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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](http://www.in.gov/sboa)

February 7, 2019


Charter School Board  
Herron High School, Inc.  
d/b/a Indianapolis Classical Schools  
110 East 16th Street  
Indianapolis, IN 46202

We have reviewed the report prepared by Herron High School, Inc. d/b/a Indianapolis Classical Schools and opined upon by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period July 1, 2017 to June 30, 2018. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Herron High School, Inc. d/b/a Indianapolis Classical Schools as of June 30, 2018 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Katz, Sapper & Miller, LLP prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

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

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

  
Paul D. Joyce, CPA  
State Examiner



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

CONSOLIDATED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

June 30, 2018 and 2017

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

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## *Independent Auditors' Report*

### Board of Directors

Herron High School, Inc. d/b/a Indianapolis Classical Schools and Its Wholly-Owned Subsidiaries

We have audited the accompanying consolidated financial statements of Herron High School, Inc. d/b/a Indianapolis Classical Schools (an Indiana not-for-profit organization) and Its Wholly-Owned Subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Guidelines for the Audits of Charter Schools Performed by Private Examiners*, established by the Indiana State Board of Accounts. Those standards and guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Herron High School, Inc. d/b/a Indianapolis Classical Schools and Its Wholly-Owned Subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Katz, Sapper & Miller, LLP*

Indianapolis, Indiana  
January 25, 2019

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
June 30, 2018 and 2017**

**ASSETS**

	<b>2018</b>	<b>2017</b>
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 930,885	\$ 1,251,321
Restricted cash	2,184,304	691,468
Certificates of deposit		100,000
Accounts receivable		15,400
Grants receivable	90,090	152,034
Current portion of pledges receivable, net of allowance for uncollectible accounts of \$5,400 and \$6,710 in 2018 and 2017, respectively	329,283	716,544
Prepaid expenses	106,801	41,195
<b>Total Current Assets</b>	<u>3,641,363</u>	<u>2,967,962</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	614,000	614,000
Buildings	9,316,215	9,297,614
Furniture and equipment	851,747	755,145
Computer and office equipment	833,066	595,071
Books and educational materials	213,516	154,606
Vehicles	38,201	28,245
Construction in progress	8,524,093	211,764
	<u>20,390,838</u>	<u>11,656,445</u>
Less: Accumulated depreciation	(3,399,744)	(2,997,179)
<b>Total Property and Equipment, net</b>	<u>16,991,094</u>	<u>8,659,266</u>
<b>OTHER ASSETS</b>		
Restricted certificates of deposit	498,145	651,054
Net pledges receivable, net of current portion	211,862	220,846
New Market Tax Credit note receivable	6,108,240	
Intangible assets, other	8,608	
<b>Total Other Assets</b>	<u>6,826,855</u>	<u>871,900</u>
<b>TOTAL ASSETS</b>	<u>\$ 27,459,312</u>	<u>\$ 12,499,128</u>
<b>LIABILITIES AND NET ASSETS/MEMBERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 588,188	\$ 112,478
Accrued expenses	780,792	378,532
Current maturities of long-term debt	556,872	243,441
<b>Total Current Liabilities</b>	<u>1,925,852</u>	<u>734,451</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, less current maturities and unamortized deferred financing costs	7,646,552	5,424,876
New Market Tax Credit notes payable, less unamortized deferred financing costs	8,823,196	
<b>Total Long-term Liabilities</b>	<u>16,469,748</u>	<u>5,424,876</u>
<b>Total Liabilities</b>	<u>18,395,600</u>	<u>6,159,327</u>
<b>NET ASSETS/MEMBERS' EQUITY</b>		
Unrestricted	6,467,713	2,858,516
Temporarily restricted	2,300,528	3,481,285
Noncontrolling interest in members' equity	295,471	
<b>Total Net Assets/Members' Equity</b>	<u>9,063,712</u>	<u>6,339,801</u>
<b>TOTAL LIABILITIES AND NET ASSETS/MEMBERS' EQUITY</b>	<u>\$ 27,459,312</u>	<u>\$ 12,499,128</u>

See accompanying notes.

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES  
Years Ended June 30, 2018 and 2017**

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND SUPPORT</b>						
School lunch program	\$ 310,543		\$ 310,543	\$ 245,745		\$ 245,745
Student fees and fundraising	347,078		347,078	268,542		268,542
Contributions and grants	2,246,467	\$ 1,205,551	3,452,018	151,916	\$ 761,382	913,298
Federal and state support	8,024,896		8,024,896	6,338,040		6,338,040
Other income	234,216	15,807	250,023	27,878	17,000	44,878
Net assets released from restrictions by satisfaction of temporary restrictions	2,402,115	(2,402,115)		881,962	(881,962)	
Total Revenues and Support	<u>13,565,315</u>	<u>(1,180,757)</u>	<u>12,384,558</u>	<u>7,914,083</u>	<u>(103,580)</u>	<u>7,810,503</u>
<b>PROGRAM AND SUPPORTING SERVICE EXPENSES</b>						
Salaries and benefits	6,643,149		6,643,149	5,539,433		5,539,433
Instructional services	161,131		161,131	110,890		110,890
Information technology	89,573		89,573	74,580		74,580
Accounting services	31,425		31,425	25,000		25,000
Other outside services	597,130		597,130	417,041		417,041
Course materials and supplies	415,825		415,825	350,147		350,147
Nutritional support	344,441		344,441	271,454		271,454
Travel and entertainment	48,817		48,817	47,222		47,222
Vehicle and transportation expense	114,090		114,090	36,029		36,029
Rent and facilities	798,525		798,525	702,146		702,146
Depreciation	402,565		402,565	361,552		361,552
Interest expense	184,380		184,380	145,186		145,186
Insurance	93,791		93,791	63,484		63,484
Advertising	28,423		28,423	19,808		19,808
Miscellaneous	34,594		34,594	9,369		9,369
Total Program and Supporting Service Expenses	<u>9,987,859</u>		<u>9,987,859</u>	<u>8,173,341</u>		<u>8,173,341</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	3,577,456	(1,180,757)	2,396,699	(259,258)	(103,580)	(362,838)
<b>CONTRIBUTIONS FROM MEMBERS</b>	31,741		31,741			
<b>NET ASSETS/MEMBERS' EQUITY</b>						
Beginning of Year	2,858,516	3,481,285	6,339,801	3,117,774	3,584,865	6,702,639
Noncontrolling interest in members' equity	295,471		295,471			
End of Year	<u>\$ 6,763,184</u>	<u>\$ 2,300,528</u>	<u>\$ 9,063,712</u>	<u>\$ 2,858,516</u>	<u>\$ 3,481,285</u>	<u>\$ 6,339,801</u>

