (approximately 125 in 2021-2022).

HHS and Herron Prep are owned directly by HCS. HRHS is owned by Riverside High School, Inc. (“RHS”), a wholly-owned subsidiary of HCS. All three schools together are referred to as the “Schools” in these financial statements.

The Schools operate under Indiana Code 20-24 and are sponsored by the Office of Education Innovation (“OEI”) of the Mayor of the City of Indianapolis and provide classical liberal arts college preparatory education. Through an integrated curriculum and classical methodology, the Schools believe all students can learn to think logically, express themselves creatively, appreciate aesthetics fully, and approach any subject intelligently. The academic programs of the Schools are designed to challenge every student to achieve at or above grade level performance in all academic subjects. While students may enter the Schools below grade level in many areas, the Schools are prepared for the challenge of equipping students with the knowledge, skills, and habits necessary for success in an academically rigorous college preparatory high school.

All three schools have entered into agreements with Commissioners of the City of Indianapolis, also known as Indianapolis Public Schools (“IPS”) to become Innovation Network Charter Schools. With this partnership, the Schools have complete operational autonomy. This partnership provides the opportunity to leverage additional resources, including additional funding. HCS continues to be governed by its own Board of Directors and continues to own all buildings, in part through consolidated entities. The Schools also continue to employ their own staff and faculty and are independent of IPS’s personnel policies.

HCS has two additional wholly-owned subsidiaries, as follows:

- Riverside High School RE MM, LLC (“RHS RE MM”) - established to serve as a 1% owner and the managing member of an affiliated entity, Riverside High School Real Estate, LLC (“RHS RE”), in connection with the New Markets Tax Credit and Historic Tax Credit financing of RHS RE. RHS RE owns the Heslar Naval Armory and leases it to RHS. See Note 6.
- Herron Main Building, LLC (“The Main Building”) - no activity during the years ended June 30, 2023 and 2022.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2023 and 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of HCS and its wholly-owned subsidiaries: RHS, RHS RE MM, and Herron Main Building, LLC, all of which are single member LLCs. RHS RE MM has a 1% interest in RHS RE, which is consolidated in the accompanying consolidated financial statements. The 99% interest in RHS RE is presented as noncontrolling interest in members' equity in the accompanying consolidated financial statements. All intra-entity balances and transactions have been eliminated from the accompanying consolidated financial statements. The consolidated entity is referred to as the "Organization" throughout these notes.

Financial Statement Presentation – The Organization reports its consolidated financial position and activities according to two classes of net assets:

- Net assets without donor restrictions, which include unrestricted resources available for the operating objectives of the Organization; and
- Net assets with donor restrictions, which represent resources restricted by donors for specific time or purpose.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities and change in net assets. Restrictions expire when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Gifts associated with the acquisition of long-lived assets are released from restriction when the assets are placed in service.

Basis of Accounting and Use of Estimates – The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions affecting certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. The Organization had no cash equivalents as of June 30, 2023 and 2022.

Restricted Cash and Restricted Certificates of Deposit – The Schools' restricted cash and restricted certificates of deposit consist of amounts in demand deposit accounts and certificates of deposit designated by the Board of Directors for a specific purpose or subject to donor-imposed use restrictions from previous capital campaigns. RHS RE's restricted cash consists of amounts in demand deposit accounts which must be maintained based on terms imposed by the New Market Tax Credits financing program (the "NMTC program").

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2023 and 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Investment Valuation and Income Recognition – Investments are initially recorded at cost, if purchased, or at fair value, if donated. Thereafter, investments are stated at fair value. Investment income reported in the consolidated statements of activities and change in net assets consists of interest and dividend income and realized and unrealized capital gains and losses net of external and direct internal investment expenses. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Purchases and sales of investments are recorded on the trade date. Gains and losses on the sale of investments are determined using the specific-identification method.

Investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible changes in risks in the near term could materially affect the amounts reported in the consolidated financial statements

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs and legislation enacted by the State of Indiana. The Organization believes it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Property and Equipment – Property and equipment are stated at cost for purchased assets, or at fair value at the date of donation for donated assets, less accumulated depreciation. The Organization capitalizes additions of property and equipment with a useful life of more than one year. Costs of maintenance and repairs which do not improve or extend the useful lives of the respective assets are expensed currently. Depreciation of property and equipment is provided on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 40 years.

Construction in progress as of June 30, 2023 relates to the construction of the Herron Prep building. The contract sum stated in the construction agreement totaled approximately \$15,350,000, including all change orders. As of June 30, 2023, the School's remaining commitment on the contract totaled approximately \$9,514,000.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amount to future net undiscounted cash flows expected to be generated by the related asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair market value of the assets. No adjustment to the carrying amount of long-lived assets was required in 2023 or 2022.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Deferred Financing Costs – Financing costs incurred upon the issuance of debt are capitalized and amortized over the term of the related debt. The unamortized financing costs are presented as a reduction of the carrying amount of the debt. Amortization of the financing costs is reported as interest expense in the consolidated statements of activities and change in net assets. Total deferred financing costs for the bonds and notes payable as well as the New Market Tax Credit notes payable were \$307,175 as of both June 30, 2023 and 2022. Accumulated amortization totaled \$171,166 and \$156,399 as of June 30, 2023 and 2022, respectively. Related amortization reported as interest expense was \$14,767 and \$17,105 during the years ended June 30, 2023 and 2022, respectively.

Advertising Costs – Advertising costs are expensed as incurred and totaled \$46,928 and \$39,077 during the years ended June 30, 2023 and 2022, respectively.

Network Cost Allocations – Financial transactions related to the overall management of the Organization are allocated to the operational locations for financial reporting purposes; Herron High School, Herron-Riverside High School, and Herron Preparatory Academy. Transactions which do not directly relate to one location are allocated based on the number of students. The allocation percentages for the year ended June 30, 2023 were 63% to Herron High School, 26% to Herron-Riverside High School, and 11% to Herron Preparatory Academy. The allocation percentages for the year ended June 30, 2022 were 65% to Herron High School, 27% to Herron-Riverside High School, and 8% to Herron Preparatory Academy.

Taxes on Income – Herron High School, Inc. received a determination from the U.S. Treasury Department stating it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, it would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2023 and 2022, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

The Main Building, RHS, and RHS RE MM are disregarded entities for income tax purposes. RHS RE is a limited-liability company and its taxable income or loss is allocated to its members in accordance with their ownership percentage. Therefore, no provision or liability for income taxes has been included in the accompanying consolidated financial statements.

Professional accounting standards require the Organization 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 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 Organization examined this issue and determined there are no material contingent tax liabilities or questionable tax positions. Tax years ended after June 30, 2019 are open to audit for both federal and state purposes.

Subsequent Events – The Organization evaluated subsequent events through February 29, 2024, the date these consolidated financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the consolidated financial statements or related disclosures would be required.

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NOTE 2 - REVENUE RECOGNITION

Revenue Recognition Policy – As discussed in Note 1, the majority of the School’s revenue and support is provided by IPS as part of the Innovation Network Charter School Agreement. Under the agreement with IPS, the School receives monthly funding from IPS in accordance with a student-based allocation formula. Funding includes both fixed and variable components. The variable funding depends upon certain attributes including the number of students, student grades, poverty status, and other factors. Revenue is recognized in the year in which the services are rendered.

A significant portion of the School’s revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred. Incurring approved costs under the grant is considered satisfaction of the performance obligations. The School also receives contributions and other income from other agencies and individuals, which are recorded in accordance with the terms of the underlying agreements.

Contributions – Contributions are recognized as support when they are received or unconditionally promised. Contributions are classified as contributions in instances in which a resource provider is not itself receiving commensurate value for the resources provided. Contributions are considered conditional when the agreement with the resource provider includes a barrier that must be overcome and either a right of return of assets transferred or right of release of a promisor’s obligation to transfer assets. Conditional contributions are not recognized as revenue until the conditions are substantially met.

Student Fees – Student fees consist of sales of goods and services, such as textbooks, field trips, and meals. Revenues derived from the sales of goods and services are considered exchange transactions and are recognized at the point of sale or when the services are provided.

Disaggregation of Revenue – Revenue is disaggregated on the consolidated statements of activities and change in net assets.

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NOTE 3 - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy prioritizing the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair measurement level within the fair value hierarchy is based on the lowest level of any input significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2023 and 2022.

Certificates of Deposit – Valued by discounting cash flows based on interest rates of similar instruments with similar credit ratings and duration (Level 2).

