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January 27, 2020

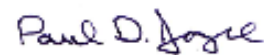
Charter School Board
Herron High School, Inc.
d/b/a Indianapolis Classical Schools
110 East 16th Street
Indianapolis, IN 46202

We have reviewed the audit report of Herron High School, Inc. d/b/a Indianapolis Classical Schools which was opined upon by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period July 1, 2018 to June 30, 2019. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Herron High School, Inc. d/b/a Indianapolis Classical Schools as of June 30, 2019 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Katz, Sapper & Miller, LLP prepared the audit report in accordance with guidelines established by the State Board of Accounts.

In addition to the report presented herein, a Supplemental Audit Report for 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, 2019 and 2018

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, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, the consolidated statement of functional expenses for the year ended June 30, 2019, 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in fiscal year 2019, Herron High School, Inc. d/b/a Indianapolis Classical Schools and Its Wholly-Owned Subsidiaries adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* and ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to these matters.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2019, on our consideration of Herron High School, Inc. d/b/a Indianapolis Classical Schools and Its Wholly-Owned Subsidiaries' 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 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 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 Herron High School, Inc. d/b/a Indianapolis Classical Schools and Its Wholly-Owned Subsidiaries' internal control over financial reporting and compliance.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
December 19, 2019

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018**

ASSETS

	2019	Adjusted 2018
CURRENT ASSETS		
Cash and equivalents	\$ 787,085	\$ 930,885
Restricted cash	852,591	2,184,304
Accounts receivable	3,280	
Grants receivable	214,442	90,090
Current portion of promises to give, net of allowance for uncollectible accounts of \$5,400 in 2019 and 2018	23,246	329,283
Insurance proceeds receivable	15,780	
Prepaid expenses	110,448	106,801
Total Current Assets	<u>2,006,872</u>	<u>3,641,363</u>
PROPERTY AND EQUIPMENT		
Land	614,000	614,000
Buildings and improvements	18,571,147	9,316,215
Furniture and equipment	988,507	851,747
Computer and office equipment	1,069,641	833,066
Books and educational materials	268,431	213,516
Vehicles	53,644	38,201
Construction in progress		8,524,093
	<u>21,565,370</u>	<u>20,390,838</u>
Less: Accumulated depreciation	(4,102,626)	(3,399,744)
Total Property and Equipment, net	<u>17,462,744</u>	<u>16,991,094</u>
OTHER ASSETS		
Restricted certificates of deposit	1,174,537	498,145
Promises to give, net of current portion and unamortized discounts	16,583	211,862
New Market Tax Credit note receivable	6,108,240	6,108,240
Intangible assets, other	8,470	8,608
Total Other Assets	<u>7,307,830</u>	<u>6,826,855</u>
TOTAL ASSETS	<u>\$ 26,777,446</u>	<u>\$ 27,459,312</u>

LIABILITIES AND NET ASSETS/MEMBERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 161,187	\$ 588,188
Accrued expenses	958,133	780,792
Line of credit borrowings	250,000	
Current maturities of long-term debt	273,938	556,872
Total Current Liabilities	<u>1,643,258</u>	<u>1,925,852</u>
LONG-TERM LIABILITIES		
Long-term debt, less current maturities and unamortized deferred financing costs	6,789,049	7,646,552
New Market Tax Credit notes payable, less unamortized deferred financing costs	8,863,836	8,823,196
Total Long-term Liabilities	<u>15,652,885</u>	<u>16,469,748</u>
Total Liabilities	<u>17,296,143</u>	<u>18,395,600</u>
NET ASSETS/MEMBERS' EQUITY		
Without donor restrictions	6,904,197	6,467,713
With donor restrictions	1,617,904	2,300,528
Noncontrolling interest in members' equity	959,202	295,471
Total Net Assets/Members' Equity	<u>9,481,303</u>	<u>9,063,712</u>
TOTAL LIABILITIES AND NET ASSETS/MEMBERS' EQUITY	<u>\$ 26,777,446</u>	<u>\$ 27,459,312</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, 2019 and 2018**

	2019				Adjusted 2018			
	Without Donor Restrictions	With Donor Restrictions	Noncontrolling Interest	Total	Without Donor Restrictions	With Donor Restrictions	Noncontrolling Interest	Total
REVENUES AND SUPPORT								
School lunch program	\$ 339,718			\$ 339,718	\$ 310,543			\$ 310,543
Student fees and fundraising	385,652			385,652	347,078			347,078
Contributions and grants	586,346	\$ 280,800		867,146	2,246,467	\$ 1,205,551		3,452,018
Federal and state support	9,733,804			9,733,804	8,024,896			8,024,896
Other income	171,737	32,984		204,721	234,216	15,807		250,023
Gain on involuntary conversion	274,211			274,211				
Net assets released from restrictions	996,408	(996,408)			2,402,115	(2,402,115)		
Total Revenues and Support	<u>12,487,876</u>	<u>(682,624)</u>		<u>11,805,252</u>	<u>13,565,315</u>	<u>(1,180,757)</u>		<u>12,384,558</u>
EXPENSES								
Salaries and benefits	7,896,511			7,896,511	6,643,149			6,643,149
Instructional services	164,018			164,018	161,131			161,131
Information technology	102,333			102,333	89,573			89,573
Accounting services	45,975			45,975	31,425			31,425
Other outside services	575,539			575,539	597,130			597,130
Course materials and supplies	617,117			617,117	415,825			415,825
Nutritional support	416,637			416,637	344,441			344,441
Travel and entertainment	109,606			109,606	48,817			48,817
Vehicle and transportation expense	103,862			103,862	114,090			114,090
Rent and facilities	970,695			970,695	798,525			798,525
Depreciation	723,406			723,406	402,565			402,565
Interest expense	343,256			343,256	184,380			184,380
Insurance	125,138			125,138	93,791			93,791
Advertising	46,036			46,036	28,423			28,423
Loss on disposal of assets	36,504			36,504				
Miscellaneous	23,464			23,464	34,594			34,594
Total Expenses	<u>12,300,097</u>			<u>12,300,097</u>	<u>9,987,859</u>			<u>9,987,859</u>
INCREASE (DECREASE) IN NET ASSETS	187,779	(682,624)		(494,845)	3,577,456	(1,180,757)		2,396,699
INCREASE (DECREASE) IN NET ASSETS RELATED TO NONCONTROLLING INTEREST	248,705		\$ (248,705)		31,741		\$ (31,741)	
CONTRIBUTIONS FROM MEMBERS, net			912,436	912,436			327,212	327,212
NET ASSETS/MEMBERS' EQUITY								
Beginning of Year	6,467,713	2,300,528	295,471	9,063,712	2,858,516	3,481,285		6,339,801
End of Year	<u>\$ 6,904,197</u>	<u>\$ 1,617,904</u>	<u>\$ 959,202</u>	<u>\$ 9,481,303</u>	<u>\$ 6,467,713</u>	<u>\$ 2,300,528</u>	<u>\$ 295,471</u>	<u>\$ 9,063,712</u>