See accompanying notes.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2018 and 2017**

	2018	2017
<b>OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ 2,396,699	\$ (362,838)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	402,565	361,552
Amortization of deferred financing costs in interest expense	11,606	2,819
Unrealized loss on certificates of deposit	2,909	3,180
Contribution of property and equipment		(28,245)
Contributions restricted for long-term investment	(1,073,855)	(67,821)
(Increase) decrease in certain assets:		
Accounts receivable	15,400	(15,400)
Grants receivable	61,944	(68,855)
Pledges receivable	(7,968)	(16,102)
Prepaid expenses	(65,606)	(3,351)
Increase in certain liabilities:		
Accounts payable	19,322	17,826
Accrued expenses	402,260	63,168
Net Cash Provided (Used) by Operating Activities	2,165,276	(114,067)
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(8,278,005)	(224,739)
Increase in intangible assets, other	(8,608)	
Sales of certificates of deposit	250,000	349,999
New Market Tax Credit note receivable	(6,108,240)	
(Increase) decrease in restricted cash	(1,492,836)	705,363
Net Cash Provided (Used) by Investing Activities	(15,637,689)	830,623
<b>FINANCING ACTIVITIES</b>		
Contributions from members	31,741	
Long-term debt repayments	(1,747,147)	(233,596)
Borrowings on long-term debt	4,275,250	
Borrowings on New Market Tax Credit note payable	8,818,594	
Proceeds from contributions restricted for long-term investment	1,478,068	206,638
Net Cash Provided (Used) by Financing Activities	12,856,506	(26,958)
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	(615,907)	689,598
<b>CASH AND EQUIVALENTS</b>		
Beginning of Year	1,251,321	561,723
End of Year	\$ 635,414	\$ 1,251,321
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid for interest	\$ 220,636	\$ 142,367
Noncash investing activities:		
Property and equipment acquired with accounts payable	456,388	8,800
Donated property and equipment		28,245

See accompanying notes.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2018 and 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**General:** Herron High School, Inc. d/b/a Indianapolis Classical Schools (the School) is a public charter school located in Indianapolis, Indiana providing classical liberal arts, college preparatory education. The School completed the certificate of assumed business name change with the State of Indiana, effective March 21, 2017. As of that date, the School does business under the name Indianapolis Classical Schools. Through an integrated curriculum and classical methodology, the School believes all students can learn to think logically, express themselves creatively, appreciate aesthetics fully, and approach any subject intelligently.

In early 2014, the Board of Directors of the School formed a Replication Task Force to research potential facilities to open a second campus. As the result of these due diligence efforts, an application for a second campus was submitted to and approved by the Office of Mayor of Indianapolis. The second school opened for its first freshman class in August 2017, leasing space from Marian University for school year 2017-2018. See Note 7. The School, in partnership with Indiana Landmarks, renovated the Heslar Naval Armory during fiscal year 2018 to accommodate 600 students in grades 9-12.

Effective July 1, 2017, the School entered into an agreement with Indianapolis Public Schools to become Innovation Charter Schools. With this partnership, both schools have complete operational autonomy and continue to be authorized by the Office of the Mayor of Indianapolis. This partnership provides the opportunity to leverage additional resources, including additional state funding. The School continues to be governed by its own Board of Directors and continues to own all buildings. The School also continues to employ its staff and faculty and are independent of Indianapolis Public School's personnel policies.

Effective October 23, 2017, the School established a wholly-owned subsidiary, Riverside High School RE MM, LLC (RHS RE MM), which was organized as a limited liability company under the laws of the State of Indiana to serve as the managing member of a newly formed 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. See Note 9.

Effective December 19, 2017, the School made a capital contribution to RHS RE MM for its 100% ownership interest in RHS RE MM in the amount of \$18,855. In addition, RHS RE MM made a capital contribution of \$18,855 to, has a 1.00% ownership interest in, and serves as managing member for, RHS RE.

Effective October 23, 2017, the School established a wholly-owned subsidiary, Riverside High School, LLC (RHS) which was organized as a limited liability company under the laws of the State of Indiana. On December 19, 2017, RHS entered into a lease with RHS RE (the Master Lease). Under the terms of the Master Lease, RHS is the tenant of the property developed by RHS RE for use as a public charter high school and related ancillary facilities (the Property).

Effective December 19, 2017, the School entered into a Sub-Master Lease Agreement (the Sub Master Lease) with RHS. Under the Sub Master Lease, RHS leases the Property to the School.

**Principles of Consolidation:** The accompanying consolidated financial statements include the accounts of the School and its wholly-owned subsidiaries: RHS, RHS RE MM, and Herron Main Building, LLC (the Main Building), 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.

The Main Building had no activity for the years ended June 30, 2018 and 2017.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Basis of Accounting:** The Organization prepares its consolidated financial statements using the accrual basis of accounting. Accrual accounting requires the recognition of revenues when they are earned and measurable in the accounting period when services are provided, and the recognition of expenses in the period in which they occur.

**Estimates:** Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could vary from those estimates.

**Cash and Equivalents:** At times, balances in bank accounts may exceed federally insured limits. The Organization has not experienced any losses from its bank accounts. The Organization considers all highly liquid investments, if any, purchased with an original maturity of three months or less to be cash equivalents. Cash and equivalents do not include cash restricted by donors for long-term purposes.