Investments measured at fair value on a recurring basis are summarized below:

June 30, 2023		<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>		<u>Total</u>
Certificates of deposit	\$	-	\$	400,000	\$	-	\$	400,000
 June 30, 2022								
Certificates of deposit	\$	-	\$	400,000	\$	-	\$	400,000

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NOTE 4 - BONDS AND NOTES PAYABLE

Bonds and notes payable consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
Qualified School Construction Bonds Series 2010A secured by real estate and assignments of leases and rents. The bond bears interest at 6.75% per annum (less a rebate of 5.27% from the U.S. Treasury), payable in quarterly installments of \$91,486, including interest, maturing on July 1, 2025. (A)	\$ 2,506,343	\$ 2,695,113
Qualified School Construction Bonds Series 2010B secured by real estate and assignments of leases and rents. The bond bears interest at 7.00% per annum (less a rebate of 5.17% from the U.S. Treasury), payable in quarterly installments of \$5,592, including interest, maturing on July 1, 2025. (B)	46,189	64,514
IFF loan payable. See Note 6.	272,381	272,381
Redevelopment Commission of the City of Indianapolis – Marion County loan payable (“TIF Loan”). See Note 6.	1,500,000	1,500,000
Educational Facilities Revenue Bond, Series 2014. The bond bears interest at 3.17% per annum, payable in quarterly installments of \$41,268 including interest, maturing on April 17, 2024.	336,277	487,686
Related party note payable due to a member of the Board of Directors, bearing interest at 4.10%. This note is not supported by a signed agreement and has no defined repayment terms. The balance is presented as a current liability.	750,000	-
	\$ 5,411,190	\$ 5,019,694

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NOTE 4 - BONDS AND NOTES PAYABLE, Continued

	<u>2023</u>	<u>2022</u>
Total from previous page	\$ 5,411,190	\$ 5,019,694
Less: unamortized deferred financing costs	(9,986)	(16,938)
Less: current maturities	<u>(1,308,451)</u>	<u>(358,411)</u>
	<u>\$ 4,092,753</u>	<u>\$ 4,644,345</u>

(A) Under the American Recovery and Reinvestment Act of 2009, the Federal Treasury created QSCBs tax credit bonds, which provide federal subsidy equal to 5.27% interest.

(B) Under the American Recovery and Reinvestment Act of 2009, the Federal Treasury created QSCBs tax credit bonds, which provide federal subsidy equal to 5.17% interest.

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

	Herron High School				Herron - Riverside High School		<u>Total</u>
	Series 2010A Bonds	Series 2010B Bonds	Series 2014 Bonds	Related Party Note	IFF <u>Loan</u>	TIF <u>Loan</u>	
	2024	\$ 201,774	\$ 19,641	\$ 337,036	\$ 750,000	\$ -	
2025	215,740	21,053	-	-	-	-	236,793
2026	2,088,070	5,495	-	-	272,381	-	2,365,946
Forgivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>	<u>1,500,000</u>
Total	<u>\$ 2,505,584</u>	<u>\$ 46,189</u>	<u>\$ 337,036</u>	<u>\$ 750,000</u>	<u>\$ 272,381</u>	<u>\$ 1,500,000</u>	<u>\$ 5,411,190</u>

Total interest expense was \$250,180 and \$215,207 for the years ended June 30, 2023 and 2022, respectively.

The Series 2010A and 2010B bonds were issued for the acquisition of land, renovation, installation, and equipping of the Herron High School charter school facility, together with the purchase of equipment to be utilized therein. The Series 2014 Bonds were issued for the refinance of a mortgage originally borrowed for the renovation, installation, and equipping of the school facility.

The debt agreements require the School to maintain certain financial and non-financial covenants, all of which were met as of both June 30, 2023 and 2022.

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NOTE 5 - LINE OF CREDIT

The Organization has a revolving line of credit with a bank providing maximum borrowings of \$350,000. Borrowings bear interest at the prime rate, as defined in the credit agreement (8.25% at June 30, 2023). The credit agreement is secured by substantially all School assets and requires compliance with certain financial and nonfinancial covenants. As of both June 30, 2023 and 2022, there were no borrowings outstanding on the line of credit and the Organization was in compliance with all covenants.

In October 2022, the Organization opened a second revolving line of credit with a bank providing maximum borrowings of \$3,460,000 for the purposes of short-term funding for building construction. Borrowings bear interest at the prime rate, as defined in the credit agreement (8.25% at June 30, 2023). The credit agreement is secured by School property located at 3100 – 3120 N. Meridian St., Indianapolis, IN, and requires compliance with certain financial and nonfinancial covenants. As of June 30, 2023, borrowings outstanding on the line of credit were \$1,884,060 and the Organization was in compliance with all covenants.

NOTE 6 - NEW MARKET TAX CREDIT NOTES PAYABLE

The Organization participated in the New Market Tax Credit (“NMTC”) Program, which is governed by Internal Revenue Code Section 45D. The program allowed the Organization to fund construction costs to renovate the Hesler Naval Armory. Pursuant to the NMTC Program, RHS RE (“NMTC Borrower”) met the requirements to be a Qualified Active Low-Income Community Business (“QALICB”). As a QALICB, the NMTC Borrowers receive qualified low-income community investment loans from qualified sophisticated investors at favored interest rates (“NMTC Loans”). The NMTC Program allows the qualified investors to receive tax credits because of their lending participation to the NMTC Borrowers. The NMTC Program requires the Organization (“NMTC Lender”) to lend a portion of the funds to be borrowed to the qualified investors (“Leverage Loan”). Affiliates of the investors in turn include those funds in the total amount loaned to the Organization’s NMTC Borrowers.

Each NMTC Loan was executed through the NMTC Borrower’s issuance of two promissory notes payable (“NMTC Note A” and “NMTC Note B”), which carry an interest rates of 1.0% and have initial maturities of December 19, 2052. Payments of interest-only are required to be made on a quarterly basis, partially in arrears and partially in advance on the first day of each quarter.

The Organization’s Leverage Loan note receivable and the Organization’s NMTC Borrower NMTC Note A are offsetting in amount and have identical interest, payment, and maturity terms. The note receivable is included on the consolidated statements of financial position in the amount of \$6,108,240 at June 30, 2023 and 2022.

NMTC Note B does not have an offsetting receivable as it was entered into with a third party.

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NOTE 6 - NEW MARKET TAX CREDIT NOTES PAYABLE, Continued

Leverage Loan Receivable

On December 19, 2017, as described above, in connection with NMTC Program, the Organization entered into a loan agreement with COCRF Investor 113, LLC (the “Fund”) in the amount of \$6,108,240 in accordance with the requirements of the Leverage Loan. The proceeds of the Leverage Loan were invested by the Fund to make a qualified equity investment in IR CDE Four, LLC, a Subsidiary Community Development Entity (“Sub-CDE”) who loaned the funds to RHS RE. Pursuant to the loan agreement, interest on the Leverage Loan accrues at fixed rate of 1.4767% per annum. The Fund pays interest-only payments on the 10th day of the last month of each calendar quarter, commencing on March 10, 2018 through December 31, 2024. Beginning March 10, 2025 through December 31, 2052 (“Maturity Date”), quarterly payments will be due in an amount sufficient to fully amortize the principal balance of the Leverage Loan on the Maturity Date. The Leverage Loan is secured by a pledge of the Fund’s membership interest in the Sub-CDE.

IFF Loan Payable

On December 19, 2017 (“Closing Date”), the Organization entered into a loan agreement with IFF with original borrowings of \$1,000,000 (“IFF Loan”) and has a balance of \$272,381 as of both June 30, 2023 and 2022. The proceeds of the IFF Loan were used by the Organization to make the Leverage Loan to the Fund. Pursuant to the loan agreement, until and including December 31, 2022, interest on the IFF Loan accrued at a fixed rate of 6.625% per annum. From and after January 1, 2023 (“First Recalculation Date”), and until and including the seventh annual anniversary of the Closing Date (“IFF Maturity Date”), the outstanding principal of the IFF Loan shall bear interest at the First Recalculated Rate, as hereinafter defined. The First Recalculated Rate shall be a fixed interest rate, determined by IFF on the First Recalculation Date, equal to the greater of: (i) the sum of (x) the yield to maturity (based on asked quotations) of United States Treasury obligations with a maturity equal to the Maturity Date plus (y) three hundred basis points (3.00%) and (ii) 6.00%. If there are no United States Treasury obligations with a maturity equal to the Maturity Date, the yield to maturity shall be interpolated on a straight-line basis between the United States Treasury obligations having the nearest maturities shorter and longer than such average life. Interest on the IFF Loan is paid in monthly installments on the fifteenth day of each month, payable in arrears. The outstanding principal plus all interest accrued shall be repaid as of the IFF Maturity Date.