**Investment Valuation and Income Recognition:** Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

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. Realized and unrealized gains and losses on investments are included in the consolidated statements of activities.

**Revenue Recognition:** Revenues primarily come from resources provided under the Indiana Charter Schools Act (the Act). Under the Act, the Organization receives an amount per student in relation to the funding received by public schools. Funding from the State of Indiana is based on an enrollment estimate provided by the Organization in May prior to the start of the school year. The official enrollment is submitted in September and any differences from the estimates to the actual are reconciled in monthly payments through December. Revenue is recognized in the year in which the educational services are rendered.

A portion of the Organization's revenue is based on cost reimbursement grants. Accordingly, the Organization recognizes revenue under these grants in the amounts of costs and expenses at the time incurred. The Organization reports grants of cash and other assets as restricted support if received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the grant is received, the Organization reports the support as unrestricted.

**Grants Receivable** represent the uncollected portion of funds from grants awarded to the Organization. Grant receivables are reported net of an allowance for doubtful accounts. There were no allowances, as of June 30, 2018 and 2017, based on management's estimate of the amount of receivables that will actually be collected. Grants receivable are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of the accounts.

**Pledges Receivable** consist of gifts from various individuals payable in future installments. Pledges receivable are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted rates applicable in the years in which those promises are received. Amortization of the discounts is included in contributions in the consolidated statements of activities. An allowance of \$5,400 and \$6,710 was recorded at June 30, 2018 and 2017, respectively.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Property and Equipment** are recorded at cost or, if contributed, at the estimated fair value at the date of the gift. The Organization capitalizes additions of property and equipment with a useful life of more than one year. Depreciation of property and equipment is computed using the straight-line method based upon the estimated useful lives of the assets ranging from 3 to 40 years. Expenditures for property and equipment and for renewals or improvements which extend the originally estimated economic life of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense when incurred. When an asset is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the consolidated statement of activities.

Depreciation expense was \$402,565 and \$361,552 for the years ended June 30, 2018 and 2017, respectively.

**Long-lived Assets**, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that 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. To date, no adjustments to the carrying amount of long-lived assets have been necessary.

**Deferred Financing Costs**, are being amortized on the effective interest rate method. The unamortized debt issuance costs are presented as a reduction of the carrying amount of the debt. Amortization of the debt issuance costs is reported as interest expense in the consolidated statements of activities. At June 30, 2018 and 2017, deferred financing costs totaled \$339,925 and \$112,770 and accumulated amortization totaled \$38,867 and \$27,261, respectively. Related amortization reported as interest expense was \$11,606 and \$2,819 in the years ended June 30, 2018 and 2017, respectively.

**Contributed Materials and Services** are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying consolidated financial statements as in-kind contributions are offset by like amounts included in expense or additions to property and equipment.

The Organization received no in-kind contributions during the year ended June 30, 2018. During the year ended June 30, 2017, the Organization received \$107,651 of in-kind contributions.

Volunteers provide program services throughout the year that are not recognized as contributions in the consolidated financial statements since they do not meet the recognition criteria.

**Net Asset Classification:** The consolidated financial statements report the changes in each net asset class, based upon donor or grant restrictions, as applicable. Net assets are classified as unrestricted, temporarily restricted, and permanently restricted.

- **Unrestricted Net Assets** include general and board designated assets and liabilities of the Organization. The unrestricted net assets of the Organization may be used at the discretion of management to support the Organization's purposes and operations.
- **Temporarily Restricted Net Assets** include assets of the Organization related to gifts with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates.
- **Permanently Restricted Net Assets** include assets of the Organization for which the donor has stipulated that the contribution be maintained in perpetuity. Donor-imposed restrictions limiting the use of the assets or their economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Functional Expenses:** The costs of providing the various programs and other activities have been summarized in Note 14. Some expenses relate directly to specific programs or supportive services while others do not. Expenses that relate to more than one program or supporting service are allocated among the applicable functions. The allocation is based on a formula contained within the grant documents.

Costs are allocated to the programs and supporting services. Management periodically evaluates its allocation method and revises it when necessary. Management and general expenses include those that are indirectly identifiable with other specific functions, but provide for the overall support and direction of the Organization.

**Network Cost Allocations:** Financial transactions that relate to the overall management of network are allocated to the two locations, Herron High School and Riverside High School, for financial reporting purposes. Transactions that do not directly relate to one location are allocated based on the number of students. The allocation percentage for the year ended June 30, 2018 was 86% to Herron High School and 14% to Riverside High School.

**Income Taxes:** The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. 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 the members in accordance with their respective ownership percentage. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements. In addition, the School has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the years ended June 30, 2018 and 2017.

The School files U.S. federal and Indiana information tax returns and is no longer subject to U.S. federal and state income tax examinations by tax authorities for fiscal years before 2015. RHS RE has not filed an initial tax return.

**Concentration of Credit Risk:** Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of temporary cash investments and grants receivable.

The Organization places its temporary cash investments with financial institutions. There was \$2,088,771 and \$1,691,748 in excess of insured limits at June 30, 2018 and 2017, respectively. The Organization has not experienced any losses in these accounts.

Concentrations of credit risk with respect to grants receivable are limited to the Organization's ability to accomplish the terms of the grants. Credit losses, if any, have been provided in the consolidated financial statements and have been within management's expectations.

Operating funds from the Indiana Department of Education amounted to 65% and 83% of the Organization's revenues and support for the years ended June 30, 2018 and 2017, respectively. A state funding formula is used to determine the amount of revenue a charter school receives. The formula is based on the number of students enrolled in the School during the year.

**Risks and Uncertainties:** The School provides educational services to students residing in Marion and surrounding counties in Indiana, and is subject to risks of economic and competitive forces at work within this geographic region.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, non-compliance in regards to federal and state standards and regulations could result in a reduction of funding or repayment of disallowed costs.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Advertising Costs** are expensed as incurred. Advertising expenses amounted to \$28,423 and \$19,808 for the years ended June 30, 2018 and 2017, respectively.

**Subsequent Events:** Management has evaluated the consolidated financial statements for subsequent events occurring through January 25, 2019, the date the consolidated financial statements were available to be issued.

## NOTE 2 - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

**Education:** The academic program of the School is designed to challenge every student to achieve on or above grade level performance in all academic subjects. While students may enter the School below grade level in many areas, the School is prepared for the challenge of equipping students with the knowledge, skills, and habits necessary for success in an academically rigorous college preparatory high school.

## NOTE 3 - FAIR VALUE MEASUREMENTS

The Organization has categorized its assets and liabilities that are measured at fair value into a three-level fair value hierarchy. The hierarchy prioritizes 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 asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy are described as follows:

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

**Level 2** – Inputs to the valuation methodology may 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; and/or 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 the valuation methodology are unobservable and significant to the fair value measurement. In situations where there is little or no market activity for the asset or liability, the Organization makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

Following is a description of the valuation methodology used by the Organization for assets that are measured at fair value on a recurring basis. There have been no changes in the methodology used at June 30, 2018 and 2017.

**Certificates of Deposit:** Determined by discounting the related cash flows on current yields of similar investments with comparable durations considering the credit-worthiness of the issuer.

For those assets measured at fair value, management determines the fair value measurement policies and procedures in consultation with the School's Board of Directors. Those policies and procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and other third-party information.

### NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

The preceding method may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization's management believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain assets could result in a different fair value measurement at the reporting date.

Following is a summary, by major nature and risks class within each level of the fair value hierarchy, of the Organization's assets that are measured at fair value on a recurring basis as of June 30, 2018 and 2017:

<b>2018</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets</b>		
Certificates of Deposit	<u>\$498,145</u>	<u>\$498,145</u>
Total Assets at Fair Value	<u>\$498,145</u>	<u>\$498,145</u>
<b>2017</b>	<b>Level 2</b>	<b>Total</b>
<b>Assets</b>		
Certificates of Deposit	<u>\$751,054</u>	<u>\$751,054</u>
Total Assets at Fair Value	<u>\$751,054</u>	<u>\$751,054</u>

At June 30, 2018 and 2017, the Organization had no other assets and no liabilities that are measured at fair value on a recurring basis.

### NOTE 4 - INVESTMENTS

Investments, including temporarily restricted assets, consisted of the following at June 30, 2018 and 2017:

	<b>2018</b>	
	<b>Cost</b>	<b>Fair Value</b>
Certificates of Deposit	<u>\$500,000</u>	<u>\$498,145</u>
	<b>2017</b>	
	<b>Cost</b>	<b>Fair Value</b>
Certificates of Deposit	<u>\$750,000</u>	<u>\$751,054</u>

Investments are included in the consolidated statements of financial position at June 30, 2018 and 2017 as follows:

	<b>2018</b>	<b>2017</b>
Certificates of deposit		\$100,000
Restricted certificates of deposit	<u>\$498,145</u>	<u>651,054</u>
Total Investments	<u>\$498,145</u>	<u>\$751,054</u>

The Organization's investment income, included in other income on the consolidated statements of activities, consisted of \$2,909 and \$3,180 of unrealized losses for the years ended June 30, 2018 and 2017, respectively. 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 that changes in risks in the near term could materially affect the amounts reported in the consolidated financial statements.

## NOTE 5 - GRANTS RECEIVABLE

Grants receivable at June 30, 2018 and 2017, represented amounts due relating to the following sources and are all due within one year:

	2018	2017
Title I	\$28,040	\$ 51,135
Clowes		50,000
Special education	24,438	37,292
Title II	6,921	13,607
IDOE	<u>30,641</u>	<u>          </u>
Total Grants Receivable	<u>\$90,090</u>	<u>\$152,034</u>

## NOTE 6 - PLEDGES RECEIVABLE

Pledges receivable were as follows at June 30, 2018 and 2017:

	2018	2017
Temporarily Restricted:		
Capital campaign	\$ 50	\$590,742
Replication at Heslar Naval Armory	<u>541,095</u>	<u>346,648</u>
Total Temporarily Restricted	<u>541,145</u>	<u>937,390</u>
Total Pledges Receivable, Net	<u>\$541,145</u>	<u>\$937,390</u>
Expected to be collected in:		
Less than one year	\$334,684	\$723,254
One to five years	<u>225,432</u>	<u>234,834</u>
	560,116	958,088
Unamortized discounts	(13,571)	(13,988)
Allowances for uncollectible amounts	<u>(5,400)</u>	<u>(6,710)</u>
Total Pledges Receivable, Net	<u>\$541,145</u>	<u>\$937,390</u>

Pledges receivable are discounted at 2.5% at June 30, 2018 and 2017.

Pledges receivable are included in the consolidated statements of financial position at June 30, 2018 and 2017 as follows:

	2018	2017
Current portion of pledges receivable, net	\$329,283	\$716,544
Long-term pledges receivable, net of current portion	<u>211,862</u>	<u>220,846</u>
Total Pledges Receivable, Net	<u>\$541,145</u>	<u>\$937,390</u>

## NOTE 7 - OPERATING LEASES

The School has an operating lease with the Harrison Center of the Arts (the Center) that is renewed on an annual basis. The lease allows the School to use the Center's gymnasium. For the years ended June 30, 2018 and 2017, rent expense with the Center totaled \$20,700 and \$20,750, respectively. See Note 13.

## NOTE 7 - OPERATING LEASES (CONTINUED)

The School had an operating lease, with a term of July 1, 2017 to June 30, 2018, with Marian University for space used by Riverside High School. The lease allowed the School to use the building at 2916 West 30<sup>th</sup> Street for the 2017-2018 school year while the permanent location for Riverside High School was renovated. The agreement required total payment for basic rent of \$85,620. In addition, the School reimbursed Marian University for alarm, technology, and repair and maintenance costs. These costs were \$11,964 for the year ended June 30, 2018. The lease was not renewed.