Additional Loans

As part of the above transaction, the Organization was required to infuse a certain amount of capital. In addition to the IFF Loan, the Organization entered into a loan agreement with the Redevelopment Commission of the City of Indianapolis – Marion County (“TIF Loan”) in the amount of \$1,500,000 and a related party loan in the amount of \$1,500,000. The proceeds of the TIF Loan and related party loan were used by the Organization to make the Leverage Loan to the Fund, in conjunction with the other sources noted above. The related party loan was repaid in full during the year ended June 30, 2018.

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NOTE 6 - NEW MARKET TAX CREDIT NOTES PAYABLE, Continued

Pursuant to the agreement, the TIF Loan has a 0% interest rate through December 2026 (the first 8 years). The TIF Loan bears interest at a rate of 2% from January 2027 through maturity on December 31, 2055. During this time period, the Organization is responsible for bi-annual principal and interest payments. The agreement defines various forgiveness stipulations for the interest and principal payments during this time period. As of June 30, 2023, the Organization was meeting all the defined forgiveness stipulations.

A summary of the Organization’s NMTC notes payable included in the consolidated statements of financial position is as follows as of June 30:

	<u>2023</u>	<u>2022</u>
NMTC Note A	\$ 6,108,240	\$ 6,108,240
NMTC Note B	2,912,760	2,912,760
Less: unamortized deferred financing costs	<u>(126,023)</u>	<u>(133,838)</u>
 New Market Tax Credit notes payable, net	 \$ <u>8,894,977</u>	 \$ <u>8,887,162</u>

NOTE 7 - PAYCHECK PROTECTION PROGRAM

On April 27, 2020, the Schools received loan proceeds of \$1,633,812 under the Paycheck Protection Program (“PPP”) established as part of the Coronavirus Aid, Relief, and Economic Security Act. PPP loans, including accrued interest, are forgivable as long as the entity uses the proceeds for eligible purposes, including payroll, benefits, rent and utilities. The Schools received full forgiveness during August 2022, and therefore reflected the balance of the loan as PPP loan forgiveness income on the consolidated statement of activities and change in net assets during the year ended June 30, 2022.

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NOTE 8 - NET ASSETS

Net assets with donor restrictions consisted of the following as of June 30:

	<u>2023</u>	<u>2022</u>
Purpose-restricted:		
Capital campaign	\$ 1,266,420	\$ 1,441,477
Charter School Growth Fund – K-8 Start Up	1,057,041	882,041
The Mind Trust – HPA Permanent Site	1,000,000	1,000,000
CICF – Russell Masonry	8,550	8,550
CICF – Library	3,811	3,811
HRHS Library	7,644	14,931
Woodrow Wilson – Science Equipment	510	510
Prevention Matters	10,121	10,121
Children’s Bureau – Free/Reduced Lunch	5,968	8,979
Allen Whitehill Clowes Capital Grant	<u>439,328</u>	<u>5,318</u>
<i>Total net assets with donor restrictions</i>	<u>\$ 3,799,393</u>	<u>\$ 3,375,738</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows during the years ended June 30:

	<u>2023</u>	<u>2022</u>
Satisfaction of purpose restrictions:		
Capital campaign	\$ 188,770	\$ 98,417
The Mind Trust – HPA Temporary Location	-	178,845
The Mind Trust – HPA Permanent Site	1,000,000	-
Allen Whitehill Clowes Capital Grant	65,990	-
HRHS Library	7,287	69
Children’s Bureau – Free/Reduced Lunch	<u>3,011</u>	<u>599</u>
<i>Total net assets released from donor restrictions</i>	<u>\$ 1,265,058</u>	<u>\$ 277,930</u>

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NOTE 9 - RETIREMENT PLANS

The Schools provide retirement benefits covering substantially all full-time employees. Retirement benefits for teaching personnel are provided by the Indiana State Teachers' Retirement Fund ("TRF"), which is a cost-sharing multiple-employer defined benefit retirement plan governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plan, the Schools contribute both the portion mandated for the employee (3%) and the employer share (6%) of compensation for electing teaching faculty to TRF. Should the Schools elect to withdraw from TRF, it could be subject to a withdrawal fee. The Schools' contributions represent an insignificant percentage of the total contributions received by TRF. As of June 30, 2023, TRF was approximately 88% funded.

The Schools also offers a 403(b) defined contribution retirement plan. Non-teaching personnel and teachers who opt to not participate in TRF are eligible for benefits under the 403(b) plan. Under the 403(b) plan, the Schools contribute 10% of each employee's defined compensation regardless of participation in the voluntary contribution portion of the plan.

Retirement plan expense, net of forfeitures, for both plans totaled \$1,024,963 and \$871,983 for the years ended June 30, 2023 and 2022, respectively.

NOTE 10 - LEASES

Lease Accounting Standard – Effective July 1, 2022, the Organization adopted Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 replaced previous lease guidance under U.S. GAAP and aims to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the consolidated statements of financial position and disclosing key information about leasing arrangements. The Organization elected to apply the transition alternative allowed under ASU 2018-11. Under this election, the Organization recognizes a cumulative effect adjustment to the opening balance of net assets as of the adoption date. No cumulative effect adjustment to net assets was necessary. The Organization applied the provisions of ASU 2016-02 as of the adoption date.

The Organization has an operating lease with the Harrison Center of the Arts (the "Center") which is renewed annually and, as such, is not subject to presentation on the consolidated statements of financial position. The lease allows the Organization to use the Center's gymnasium. Rent expense with the Center totaled \$5,560 and \$19,500, during the years ended June 30, 2023 and 2022, respectively.

The Organization also has a lease for certain modular classrooms requiring monthly rental payments of \$10,499. The lease has had multiple extensions for periods of less than a year and is currently effective through May 2024. As such, this lease is not subject to presentation on the consolidated statements of financial position. During the years ended June 30, 2023 and 2022, the Organization paid \$125,388 and \$138,875, respectively, under the lease.

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NOTE 11 - RELATED PARTIES

The Organization recorded related party transactions with other organizations in which one or more of the Board members have an interest. The Schools paid Claude McNeal Productions, owned by the Board Presidents' spouse, for instructional services for the theater program. The related expense was \$34,000 and \$98,890 for the years ended June 30, 2023 and 2022, respectively.

During May 2013, a member of the Organization's Board of Directors prepaid \$100,000 of the construction bond debt. Another Board member then purchased the construction bond which was originally purchased by the Local Initiatives Support Corporation ("LISC") in October 2010, thus repaying LISC and making the School his debtor. The bond bears an interest rate of 7.00% and matures in July 2025. The outstanding principal balance on the note was \$46,189 and \$64,514 as of June 30, 2023 and 2022, respectively. During fiscal years 2023 and 2022, interest expense paid to the member of the Organization's Board was \$4,042 and \$5,270, respectively. See Note 4.

During 2023, a member of the Organization's Board of Directors issued a note payable to the School for \$750,000 with an interest rate of 4.10%. No payments had been made on the principal balance of this loan as of June 30, 2023. See Note 4.

NOTE 12 - COMMITMENTS

As the Schools' sponsoring organization, OEI exercises certain oversight responsibilities and assesses a fee equal to 1% of the state education support received. Total authorizer oversight fees paid to OEI were \$86,386 and \$82,671 during the years ended June 30, 2023 and 2022, respectively.

The Schools also pay an innovation management fee to IPS in conjunction with the Innovation Network Charter School Agreement totaling \$25,000 for both years ended June 30, 2023 and 2022.

NOTE 13 - RISKS AND UNCERTAINTIES

The Schools provide education services to families residing in Marion and surrounding counties in Indiana and are subject to the risks of economic and competitive forces 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 and/or the agreements with IPS could significantly affect the Organization. Additionally, the Organization is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the Organization.

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2023 and 2022, substantially all of the grants receivable balance was due from the State of Indiana. In addition, deposits are maintained at Horizon Bank and Capital One and are insured up to the FDIC insurance limit. At June 30, 2023 and 2022, and regularly throughout the years, funds held at these banks exceeded the FDIC insurance limit.

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NOTE 14 - LIQUIDITY

Financial assets held by the Organization and available to meet cash needs for general expenditures within one year of were as follows as of June 30:

	<u>2023</u>	<u>2022</u>
Cash	\$ 916,458	\$ 2,024,835
Restricted cash	1,187,993	1,616,597
Restricted certificates of deposit	400,000	400,000
Grants receivable	2,341,354	1,775,239
New Market Tax Credit note receivables	<u>6,108,240</u>	<u>6,108,240</u>
 <i>Total financial assets</i>	 <u>10,954,045</u>	 <u>11,924,911</u>
 Restricted cash	 1,187,993	 1,616,597
Restricted certificates of deposit	400,000	400,000
New Market Tax Credit note receivable	6,108,240	6,108,240
Donor-imposed restrictions	<u>3,799,393</u>	<u>3,375,738</u>
 <i>Funds subject to expenditure for specified purpose</i>	 <u>11,495,626</u>	 <u>11,500,575</u>
 <i>Total financial assets available (deficit) within one year</i>	 <u>\$ (541,581)</u>	 <u>\$ 424,336</u>

Restricted cash and certificates of deposit for long-term or capital purposes are excluded. The New Market Tax Credit note receivable is offset by a corresponding New Market Tax Credit note payable held by a consolidated entity. Since this balance does not represent future liquidity, this financial asset is excluded. Net assets with donor-imposed restrictions are primarily restricted for capital projects, and as such are unavailable for general expenditures. As of June 30, 2023 the Organization has a deficit in financial assets available within one year to fund general operations.

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Organization invests cash in excess of daily requirements in certificates of deposit. As described in Note 5, the Organization has two lines of credits with total available borrowings of \$3,810,000 of which \$1,925,940 was available as of June 30, 2023.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2023 and 2022**

NOTE 15 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the consolidated statements of activities and change in net assets. Directly identifiable expenses are charged to the specific program or supporting service benefited. Expenses related to more than one function are allocated among program and support services based on time spent by Organization staff, including personnel expenses, materials and supplies, information technology, travel and entertainment, rent and facilities, depreciation, and interest expense.

NOTE 16 - SUBSEQUENT EVENT

Subsequent to June 30, 2023, the Organization entered into a note payable agreement for Educational Facilities Revenue Bonds, Series 2023A with Indiana Finance Authority. The bonds were acquired in September 2023 with an initial principal balance of \$13,882,914. The bonds are payable quarterly, including interest at 5.24%, through June 2045. The Organization expects the new Herron Prep location to open in July 2024.

SUPPLEMENTARY INFORMATION

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2023**

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 72,866
National School Lunch Program	10.555		609,765
Summer Food Service Program for Children	10.559		<u>42,110</u>
<i>Total U.S. Department of Agriculture</i>			<u>724,741</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Part A; Grants to Local Educational Agencies	84.010	S010A210014	60,340
Title I, Part A; Grants to Local Educational Agencies	84.010	S010A220014	505,548
Title II, Supporting Effective Instruction State Grants	84.367A	S367A210013	10,303
Title II, Supporting Effective Instruction State Grants	84.367A	S367A220013	59,955
Title IV, Student Support Academic Enrichment Program	84.424A	S424A210015	4,202
Title IV, Student Support Academic Enrichment Program	84.424A	S424A220015	40,864
Special Education Cluster			
Special Education - Grants to States	84.027	23611-534-PN01	176,904
Special Education - Grants to States	84.027	23611-613-PN01	78,054
Special Education - Grants to States	84.027	23611-651-PN01	19,395
Special Education - Grants to States	84.027	22611-534-PN01	21,963
Special Education - Grants to States	84.027	22611-613-PN01	20,114
Special Education - Grants to States	84.027	22611-651-DY01	23,732
Special Education - Grants to States	84.027X	22611-534-ARP	38,775
Special Education - Grants to States	84.027X	22611-613-ARP	25,516
Special Education - Grants to States	84.027A	22611-651-DY01	6,275
Special Education - Grants to States	84.173X	22619-651-DYAR	468
Charter Schools			
Charter Schools Facility Incentive Program: Keys to Quality	84.282D	S282D190002	157,500
Charter Schools Program: Quality Counts	84.282A	U282A200017	493,801

See independent auditors' report and accompanying notes to this consolidated schedule

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2023**

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
Education Stabilization Fund			
Elementary & Secondary School Emergency Relief	84.425U	S425U210013	971,020
Elementary & Secondary School Emergency Relief	84.425D	S425D210013	457,120
Elementary & Secondary School Emergency Relief	84.425U	7000S425U210013	95,297
Elementary & Secondary School Emergency Relief	84.425D		64,184
Elementary & Secondary School Emergency Relief	84.425D	67032	<u>47,745</u>
<i>Total U.S. Department of Education</i>			<u>3,379,075</u>
<i>Total federal awards expended</i>			\$ <u><u>4,103,816</u></u>

See independent auditors' report and accompanying notes to this consolidated schedule

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS
For the Year Ended June 30, 2023**

NOTE 1 - BASIS OF PRESENTATION

The accompanying consolidated schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Herron High School, Inc. d/b/a Herron Classical Schools and its Wholly-Owned Subsidiaries (collectively, the “Organization”) under programs of the federal government for the year ended June 30, 2023. The information in this consolidated schedule is presented in accordance with the 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”). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the consolidated financial position, changes in net assets, functional expenses, or cash flows of the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. 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.

NOTE 3 - INDIRECT COST RATE

The Organization elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
June 30, 2023**

	Herron High School, Inc.				Riverside High School RE MM, LLC - Consolidated					
	Herron High School	Herron Preparatory Academy	Riverside High School, LLC	Total	Riverside High School RE MM, LLC	Riverside High School Real Estate, LLC	Eliminations	Total	Eliminations	Consolidated
ASSETS										
CURRENT ASSETS										
Cash	\$ 3,442,602	\$ (1,357,546)	\$ (1,168,598)	\$ 916,458	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 916,458
Restricted cash	938,037	38	2,888	940,963	-	247,030	-	247,030	-	1,187,993
Grants receivable	412,199	1,689,403	239,752	2,341,354	-	-	-	-	-	2,341,354
Accounts receivable	-	-	-	-	-	205,000	-	205,000	(205,000)	-
Prepaid expenses and other current assets	89,855	38,148	10,937	138,940	-	-	-	-	-	138,940
<i>Total current assets</i>	<u>4,882,693</u>	<u>370,043</u>	<u>(915,021)</u>	<u>4,337,715</u>	<u>-</u>	<u>452,030</u>	<u>-</u>	<u>452,030</u>	<u>(205,000)</u>	<u>4,584,745</u>
PROPERTY AND EQUIPMENT										
Land	1,384,000	-	-	1,384,000	-	354,100	-	354,100	(354,100)	1,384,000
Buildings and improvements	10,833,634	1,692,713	258,216	12,784,563	-	9,767,745	-	9,767,745	(565,900)	21,986,408
Furniture and equipment	882,910	167,511	312,674	1,363,095	-	-	-	-	-	1,363,095
Computer and office equipment	1,179,425	174,562	642,937	1,996,924	-	-	-	-	-	1,996,924
Books and educational materials	319,031	159,234	17,375	495,640	-	-	-	-	-	495,640
Vehicles	118,577	16,473	170,486	305,536	-	-	-	-	-	305,536
Construction in progress	10,969	6,050,943	-	6,061,912	-	-	-	-	-	6,061,912
Less: accumulated depreciation	(5,543,621)	(656,452)	(718,029)	(6,918,102)	-	(1,155,047)	-	(1,155,047)	-	(8,073,149)
<i>Property and equipment, net</i>	<u>9,184,925</u>	<u>7,604,984</u>	<u>683,659</u>	<u>17,473,568</u>	<u>-</u>	<u>8,966,798</u>	<u>-</u>	<u>8,966,798</u>	<u>(920,000)</u>	<u>25,520,366</u>
OTHER ASSETS										
Restricted certificates of deposit	400,000	-	-	400,000	-	-	-	-	-	400,000
Investment in subsidiary	-	-	319,569	319,569	319,569	-	(319,569)	-	(319,569)	-
Equity investment	79,541	12,863	33,058	125,462	-	-	-	-	-	125,462
New Market Tax Credit note receivable	-	-	6,108,240	6,108,240	-	-	-	-	-	6,108,240
Intangible assets, net	-	-	-	-	-	8,168	-	8,168	-	8,168
Due from affiliates	-	-	172,159	172,159	-	-	-	-	(172,159)	-
<i>Total other assets</i>	<u>479,541</u>	<u>12,863</u>	<u>6,633,026</u>	<u>7,125,430</u>	<u>319,569</u>	<u>8,168</u>	<u>(319,569)</u>	<u>8,168</u>	<u>(491,728)</u>	<u>6,641,870</u>
TOTAL ASSETS	<u>\$ 14,547,159</u>	<u>\$ 7,987,890</u>	<u>\$ 6,401,664</u>	<u>\$ 28,936,713</u>	<u>\$ 319,569</u>	<u>\$ 9,426,996</u>	<u>\$ (319,569)</u>	<u>\$ 9,426,996</u>	<u>\$ (1,616,728)</u>	<u>\$ 36,746,981</u>
LIABILITIES AND NET ASSETS/MEMBERS' EQUITY										
CURRENT LIABILITIES										
Current maturities of bonds and notes payable	\$ 1,308,451	\$ -	\$ -	\$ 1,308,451	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,308,451
Line of credit	-	1,884,060	-	1,884,060	-	-	-	-	-	1,884,060
Accounts payable and accrued expenses	1,086,039	365,318	931,916	2,383,273	-	-	-	-	(205,000)	2,178,273
Construction costs payable	-	1,035,871	-	1,035,871	-	-	-	-	-	1,035,871
<i>Total current liabilities</i>	<u>2,394,490</u>	<u>3,285,249</u>	<u>931,916</u>	<u>6,611,655</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(205,000)</u>	<u>6,406,655</u>
LONG-TERM LIABILITIES										
Bonds and notes payable, less current maturities and unamortized deferred financing costs	2,317,853	-	1,774,900	4,092,753	-	-	-	-	-	4,092,753
New Market Tax Credit notes payable, less unamortized deferred financing costs	-	-	-	-	-	8,894,977	-	8,894,977	-	8,894,977
Due to affiliates	-	-	-	-	-	172,159	-	172,159	(172,159)	-
<i>Total long-term liabilities</i>	<u>2,317,853</u>	<u>-</u>	<u>1,774,900</u>	<u>4,092,753</u>	<u>-</u>	<u>9,067,136</u>	<u>-</u>	<u>9,067,136</u>	<u>(172,159)</u>	<u>12,987,730</u>
TOTAL LIABILITIES	<u>4,712,343</u>	<u>3,285,249</u>	<u>2,706,816</u>	<u>10,704,408</u>	<u>-</u>	<u>9,067,136</u>	<u>-</u>	<u>9,067,136</u>	<u>(377,159)</u>	<u>19,394,385</u>
NET ASSETS/MEMBERS' EQUITY										
Without donor restrictions	6,035,423	4,702,641	3,694,848	14,432,912	-	-	-	-	(920,000)	13,512,912
With donor restrictions	3,799,393	-	-	3,799,393	-	-	-	-	-	3,799,393
Members' equity	-	-	-	-	319,569	319,569	(319,569)	319,569	(319,569)	-
Noncontrolling interest in members' equity	-	-	-	-	-	40,291	-	40,291	-	40,291
<i>Total net assets/members' equity</i>	<u>9,834,816</u>	<u>4,702,641</u>	<u>3,694,848</u>	<u>18,232,305</u>	<u>319,569</u>	<u>359,860</u>	<u>(319,569)</u>	<u>359,860</u>	<u>(1,239,569)</u>	<u>17,352,596</u>
TOTAL LIABILITIES AND NET ASSETS/MEMBERS' EQUITY	<u>\$ 14,547,159</u>	<u>\$ 7,987,890</u>	<u>\$ 6,401,664</u>	<u>\$ 28,936,713</u>	<u>\$ 319,569</u>	<u>\$ 9,426,996</u>	<u>\$ (319,569)</u>	<u>\$ 9,426,996</u>	<u>\$ (1,616,728)</u>	<u>\$ 36,746,981</u>