## NOTE 8 - LONG TERM DEBT

Long-term debt included the following at June 30, 2018 and 2017:

	2018	2017
Qualified School Construction Bonds (QSCBs) 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; effective interest rate of 6.7% prior to rebate), payable in quarterly installments of \$91,486, including interest, maturing on July 1, 2025. (A)	\$3,335,418	\$3,470,790
Qualified School Construction Bonds (QSCBs) 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; effective interest rate of 6.7% prior to rebate), payable in quarterly installments of \$5,592, including interest, maturing on July 1, 2025. (B)	126,324	139,276
IFF loan payable. See Note 9.	1,000,000	
Redevelopment Commission of the City of Indianapolis – Marion County (TIF Loan) loan payable. See Note 9.	1,500,000	
Note payable to a board member. The note is non-interest bearing and due on demand. See Note 13.	300,000	
Educational Facilities Revenue Bond, Series 2014. The bond bears interest at 3.17% per annum (effective interest rate of 3.4%), payable in quarterly installments of \$41,268, maturing on April 17, 2024.	<u>2,044,937</u>	<u>2,143,760</u>
	8,306,679	5,753,826
Less: Unamortized debt issuance costs	(103,255)	(85,509)
Less: Current maturities, net of current year amortization of \$2,819	<u>(556,872)</u>	<u>(243,441)</u>
Total Long-term Debt	<u>\$7,646,552</u>	<u>\$5,424,876</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.

## NOTE 8 - LONG TERM DEBT (CONTINUED)

At June 30, 2018, the principal maturities of long-term debt are as follows:

Year Ending	Herron High School			Riverside High School			Total
	Series 2010A Bonds	Series 2010B Bonds	Series 2014 Bonds	Related Party Note Payable	IFF Loan	TIF Loan	
June 30, 2019	\$ 144,383	\$ 13,883	\$ 101,425	\$ 300,000			\$ 559,691
June 30, 2020	154,378	14,881	104,680				273,939
June 30, 2021	165,065	15,950	108,038				289,054
June 30, 2022	176,493	17,096	111,504				305,093
June 30, 2023	188,711	18,325	115,081				322,116
Thereafter	<u>2,506,388</u>	<u>46,189</u>	<u>1,504,209</u>		<u>\$ 1,000,000</u>		<u>5,056,786</u>
Forgiveable Loans						<u>\$ 1,500,000</u>	<u>1,500,000</u>
Total	<u>\$ 3,335,418</u>	<u>\$ 126,324</u>	<u>\$ 2,044,937</u>	<u>\$ 300,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,500,000</u>	<u>\$ 8,306,679</u>

Total interest expense for long-term debt was \$172,774 and \$145,186 for the years ended June 30, 2018 and 2017, respectively.

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

The debt agreements require the School to maintain certain financial and non-financial covenants. The School was not in compliance with certain financial covenants at June 30, 2018, however, the School received a waiver from the Bank for these covenant violations.

## NOTE 9 - NEW MARKET TAX CREDIT NOTES PAYABLE

The School participated in the New Market Tax Credits financing program (the NMTC Program), which is governed by Internal Revenue Code Section 45D. The program allowed the School to fund construction costs to renovate the Hesler Naval Armory. Pursuant to the NMTC Program, RHS RE (the 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 (the NMTC Loans). The NMTC Program allows the qualified investors to receive tax credits as a result of their lending participation to the NMTC Borrowers. The NMTC Program requires the School (the NMTC Lender), lend a portion of the funds to be borrowed to the qualified investors (the Leverage Loan), and affiliates of the investors in turn includes those funds in the total amount loaned to the School's NMTC Borrowers.

Each NMTC Loan was executed through the NMTC Borrowers' issuance of two promissory notes payable (the NMTC Note A and NMTC Note B), which carry an interest rate of 1.0% and have an initial maturity 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 School's Leverage Loan note receivable and the School'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 statement of financial position in the amount of \$6,108,240 at June 30, 2018.

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

## **NOTE 9 - NEW MARKET TAX CREDIT NOTES PAYABLE (CONTINUED)**

### Leverage Loan Receivable

On December 19, 2017, as described above, in connection with NMTTC Program, the School entered into a loan agreement with COCRF Investor 113, LLC (the Fund) in the amount of \$6,108,240 (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 will pay interest-only payments on the 10th day of the last month of each calendar quarter, commencing on March 10, 2018 through December 31, 2024. Commencing on March 10, 2025 through December 31, 2052 (the 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 (the Closing Date), the School entered into a loan agreement with IFF in the amount of \$1,000,000 (the IFF Loan). See Note 8. The proceeds of the IFF Loan were used by the School to make the Leverage Loan to the Fund. Pursuant to the loan agreement, until and including December 31, 2022, interest on the IFF Loan accrues at a fixed rate of 6.625% per annum. From and after January 1, 2023 (the First Recalculation Date), and until and including the seventh annual anniversary of the Closing Date (the 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. Beginning on February 15, 2018 and ending on the Maturity Date, interest on the IFF Loan shall be 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.

### LISC Loan Guaranty

On December 19, 2017, Local Initiatives Support Corporation (LISC) entered into a loan agreement with RHS RE in the amount of \$1,000,000 (the Federal Historic Bridge Loan). As a condition precedent to making the Federal Historic Bridge Loan, the School entered into a Guaranty Agreement with LISC (the LISC Guaranty). Under the LISC Guaranty, the School guarantees the punctual payment of all principal, interest, and other costs due under the Federal Historic Bridge Loan. As of June 30, 2018, no claims or payments had been made relative to the LISC Guaranty. The School has evaluated its exposure pursuant to the LISC Guaranty and has determined the maximum dollar amount of such exposure to be equal to the current principal balance of the Federal Historic Bridge Loan in the amount of \$1,000,000 in addition to any accrued interest and penalties. The School has determined the likelihood of a default event to be remote after considering the forecasted amounts of Federal Historic Tax Credit equity to be generated from the project costs, which is the primary source of funds expected to be used for repayment of the Federal Historic Bridge Loan. Accordingly, no liability has been recorded relative to the indemnity.