See independent auditors' report

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
June 30, 2022**

	<u>Herron High School, Inc.</u>				<u>Riverside High School RE MM, LLC - Consolidated</u>					
	<u>Herron High School</u>	<u>Herron Preparatory Academy</u>	<u>Riverside High School, LLC</u>	<u>Total</u>	<u>Riverside High School RE MM, LLC</u>	<u>Riverside High School Real Estate, LLC</u>	<u>Eliminations</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS										
CURRENT ASSETS										
Cash	\$ 3,213,071	\$ (501,381)	\$ (686,855)	\$ 2,024,835	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,024,835
Restricted cash	1,119,680	-	2,887	1,122,567	-	494,030	-	494,030	-	1,616,597
Grants receivable	246,430	1,266,057	262,752	1,775,239	-	-	-	-	-	1,775,239
Prepaid expenses and other current assets	68,211	33,724	3,986	105,921	-	-	-	-	-	105,921
<i>Total current assets</i>	<u>4,647,392</u>	<u>798,400</u>	<u>(417,230)</u>	<u>5,028,562</u>	<u>-</u>	<u>494,030</u>	<u>-</u>	<u>494,030</u>	<u>-</u>	<u>5,522,592</u>
PROPERTY AND EQUIPMENT										
Land	614,000	-	-	614,000	-	354,100	-	354,100	(354,100)	614,000
Buildings and improvements	9,811,208	893,413	241,966	10,946,587	-	9,767,745	-	9,767,745	(565,900)	20,148,432
Furniture and equipment	803,019	142,312	306,854	1,252,185	-	-	-	-	-	1,252,185
Computer and office equipment	1,102,421	123,617	582,464	1,808,502	-	-	-	-	-	1,808,502
Books and educational materials	309,897	142,577	13,832	466,306	-	-	-	-	-	466,306
Vehicles	58,286	5,712	145,583	209,581	-	-	-	-	-	209,581
Construction in progress	-	155,680	-	155,680	-	-	-	-	-	155,680
Less: accumulated depreciation	(5,092,045)	(253,379)	(562,688)	(5,908,112)	-	(919,928)	-	(919,928)	-	(6,828,040)
<i>Property and equipment, net</i>	<u>7,606,786</u>	<u>1,209,932</u>	<u>728,011</u>	<u>9,544,729</u>	<u>-</u>	<u>9,201,917</u>	<u>-</u>	<u>9,201,917</u>	<u>(920,000)</u>	<u>17,826,646</u>
OTHER ASSETS										
Restricted certificates of deposit	400,000	-	-	400,000	-	-	-	-	-	400,000
Investment in subsidiary	-	2,891	319,121	322,012	322,012	-	(322,012)	-	(322,012)	-
Equity investment	36,538	-	-	36,538	-	-	-	-	-	36,538
New Market Tax Credit note receivable	-	-	6,108,240	6,108,240	-	-	-	-	-	6,108,240
Intangible assets, net	-	-	-	-	-	8,168	-	8,168	-	8,168
Due from affiliates	-	-	172,159	172,159	-	-	-	-	(172,159)	-
<i>Total other assets</i>	<u>436,538</u>	<u>2,891</u>	<u>6,599,520</u>	<u>7,038,949</u>	<u>322,012</u>	<u>8,168</u>	<u>(322,012)</u>	<u>8,168</u>	<u>(494,171)</u>	<u>6,552,946</u>
TOTAL ASSETS	<u>\$ 12,690,716</u>	<u>\$ 2,011,223</u>	<u>\$ 6,910,301</u>	<u>\$ 21,612,240</u>	<u>\$ 322,012</u>	<u>\$ 9,704,115</u>	<u>\$ (322,012)</u>	<u>\$ 9,704,115</u>	<u>\$ (1,414,171)</u>	<u>\$ 29,902,184</u>
LIABILITIES AND NET ASSETS/MEMBERS' EQUITY										
CURRENT LIABILITIES										
Current maturities of bonds and notes payable	\$ 358,411	\$ -	\$ -	\$ 358,411	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 358,411
Accounts payable and accrued expenses	1,017,592	310,402	582,704	1,910,698	-	40,575	-	40,575	-	1,951,273
Construction costs payable	-	-	-	-	-	-	-	-	-	-
<i>Total current liabilities</i>	<u>1,376,003</u>	<u>310,402</u>	<u>582,704</u>	<u>2,269,109</u>	<u>-</u>	<u>40,575</u>	<u>-</u>	<u>40,575</u>	<u>-</u>	<u>2,309,684</u>
LONG-TERM LIABILITIES										
Bonds and notes payable, less current maturities and unamortized deferred financing costs	2,873,578	-	1,770,767	4,644,345	-	-	-	-	-	4,644,345
New Market Tax Credit notes payable, less unamortized deferred financing costs	-	-	-	-	-	8,887,162	-	8,887,162	-	8,887,162
Due to affiliates	-	-	-	-	-	172,159	-	172,159	(172,159)	-
<i>Total long-term liabilities</i>	<u>2,873,578</u>	<u>-</u>	<u>1,770,767</u>	<u>4,644,345</u>	<u>-</u>	<u>9,059,321</u>	<u>-</u>	<u>9,059,321</u>	<u>(172,159)</u>	<u>13,531,507</u>
TOTAL LIABILITIES	<u>4,249,581</u>	<u>310,402</u>	<u>2,353,471</u>	<u>6,913,454</u>	<u>-</u>	<u>9,099,896</u>	<u>-</u>	<u>9,099,896</u>	<u>(172,159)</u>	<u>15,841,191</u>
NET ASSETS/MEMBERS' EQUITY										
Without donor restrictions	6,963,157	(181,220)	4,541,111	11,323,048	-	-	-	-	(920,000)	10,403,048
With donor restrictions	1,477,978	1,882,041	15,719	3,375,738	-	-	-	-	-	3,375,738
Members' equity	-	-	-	-	322,012	322,012	(322,012)	322,012	(322,012)	-
Noncontrolling interest in members' equity	-	-	-	-	-	282,207	-	282,207	-	282,207
<i>Total net assets/members' equity</i>	<u>8,441,135</u>	<u>1,700,821</u>	<u>4,556,830</u>	<u>14,698,786</u>	<u>322,012</u>	<u>604,219</u>	<u>(322,012)</u>	<u>604,219</u>	<u>(1,242,012)</u>	<u>14,060,993</u>
TOTAL LIABILITIES AND NET ASSETS/MEMBERS' EQUITY	<u>\$ 12,690,716</u>	<u>\$ 2,011,223</u>	<u>\$ 6,910,301</u>	<u>\$ 21,612,240</u>	<u>\$ 322,012</u>	<u>\$ 9,704,115</u>	<u>\$ (322,012)</u>	<u>\$ 9,704,115</u>	<u>\$ (1,414,171)</u>	<u>\$ 29,902,184</u>