### Additional Loans

As part of the above transaction, the School was required to infuse a certain amount of capital. In addition to the IFF Loan, the School 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 School to make the Leverage Loan to the Fund, in conjunction with the other sources noted above.

## NOTE 9 - 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), during which period the School is responsible for interest-only payments. The TIF Loan bears interest at a rate of 2% from January 2027 through maturity on December 31, 2055. See Note 8. During this time period, the School 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, 2018, the School was meeting all of the defined forgiveness stipulations.

The related party loan, dated December 19, 2017, had an interest rate of 2.64%, and required payments of interest-only starting January 5, 2019 through maturity on December 31, 2027. As of March 14, 2018, the related party loan had been paid in full. See Note 13.

A summary of the Organization's NMTC notes payable included in the consolidated statement of financial position is as follows as of June 30, 2018:

NMTC Note A	\$6,108,240
NMTC Note B	<u>2,912,760</u>
	9,021,000
Less: Unamortized debt issuance cost	<u>(197,804)</u>
Total New Market Tax Credit Notes Payable, net	<u>\$8,823,196</u>

Interest of \$47,861 was capitalized for the year ended June 30, 2018.

## NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of June 30, 2018 and 2017:

	2018	2017
Capital campaign	\$1,680,180	\$1,814,245
Replication at Heslar Naval Armory	532,623	1,419,222
The Mind Trust – Capacity Building Funds	31,843	200,000
College visits		5,000
Lilly Endowment – Counseling		28,500
CICF – Russell Masonry	8,550	9,000
CICF – Library	6,500	
Photography	23,103	
Prevention Matters	10,700	
Science equipment	1,711	
Allen Whitehill Clowes Capital Grant	<u>5,318</u>	<u>5,318</u>
Total Temporarily Restricted Net Assets	<u>\$2,300,528</u>	<u>\$3,481,285</u>

## NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

For the years ended June 30, 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors were as follows:

	2018	2017
Capital campaign	\$ 149,839	\$139,202
Replication at Heslar Naval Academy	1,968,232	228,627
The Mind Trust – Riverside High School	218,157	237,700
College visits	5,000	
Lilly Endowment – Counseling	28,500	1,500
CICF – Russell Masonry	450	41,000
Photography	26,897	
Prevention Matters	1,800	
Walton Family Foundation		228,953
Science equipment	3,240	
Allen Whitehill Clowes Capital Grant	<u>                    </u>	<u>4,980</u>
Total Net Assets Released from Restrictions	<u>\$2,402,115</u>	<u>\$881,962</u>

## NOTE 12 - PENSION PLAN

### 403(b) Plan

The Organization's eligible faculty and administrative staff are participants in a 403(b) tax deferred annuity retirement plan. Quarterly discretionary contributions are made to the Plan. The Organization's contribution to the Plan, net of forfeitures, was \$357,051 and \$380,386 for the years ended June 30, 2018 and 2017, respectively.

### Indiana Public Retirement System

The School elected to become a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), with the merger of the funds being effective as of July 1, 2011.

The Indiana Teachers' Retirement Fund (TRF) is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The plan is recorded as a multiemployer plan, which was established by the State of Indiana. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate. State statute (IC 5-10.2) governs, through the INPRS Board, most requirements of the system, and give the School authority to contribute to the plan. The retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus interest credited to the member's account. The School's required contribution rate is 7.5%. The School may elect to make additional contributions on behalf of the member. Retirement plan contributions for TRF was \$30,751 and \$30,180 for the years ended June 30, 2018 and 2017, respectively. The plan is not governed by ERISA and is not required to file a Form 5500. There were no surcharges imposed and there is no expiration date of the plan included in state statutes. Upon withdrawing from TRF, the School would be obligated for its proportionate share of the plan's unfunded vested benefits. The School has no intention of withdrawing from the plan.

**NOTE 13 - RELATED PARTIES**

The Organization recorded related party transactions with other organizations in which one or more of the board members have an interest. The School leases space from the Harrison Center for the Arts (the Center) and incurs additional expenses related to productions and programs held during the year. One board member from the School is the Executive Director of the Center. Related party rent expense totaled \$20,700 and \$20,750 for the years ended June 30, 2018 and 2017, respectively. Additional payments to the Center totaled \$4,637 and \$5,012 for the years ended June 30, 2018 and 2017, respectively. The School received grant funds of \$24,500 from the Center during the year ended June 30, 2018. The School also paid Claude McNeal Productions, owned by the Head of School's spouse, for instructional services for the theater program. The related expense was \$61,940 and \$55,858 for the years ended June 30, 2018 and 2017, respectively.

During May 2013, a member of the School'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. At June 30, 2018 and 2017, the outstanding principal balance on the note was \$126,324 and \$139,276, respectively. During 2018, interest expense paid to the member of the School's board was \$9,414. See Note 8.

During the year ended June 30, 2018, the School borrowed \$1,800,000 from a member of the School's board executed in two separate loans. The first loan was executed on December 19, 2017, had an interest rate of 2.64%, and required payments of interest-only starting on January 5, 2019 through maturity on December 31, 2027. As of March 14, 2018, the related party loan had been paid in full. During the year ended June 30, 2018, no interest expense was paid. See Note 9. The second loan was executed in December 2017 and is a non-interest bearing loan due on demand. As of June 30, 2018, the outstanding principal balance was \$300,000. See Note 8.

Gross pledges receivable from members of the School's board totaled \$535,000 and \$936,432 at June 30, 2018 and 2017, respectively.