See independent auditors' report

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGE IN NETS ASSETS
For the Year Ended June 30, 2023**

	<u>Herron High School, Inc.</u>			<u>Total</u>	<u>Riverside High School RE MM, LLC - Consolidated</u>				<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
	<u>Herron High School</u>	<u>Herron Preparatory Academy</u>	<u>Riverside High School, LLC</u>		<u>Riverside High School RE MM, LLC</u>	<u>Riverside High School Real Estate, LLC</u>	<u>Noncontrolling Interest</u>	<u>Eliminations</u>			
REVENUE AND SUPPORT											
State education support	\$ 10,174,978	\$ 1,712,723	\$ 4,142,860	\$ 16,030,561	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,030,561
Federal and state grant revenue	1,939,177	904,385	1,260,254	4,103,816	-	-	-	-	-	-	4,103,816
Individual and foundation contributions	1,202,076	3,488,767	132,219	4,823,062	-	-	-	-	-	-	4,823,062
Student fees	259,567	30,235	39,236	329,038	-	-	-	-	-	-	329,038
Other income (loss)	8,104	3,315	2,939	14,358	(2,443)	205,000	-	2,443	205,000	(205,000)	14,358
<i>Total revenue and support</i>	<u>13,583,902</u>	<u>6,139,425</u>	<u>5,577,508</u>	<u>25,300,835</u>	<u>(2,443)</u>	<u>205,000</u>	<u>-</u>	<u>2,443</u>	<u>205,000</u>	<u>(205,000)</u>	<u>25,300,835</u>
EXPENSES											
Salaries and benefits	8,818,664	1,986,752	4,527,820	15,333,236	-	-	-	-	-	-	15,333,236
Instructional services	42,451	70,070	7,612	120,133	-	-	-	-	-	-	120,133
Information technology	152,518	42,407	70,093	265,018	-	-	-	-	-	-	265,018
Accounting services	46,603	8,318	19,249	74,170	-	-	-	-	-	-	74,170
Other outside services	631,120	223,521	282,132	1,136,773	-	116,215	-	-	116,215	-	1,252,988
Authorizer oversight fee	61,134	-	25,252	86,386	-	-	-	-	-	-	86,386
Innovation management fee	8,334	8,333	8,333	25,000	-	-	-	-	-	-	25,000
Course materials and supplies	377,864	129,551	182,863	690,278	-	-	-	-	-	-	690,278
Nutritional support	405,583	10,236	272,752	688,571	-	-	-	-	-	-	688,571
Travel and entertainment	19,470	1,336	4,256	25,062	-	-	-	-	-	-	25,062
Vehicle and transportation expense	113,923	6,419	69,676	190,018	-	-	-	-	-	-	190,018
Rent and facilities	865,678	213,133	755,952	1,834,763	-	-	-	-	-	(205,000)	1,629,763
Depreciation	451,545	403,073	155,341	1,009,959	-	235,119	-	-	235,119	-	1,245,078
Interest expense	112,085	19,145	20,925	152,155	-	98,025	-	-	98,025	-	250,180
Insurance	76,063	9,182	108,836	194,081	-	-	-	-	-	-	194,081
Advertising	26,803	10,517	9,608	46,928	-	-	-	-	-	-	46,928
Other	8,352	1,388	7,163	16,903	-	-	-	-	-	-	16,903
<i>Total expenses</i>	<u>12,218,190</u>	<u>3,143,381</u>	<u>6,527,863</u>	<u>21,889,434</u>	<u>-</u>	<u>449,359</u>	<u>-</u>	<u>-</u>	<u>449,359</u>	<u>(205,000)</u>	<u>22,133,793</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>1,365,712</u>	<u>2,996,044</u>	<u>(950,355)</u>	<u>3,411,401</u>	<u>(2,443)</u>	<u>(244,359)</u>	<u>-</u>	<u>2,443</u>	<u>(244,359)</u>	<u>-</u>	<u>3,167,042</u>
OTHER INCOME (EXPENSE)											
Equity loss in subsidiary	-	-	(2,443)	(2,443)	-	-	-	-	-	2,443	-
Interest income	27,969	5,776	90,816	124,561	-	-	-	-	-	-	124,561
Change in net assets related to noncontrolling interest	-	-	-	-	-	241,916	(241,916)	-	-	-	-
<i>Total other income</i>	<u>27,969</u>	<u>5,776</u>	<u>88,373</u>	<u>122,118</u>	<u>-</u>	<u>241,916</u>	<u>(241,916)</u>	<u>-</u>	<u>-</u>	<u>2,443</u>	<u>124,561</u>
CHANGE IN NET ASSETS	<u>1,393,681</u>	<u>3,001,820</u>	<u>(861,982)</u>	<u>3,533,519</u>	<u>(2,443)</u>	<u>(2,443)</u>	<u>(241,916)</u>	<u>2,443</u>	<u>(244,359)</u>	<u>2,443</u>	<u>3,291,603</u>
NET ASSETS/MEMBERS' EQUITY, BEGINNING OF YEAR	<u>8,441,135</u>	<u>1,700,821</u>	<u>4,556,830</u>	<u>14,698,786</u>	<u>322,012</u>	<u>322,012</u>	<u>282,207</u>	<u>(322,012)</u>	<u>604,219</u>	<u>(1,242,012)</u>	<u>14,060,993</u>
NET ASSETS/MEMBERS' EQUITY, END OF YEAR	<u>\$ 9,834,816</u>	<u>\$ 4,702,641</u>	<u>\$ 3,694,848</u>	<u>\$ 18,232,305</u>	<u>\$ 319,569</u>	<u>\$ 319,569</u>	<u>\$ 40,291</u>	<u>\$ (319,569)</u>	<u>\$ 359,860</u>	<u>\$ (1,239,569)</u>	<u>\$ 17,352,596</u>

See independent auditors' report

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGE IN NETS ASSETS
For the Year Ended June 30, 2022**

	<u>Herron High School, Inc.</u>				<u>Riverside High School RE MM, LLC - Consolidated</u>						
	<u>Herron High School</u>	<u>Herron Preparatory Academy</u>	<u>Riverside High School, LLC</u>	<u>Total</u>	<u>Riverside High School RE MM, LLC</u>	<u>Riverside High School Real Estate, LLC</u>	<u>Noncontrolling Interest</u>	<u>Eliminations</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
REVENUE AND SUPPORT											
State education support	\$ 9,464,380	\$ 856,142	\$ 3,193,592	\$ 13,514,114	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,514,114
Federal and state grant revenue	404,946	1,981,138	1,850,163	4,236,247	-	-	-	-	-	-	4,236,247
Individual and foundation contributions	1,586,011	313,795	129,218	2,029,024	-	-	-	-	-	-	2,029,024
Student fees	229,535	3,930	41,471	274,936	-	-	-	-	-	-	274,936
Other income (loss)	5,795	339	3,435	9,569	(2,455)	180,000	-	2,455	180,000	(180,000)	9,569
<i>Total revenue and support</i>	<u>11,690,667</u>	<u>3,155,344</u>	<u>5,217,879</u>	<u>20,063,890</u>	<u>(2,455)</u>	<u>180,000</u>	<u>-</u>	<u>2,455</u>	<u>180,000</u>	<u>(180,000)</u>	<u>20,063,890</u>
EXPENSES											
Salaries and benefits	7,296,162	1,385,685	3,964,103	12,645,950	-	-	-	-	-	-	12,645,950
Instructional services	83,087	34,300	23,327	140,714	-	-	-	-	-	-	140,714
Information technology	133,743	27,828	75,457	237,028	-	-	-	-	-	-	237,028
Accounting services	63,188	7,719	26,643	97,550	-	-	-	-	-	-	97,550
Other outside services	426,133	140,594	247,890	814,617	-	84,443	-	-	84,443	-	899,060
Authorizer oversight fee	58,151	-	24,520	82,671	-	-	-	-	-	-	82,671
Innovation management fee	8,334	8,333	8,333	25,000	-	-	-	-	-	-	25,000
Course materials and supplies	313,158	95,535	232,609	641,302	-	-	-	-	-	-	641,302
Nutritional support	420,265	6,959	269,010	696,234	-	-	-	-	-	-	696,234
Travel and entertainment	18,356	907	4,907	24,170	-	-	-	-	-	-	24,170
Vehicle and transportation expense	80,203	33,088	35,052	148,343	-	-	-	-	-	-	148,343
Rent and facilities	646,388	126,427	650,978	1,423,793	-	-	-	-	-	(180,000)	1,243,793
Depreciation	418,595	248,567	187,752	854,914	-	235,054	-	-	235,054	-	1,089,968
Interest expense	96,138	-	21,046	117,184	-	98,023	-	-	98,023	-	215,207
Insurance	45,523	4,190	106,370	156,083	-	-	-	-	-	-	156,083
Advertising	22,679	2,722	13,676	39,077	-	-	-	-	-	-	39,077
Other	11,881	1,067	5,603	18,551	-	-	-	-	-	-	18,551
<i>Total expenses</i>	<u>10,141,984</u>	<u>2,123,921</u>	<u>5,897,276</u>	<u>18,163,181</u>	<u>-</u>	<u>417,520</u>	<u>-</u>	<u>-</u>	<u>417,520</u>	<u>(180,000)</u>	<u>18,400,701</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>1,548,683</u>	<u>1,031,423</u>	<u>(679,397)</u>	<u>1,900,709</u>	<u>(2,455)</u>	<u>(237,520)</u>	<u>-</u>	<u>2,455</u>	<u>(237,520)</u>	<u>-</u>	<u>1,663,189</u>
OTHER INCOME (EXPENSE)											
Equity loss in subsidiary	(10,994)	-	-	(10,994)	-	-	-	-	-	2,455	(8,539)
Interest income	16,159	226	91,051	107,436	-	-	-	-	-	-	107,436
PPP loan forgiveness income	1,193,552	-	440,260	1,633,812	-	-	-	-	-	-	1,633,812
Change in net assets related to noncontrolling interest	-	-	-	-	-	235,065	(235,065)	-	-	-	-
<i>Total other income</i>	<u>1,198,717</u>	<u>226</u>	<u>531,311</u>	<u>1,730,254</u>	<u>-</u>	<u>235,065</u>	<u>(235,065)</u>	<u>-</u>	<u>-</u>	<u>2,455</u>	<u>1,732,709</u>
CHANGE IN NET ASSETS	<u>2,747,400</u>	<u>1,031,649</u>	<u>(148,086)</u>	<u>3,630,963</u>	<u>(2,455)</u>	<u>(2,455)</u>	<u>(235,065)</u>	<u>2,455</u>	<u>(237,520)</u>	<u>2,455</u>	<u>3,395,898</u>
NET ASSETS/MEMBERS' EQUITY, BEGINNING OF YEAR	<u>5,693,735</u>	<u>669,172</u>	<u>4,704,916</u>	<u>11,067,823</u>	<u>324,467</u>	<u>324,467</u>	<u>517,272</u>	<u>(324,467)</u>	<u>841,739</u>	<u>(1,244,467)</u>	<u>10,665,095</u>
NET ASSETS/MEMBERS' EQUITY, END OF YEAR	<u>\$ 8,441,135</u>	<u>\$ 1,700,821</u>	<u>\$ 4,556,830</u>	<u>\$ 14,698,786</u>	<u>\$ 322,012</u>	<u>\$ 322,012</u>	<u>\$ 282,207</u>	<u>\$ (322,012)</u>	<u>\$ 604,219</u>	<u>\$ (1,242,012)</u>	<u>\$ 14,060,993</u>

See independent auditors' report



Donovan CPAs

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

The Board of Directors
Herron High School, Inc.

We 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 Herron High School, Inc. d/b/a Herron Classical Schools and its Wholly-Owned Subsidiaries (collectively, the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2023 and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and issued our report thereon dated February 29, 2024.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting ("internal control") to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a material misstatement of the entity's consolidated 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 which 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 we consider to be material weaknesses. However, material weaknesses may exist which have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The letters are cursive and slightly slanted to the right.

Indianapolis, Indiana
February 29, 2024



Donovan CPAs

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *THE UNIFORM GUIDANCE*

The Board of Directors
Herron High School, Inc.

Report on Compliance for Each Major Federal Program

Qualified Opinion

We audited Herron High School, Inc. d/b/a Herron Classical Schools and its Wholly-Owned Subsidiaries (collectively, the “Organization”) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of the Organization’s major federal programs for the year ended June 30, 2023. The Organization’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on Education Stabilization Fund

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Education Stabilization Fund for the year ended June 30, 2023.

Basis for Qualified Opinion

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”). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors’ Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we obtained is sufficient and appropriate to provide a basis for our qualified opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Organization’s compliance with the compliance requirements referred to above.

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Matters Giving Rise to Qualified Opinion

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding the Education Stabilization Fund as described in finding number 2023-001 for Risk Assessment Process Related to Compliance.

Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2023-002 and 2023-003. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-002 and 2023-003 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other 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.

DONOVAN

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

Indianapolis, Indiana
February 29, 2024

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2023**

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiency identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weakness identified?	Yes
• Significant deficiency identified?	Yes
Type of auditors' report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
84.425D	Education Stabilization Fund Elementary & Secondary School Emergency Relief

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

II. Financial Statement Findings

No matters are reportable.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2023**

III. Federal Award Findings and Questioned Costs

**FINDING 2023-001 - RISK ASSESSMENT PROCESS RELATED TO COMPLIANCE
REQUIREMENTS (Repeat Finding of 2022-001)**

Material Weakness

Federal Programs: Charter Schools – Assistance Listing Number 84.282; Education Stabilization Fund – Assistance Listing Number 84.425

Repeat Finding: This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2022-001.

Criteria

2 CFR 200.303 includes requirements related to internal controls for federal award programs, including that the Organization must, among other things, “establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal control in the Federal Government” issued by the Comptroller General of the United States of the “Internal control Integrated Framework”, issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO)”.

Condition

The Organization has not established a formal process related to federal awards to identify all key compliance requirements and changes in compliance requirements, evaluate risks of noncompliance with these requirements, and respond to such risks of noncompliance through establishing or changing processes and internal controls. The Organization also implements the use of federal funds through different departments. Certain individuals, within a department, responsible for the use of federal funds or maintenance and safeguard of assets acquired with federal funds lacked knowledge of the compliance requirements pertaining to the use of the funds or the maintenance and safeguard of the acquired assets.

Cause and Effect

The material weakness resulted in the noncompliance findings described in items 2023-002 and 2023-003.

Recommendation

We recommend additional resources be allocated to federal award compliance to review federal award provisions and requirements, evaluate risks of noncompliance, and respond to such risks through internal controls. The process should include methods to identify and communicate changes to federal award requirements to all key individuals within the Organization and to verify internal controls are implemented correctly and are operating effectively.

Views of Responsible Officials and Planned Corrective Actions

The Organization’s Corrective Action Plan is included on pages 43 and 44.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2023**

III. Federal Award Findings and Questioned Costs, Continued

FINDING 2023-002 – EQUIPMENT AND REAL PROPERTY MANAGEMENT

(Repeat Finding of 2022-002)

Significant Deficiency

Federal Programs: Charter Schools – Assistance Listing Number 84.282; Education Stabilization Fund – Assistance Listing Number 84.425

Repeat Finding: This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2022-002.

Criteria

2 CFR 200.313(d) contains equipment management requirements which dictate property records entities must maintain and the need for procedures to adequately safeguard and maintain assets acquired with federal funding.

Condition

The Organization did not retain in their accounting records all the required information. Specifically, the federal award identification number, holder of the title, use, and condition were not listed. The federal participation was assumed based on allocations between fund codes in the general ledger. Additionally, sufficient and appropriate documentation did not exist to support a physical inventory had been completed for all assets once in the last two years.