**NOTE 14 - FUNCTIONAL EXPENSES**

Expenses by functional classifications for the years ended June 30, 2018 and 2017, were as follows:

	<b>2018</b>	<b>2017</b>
Program services	\$8,567,906	\$6,536,223
General and administrative	941,343	1,132,486
Fundraising	<u>478,610</u>	<u>504,632</u>
Total Expenses	<u>\$9,987,859</u>	<u>\$8,173,341</u>

**NOTE 15 - CONCENTRATIONS**

Contributions from two donors represented 57.9% of total contributions and grants during the year ended June 30, 2018. Contributions from one donor represented 46.5% of total contributions and grants during the year ended June 30, 2017.

**NOTE 16 - COMMITMENTS**

The School has a 5-year service contract requiring monthly payments of \$4,850 for connectivity and supporting services. The contract expires in June 2021. The Schools and Libraries program, also known as the E-rate program, makes telecommunications and information services more affordable for schools and libraries in America. Mandated by Congress in 1996 and implemented by the FCC in 1997, the E-rate provides discounted telecommunications, Internet access, and internal connections to eligible schools and libraries, funded by the Universal Service Fund. For the year ended June 30, 2018, the School received a 60% discount for internet connectivity.

## **SUPPLEMENTARY INFORMATION**

*Independent Auditors' Report  
on Supplementary Information*

Board of Directors  
Herron High School, Inc. d/b/a Indianapolis Classical Schools  
and Its Wholly-Owned Subsidiaries

We have audited the consolidated financial statements of Herron High School, Inc. d/b/a Indianapolis Classical Schools and Its Wholly-Owned Subsidiaries as of and for the year ended June 30, 2018, and our report thereon dated January 25, 2019, which contained an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedule of statement of financial position information and consolidating schedule of statement of activities information are presented for the 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Katz, Sapper & Miller, LLP*

Indianapolis, Indiana  
January 25, 2019

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

**CONSOLIDATING SCHEDULE - STATEMENT OF FINANCIAL POSITION INFORMATION  
June 30, 2018**

<b>ASSETS</b>	<b>Herron High School, Inc.</b>	<b>Riverside High School, LLC</b>	<b>Total</b>
<b>CURRENT ASSETS</b>			
Cash and equivalents	\$ 331,061	\$ 599,824	\$ 930,885
Restricted cash	1,174,685	214,032	1,388,717
Grants receivable	40,811	49,279	90,090
Current portion of pledges receivable, net of allowance for uncollectible accounts of \$5,400 in 2018	50	329,233	329,283
Prepaid expenses	91,894	14,907	106,801
Total Current Assets	<u>1,638,501</u>	<u>1,207,275</u>	<u>2,845,776</u>
<b>PROPERTY AND EQUIPMENT</b>			
Land	614,000		614,000
Buildings	9,316,215		9,316,215
Furniture and equipment	768,583	83,164	851,747
Computer and office equipment	716,310	116,756	833,066
Books and educational materials	210,144	3,372	213,516
Vehicles	8,604	29,597	38,201
Construction in progress		19,258	19,258
	<u>11,633,856</u>	<u>252,147</u>	<u>11,886,003</u>
Less: Accumulated depreciation	<u>(3,383,948)</u>	<u>(15,796)</u>	<u>(3,399,744)</u>
Total Property and Equipment, net	<u>8,249,908</u>	<u>236,351</u>	<u>8,486,259</u>
<b>OTHER ASSETS</b>			
Restricted certificates of deposit	498,145		498,145
Net pledges receivable, net of current portion		211,862	211,862
Investment in subsidiary		18,534	18,534
New Market Tax Credit note receivable		6,108,240	6,108,240
Intangible assets, other			
Total Other Assets	<u>498,145</u>	<u>6,338,636</u>	<u>6,836,781</u>
<b>TOTAL ASSETS</b>	<u>\$ 10,386,554</u>	<u>\$ 7,782,262</u>	<u>\$ 18,168,816</u>
<b>LIABILITIES AND NET ASSETS/MEMBERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 138,052	\$ 94,307	\$ 232,359
Accrued expenses	651,167	129,625	780,792
Current maturities of long-term debt	256,872	300,000	556,872
Total Current Liabilities	<u>1,046,091</u>	<u>523,932</u>	<u>1,570,023</u>
<b>LONG-TERM LIABILITIES</b>			
Long-term debt, less current maturities and unamortized deferred financing costs	5,167,117	2,479,435	7,646,552
New Market Tax Credit notes payable, less unamortized deferred financing costs			
Total Long-term Liabilities	<u>5,167,117</u>	<u>2,479,435</u>	<u>7,646,552</u>
Total Liabilities	<u>6,213,208</u>	<u>3,003,367</u>	<u>9,216,575</u>
<b>NET ASSETS/MEMBERS' EQUITY</b>			
Unrestricted	2,409,772	4,057,941	6,467,713
Temporarily restricted	1,763,574	720,954	2,484,528
Members' equity			
Noncontrolling interest in members' equity			
Total Net Assets/Members' Equity	<u>4,173,346</u>	<u>4,778,895</u>	<u>8,952,241</u>
<b>TOTAL LIABILITIES AND NET ASSETS/MEMBERS' EQUITY</b>	<u>\$ 10,386,554</u>	<u>\$ 7,782,262</u>	<u>\$ 18,168,816</u>