Cause and Effect

As described in 2023-001, the Organization has not established a formal process related to federal awards to identify all key compliance requirements and changes in compliance requirements, evaluate risks of noncompliance with these requirements, and respond to such risks of noncompliance through establishing or changing processes and internal controls. Additionally, certain individuals, within a department, responsible for the use of federal funds or maintenance and safeguard of assets acquired with federal funds lacked knowledge of the compliance requirements pertaining to the use of the funds or the maintenance and safeguard of the acquired assets. As a result, adequate documentation was not maintained for equipment acquired with federal funds or to support the performance of a physical inventory occurring within the required time period.

Recommendation

We recommend the Organization develop a system of internal controls aligned with the applicable compliance requirements to properly track equipment acquisitions in the accounting records and to ensure a physical inventory is appropriately documented when completed.

Views of Responsible Officials and Planned Corrective Actions

The Organization's Corrective Action Plan is included on pages 43 and 44.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2023**

III. Federal Award Findings and Questioned Costs, Continued

FINDING 2023-003 – PROCUREMENT AND SUSPENSION AND DEBARMENT
(Repeat Finding of 2022-003)
Significant Deficiency

Federal Programs: Charter Schools – AL 84.282

Repeat Finding: This is a repeat finding from the immediately prior audit report. The prior audit finding number was 2022-003.

Criteria

2 CFR 200.318(i) establishes the need to maintain records sufficient to detail the history of procurement. 2 CFR 180.300 establishes the responsibilities of participants entering into covered transactions.

Condition

The Organization lacked sufficient documentation to support the rationale of procurement methods, selection of contract types, contractor selection or rejection, and basis for the contract price. We also noted suspension and debarments requirements were not given consideration prior to entering into these transactions. However, we noted there were adequate invoices to support the purchases.

Cause and Effect

As described in 2023-001, the Organization has not established a formal process related to federal awards to identify all key compliance requirements and changes in compliance requirements, evaluate risks of noncompliance with these requirements, and respond to such risks of noncompliance through establishing or changing processes and internal controls. Additionally, certain individuals, within a department, responsible for the use of federal funds lacked knowledge of the compliance requirements pertaining to the use of the funds. As a result, they did not comply with requirements for proper procurement or in relation to suspension and debarment.

Recommendation

We recommend the Organization develop a system of internal controls aligned with the applicable compliance requirements to sufficiently document procurements and to ensure suspension and debarment is considered prior to entering into future covered transactions.

Views of Responsible Officials and Planned Corrective Actions

The Organization's Corrective Action Plan is included on pages 43 and 44.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2023**

FINDING 2022-001 - RISK ASSESSMENT PROCESS RELATED TO COMPLIANCE
REQUIREMENTS

Material Weakness

Federal Programs: Charter Schools – AL 84.282; Education Stabilization Fund – AL 84.425

Condition

The Organization has not established a formal process related to federal awards to identify all key compliance requirements and changes in compliance requirements, evaluate risks of noncompliance with these requirements, and respond to such risks of noncompliance through establishing or changing processes and internal controls. The Organization also implements the use of federal funds through different departments. Certain individuals, within a department, responsible for the use of federal funds or maintenance and safeguard of assets acquired with federal funds lacked knowledge of the compliance requirements pertaining to the use of the funds or the maintenance and safeguard of the acquired assets.

Current Status

Repeat finding issued (Finding 2023-001).

FINDING 2022-002 – EQUIPMENT AND REAL PROPERTY MANAGEMENT

Significant Deficiency

Federal Programs: Charter Schools – AL 84.282; Education Stabilization Fund – AL 84.425

Condition

The Organization did not retain in their accounting records all the required information. Specifically, the federal award identification number, holder of the title, use, and condition were not listed. The federal participation was assumed based on allocations between fund codes in the general ledger. Additionally, sufficient and appropriate documentation did not exist to support a physical inventory had been completed for all assets once in the last two years.

Current Status

Repeat finding issued (Finding 2023-002).

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2023**

FINDING 2023-003 – PROCUREMENT AND SUSPENSION AND DEBARMENT
Significant Deficiency

Federal Programs: Charter Schools – AL 84.282

Condition

We noted the entity lacked sufficient documentation to support the rationale of procurement methods, selection of contract types, contractor selection or rejection, and basis for the contract price. We also noted suspension and debarments requirements were not given consideration prior to entering into these transactions. However, we noted there were adequate invoices to support the purchases.

Current Status

Repeat finding issued (Finding 2023-003).



HERRON HIGH SCHOOL • HERRON-RIVERSIDE HIGH SCHOOL • HERRON PREPARATORY ACADEMY

CORRECTIVE ACTION PLAN Year Ended June 30, 2023

U.S. Department of Education

Herron High School, Inc. d/b/a Herron Classical Schools and its Wholly-Owned Subsidiaries (the Organization) respectively submits the following corrective action plan for the year ended June 30, 2023.

Name and address of independent public accounting firm:

Donovan CPAs
9292 N. Meridian Street, Suite 150
Indianapolis, IN 46260

Audit period: Year ended June 30, 2023

The findings from the schedule of findings and questioned costs for the year ended June 30, 2023, are discussed below. The findings are numbered consistently with the numbers assigned in the Schedule.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF EDUCATION AND INDIANA DEPARTMENT OF EDUCATION

Charter Schools – AL #84.282
Education Stabilization Fund – AL #84.425C, 84.425D & 84.425U

2023-001 Risk Assessment Process Related to Compliance Requirements (Repeat Finding 2022-001)
Material Weakness

Recommendation: The Auditor recommended additional resources be allocated to federal award compliance to review federal award provisions and requirements, evaluate risks of noncompliance, and respond to such risks through internal controls. The process should include methods to identify and communicate changes to federal award requirements to all key individuals within the Organization and to verify internal controls are implemented correctly and are operating effectively.

Planned Corrective Action: As the organization has grown, compliance of federal programs has become decentralized. We agree that additional resources need to be added to ensure compliance with all state and federal awards. The Organization has added additional capacity to the Business Office to assume the compliance and reporting responsibilities. Michelle Krauter, the Director of Accounting & Finance, is responsible for ensuring fiscal compliance and will coordinate program compliance activities with the Heads of School at each campus and the Directors of Academic Accountability. Through the monitoring activities conducted by the Indiana Department of Education during 2023, staff gained a better understanding the compliance requirements and are implementing processes to ensure ongoing adherence to the requirements. Evaluation of these processes will continue through 2024.

U.S. DEPARTMENT OF EDUCATION AND INDIANA DEPARTMENT OF EDUCATION

Charter Schools – AL #84.282

Education Stabilization Fund – AL #84.425C, 84.425D & 84.425U

2023-002 Equipment and Real Property Management (Repeat Finding 2022-002)

Significant Deficiency

Recommendation: The Auditor recommended the Organization develop a system of internal controls aligned with the applicable compliance requirements to properly track equipment acquisitions in the accounting records and to ensure a physical inventory is appropriately documented when completed.

Planned Corrective Action: The Organization has implemented a location software for student devices that tracks the majority of the required information for devices that are live on the network. The Organization concurs that additional internal controls are necessary to ensure all compliance requirements are met. These controls will include exports from the location software for a periodic inventory as well as additional procedures for tracking defective devices. Further controls will be implemented to ensure that the inventory records are easily traced to the invoices retained in the financial records. Similar controls will be implemented to ensure proper tracking and inventory of all assets purchased with federal funds. Michelle Krauter, the Director of Accounting & Finance, will oversee the ongoing implementation of this process to ensure adherence to all compliance requirements.

U.S. DEPARTMENT OF EDUCATION AND INDIANA DEPARTMENT OF EDUCATION

Charter Schools – AL #84.282

2022-003 Noncompliance – Procurement and Suspension and Debarment (Repeat Finding 2022-003)

Significant Deficiency

Recommendation: The Auditor recommended the Organization develop a system of internal controls aligned with the applicable compliance requirements to sufficiently document procurements and to ensure suspension and debarment is considered prior to entering into future covered transactions.

Planned Corrective Action: While procurement requirements are followed, management concurs that the documentation of procurement activities does not always occur. The Accounts Payable will gather all procurement documentation with the purchase order request. Michelle Krauter, the Director of Accounting & Finance, will approve all purchase order requests. This documentation will be retained with the approved purchase order and invoices. Michelle will ensure all compliance requirements are followed and appropriately documented.

If the U.S. Department of Education has questions regarding this plan, please call Michelle Krauter, Director of Accounting & Finance at 317.231.0010

Sincerely yours,

Michelle Krauter

Michelle Krauter, Director, Accounting & Finance
Herron High School, Inc. d/b/a Herron Classical Schools and its Wholly-Owned Subsidiaries

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
OTHER REPORT
For the Year Ended June 30, 2023**

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

Supplemental Audit Report of Herron High School, Inc. d/b/a Herron Classical Schools

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*.