**Riverside High School RE MM, LLC - Consolidated**

<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>
	\$ 795,587		\$ 795,587		\$ 930,885
					2,184,304
					90,090
					329,283
					106,801
	<u>795,587</u>		<u>795,587</u>		<u>3,641,363</u>
					614,000
					9,316,215
					851,747
					833,066
					213,516
					38,201
	8,688,835		8,688,835	\$ (184,000)	8,524,093
	<u>8,688,835</u>		<u>8,688,835</u>	<u>(184,000)</u>	<u>20,390,838</u>
					(3,399,744)
	<u>8,688,835</u>		<u>8,688,835</u>	<u>(184,000)</u>	<u>16,991,094</u>
					498,145
					211,862
\$ 18,534		\$ (18,534)		(18,534)	6,108,240
	8,608		8,608		8,608
<u>18,534</u>	<u>8,608</u>	<u>(18,534)</u>	<u>8,608</u>	<u>(18,534)</u>	<u>6,826,855</u>
<u>\$ 18,534</u>	<u>\$ 9,493,030</u>	<u>\$ (18,534)</u>	<u>\$ 9,493,030</u>	<u>\$ (202,534)</u>	<u>\$ 27,459,312</u>
	\$ 355,829		\$ 355,829		\$ 588,188
					780,792
					556,872
	<u>355,829</u>		<u>355,829</u>		<u>1,925,852</u>
					7,646,552
	8,823,196		8,823,196		8,823,196
	<u>8,823,196</u>		<u>8,823,196</u>		<u>16,469,748</u>
	<u>9,179,025</u>		<u>9,179,025</u>		<u>18,395,600</u>
					6,467,713
\$ 18,534	18,534	\$ (18,534)	18,534	\$ (184,000)	2,300,528
	295,471		295,471	(18,534)	
<u>18,534</u>	<u>314,005</u>	<u>(18,534)</u>	<u>314,005</u>	<u>(202,534)</u>	<u>295,471</u>
<u>\$ 18,534</u>	<u>\$ 9,493,030</u>	<u>\$ (18,534)</u>	<u>\$ 9,493,030</u>	<u>\$ (202,534)</u>	<u>\$ 27,459,312</u>

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

**CONSOLIDATING SCHEDULE - STATEMENT OF ACTIVITIES INFORMATION  
Year Ended June 30, 2018**

	Herron High School, Inc.			Riverside High School, LLC			Total
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	
<b>REVENUES AND SUPPORT</b>							
School lunch program	\$ 263,760		\$ 263,760	\$ 46,783		\$ 46,783	\$ 310,543
Student fees and fundraising	323,499		323,499	23,579		23,579	347,078
Contributions and grants	126,263	\$ 117,160	243,423	2,120,204	\$ 1,088,391	3,208,595	3,452,018
Federal and state support	6,909,766		6,909,766	1,115,130		1,115,130	8,024,896
Other income	41,734	15,775	57,509	192,161	184,032	376,193	433,702
Net assets released from restrictions by satisfaction of temporary restrictions	404,264	(404,264)		1,997,851	(1,997,851)		
Total Revenues and Support	<u>8,069,286</u>	<u>(271,329)</u>	<u>7,797,957</u>	<u>5,495,708</u>	<u>(725,428)</u>	<u>4,770,280</u>	<u>12,568,237</u>
<b>PROGRAM AND SUPPORTING SERVICE EXPENSES</b>							
Salaries and benefits	5,515,974		5,515,974	1,127,175		1,127,175	6,643,149
Instructional services	140,274		140,274	20,857		20,857	161,131
Information technology	75,384		75,384	14,189		14,189	89,573
Accounting services	27,158		27,158	4,267		4,267	31,425
Other outside services	451,587		451,587	118,083		118,083	569,670
Course materials and supplies	337,038		337,038	78,787		78,787	415,825
Nutritional support	278,129		278,129	66,312		66,312	344,441
Travel and entertainment	42,007		42,007	6,810		6,810	48,817
Vehicle and transportation expense	90,688		90,688	23,402		23,402	114,090
Rent and facilities	671,037		671,037	127,488		127,488	798,525
Depreciation	386,769		386,769	15,796		15,796	402,565
Interest expense	139,891		139,891	39,887		39,887	179,778
Insurance	62,566		62,566	31,225		31,225	93,791
Advertising	22,208		22,208	6,215		6,215	28,423
Miscellaneous	27,892		27,892	6,702		6,702	34,594
Total Program and Supporting Service Expenses	<u>8,268,602</u>		<u>8,268,602</u>	<u>1,687,195</u>		<u>1,687,195</u>	<u>9,955,797</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(199,316)	(271,329)	(470,645)	3,808,513	(725,428)	3,083,085	2,612,440
<b>CONTRIBUTIONS FROM MEMBERS</b>							
<b>NET ASSETS/MEMBERS' EQUITY</b>							
Beginning of Year	2,609,088	2,034,903	4,643,991	249,428	1,446,382	1,695,810	6,339,801
Noncontrolling interest in members' equity							
End of Year	<u>\$ 2,409,772</u>	<u>\$ 1,763,574</u>	<u>\$ 4,173,346</u>	<u>\$ 4,057,941</u>	<u>\$ 720,954</u>	<u>\$ 4,778,895</u>	<u>\$ 8,952,241</u>

**Riverside High School RE MM, LLC - Consolidated**

<u>Riverside High School RE MM, LLC Unrestricted</u>	<u>Riverside High School Real Estate, LLC Unrestricted</u>	<u>Eliminations</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
					\$ 310,543
					347,078
					3,452,018
					8,024,896
\$ (321)		\$ 321	\$ -	\$ (183,679)	250,023
<u>(321)</u>		<u>321</u>	<u>-</u>	<u>(183,679)</u>	<u>12,384,558</u>
					6,643,149
					161,131
					89,573
	\$ 27,460		27,460		31,425
					597,130
					415,825
					344,441
					48,817
					114,090
					798,525
	4,602		4,602		402,565
					184,380
					93,791
					28,423
					34,594
<u>-</u>	<u>32,062</u>	<u>-</u>	<u>32,062</u>		<u>9,987,859</u>
(321)	(32,062)	321	(32,062)	(183,679)	2,396,699
18,855	50,596	(18,855)	50,596	(18,855)	31,741
					6,339,801
	295,471		295,471		295,471
<u>\$ 18,534</u>	<u>\$ 314,005</u>	<u>\$ (18,534)</u>	<u>\$ 314,005</u>	<u>\$ (202,534)</u>	<u>\$ 9,063,712</u>

## **OTHER REPORTS**

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

**OTHER REPORTS**

The report presented herein was prepared in addition to other official reports prepared for the school as listed below:

Supplemental Audit Report of Herron High School, Inc. d/b/a Indianapolis Classical Schools and Its Wholly-Owned Subsidiaries

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*.