See accompanying notes.

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019**

	Education Program	Fundraising	Management and General		Total
			Other	Real Estate	
Salaries and benefits	\$ 6,881,378	\$ 253,412	\$ 761,721		\$ 7,896,511
Instructional services	164,018				164,018
Information technology	95,436	1,118	5,779		102,333
Accounting services			45,975		45,975
Other outside services	437,251	30,832	75,456	\$ 32,000	575,539
Course materials and supplies	574,135	21,386	21,596		617,117
Nutritional support	411,456	2,339	2,842		416,637
Travel and entertainment	107,903	422	1,281		109,606
Vehicle and transportation expense	103,862				103,862
Rent and facilities	741,408	42,796	186,491		970,695
Depreciation	416,206	13,373	78,977	214,850	723,406
Interest expense	156,737	6,919	35,233	144,367	343,256
Insurance	98,110	4,383	22,645		125,138
Advertising	40,672	3,771	1,593		46,036
Loss on disposal of assets			36,504		36,504
Miscellaneous	13,522		9,942		23,464
TOTAL EXPENSES BY FUNCTION	\$10,242,094	\$ 380,751	\$ 1,286,035	\$ 391,217	\$12,300,097

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, 2019 and 2018**

	2019	Adjusted 2018
OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (494,845)	\$ 2,396,699
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	723,406	402,565
Amortization of deferred financing costs in interest expense	50,004	11,606
Loss on disposal of assets	36,504	
Gain on involuntary conversion	(274,211)	
Unrealized loss on certificates of deposit	464	2,909
Contributions restricted for long-term investment	(56,050)	(1,073,855)
(Increase) decrease in certain assets:		
Accounts receivable	(3,280)	15,400
Grants receivable	(124,352)	61,944
Promises to give	(12,501)	(7,968)
Prepaid expenses	(3,647)	(65,606)
Increase (decrease) in certain liabilities:		
Accounts payable	(455,854)	19,322
Accrued expenses	177,341	402,260
Net Cash Provided (Used) by Operating Activities	<u>(437,021)</u>	<u>2,165,276</u>
INVESTING ACTIVITIES		
Insurance proceeds received related to involuntary gain	369,958	
Increase in insurance proceeds receivable	(15,780)	
Purchases of property and equipment	(1,975,171)	(8,278,005)
Increase in intangible assets, other		(8,608)
Sale of certificates of deposit		250,000
New Market Tax Credit note receivable		(6,108,240)
Net Cash Used by Investing Activities	<u>(1,620,993)</u>	<u>(14,144,853)</u>
FINANCING ACTIVITIES		
Contributions from members, net	912,436	327,212
Line of credit borrowings	480,262	
Line of credit repayments	(230,262)	
Long-term debt repayments	(1,149,802)	(1,747,147)
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	569,867	1,478,068
Net Cash Provided by Financing Activities	<u>582,501</u>	<u>13,151,977</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS AND RESTRICTED CASH	(1,475,513)	1,172,400
CASH AND EQUIVALENTS AND RESTRICTED CASH		
Beginning of Year	<u>3,115,189</u>	<u>1,942,789</u>
End of Year	<u>\$ 1,639,676</u>	<u>\$ 3,115,189</u>
CASH AND EQUIVALENTS AND RESTRICTED CASH		
Cash and equivalents	\$ 787,085	\$ 930,885
Restricted cash	<u>852,591</u>	<u>2,184,304</u>
TOTAL CASH AND EQUIVALENTS AND RESTRICTED CASH	<u>\$ 1,639,676</u>	<u>\$ 3,115,189</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	\$ 293,113	\$ 220,636
Noncash investing activities:		
Property and equipment acquired with accounts payable	28,853	456,388

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, 2019 and 2018**

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. The School's primary program is 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.

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. The second campus houses Riverside High School.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2019 and 2018.

New Accounting Pronouncement: During fiscal year 2019, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU enhances the understandability of net asset classification, requires information about liquidity and availability of resources, and increases the consistency in the type of information provided about expenses and investment return. ASU No. 2016-14 has been applied retrospectively to all years presented, except for the analysis of expenses by both natural classification and functional classification and disclosures about liquidity and availability of resources which were both omitted for fiscal year 2018, as permitted by the ASU in the year of adoption.

Also during fiscal year 2019, the Organization adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that a consolidated statement of cash flows include the change during the year in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU No. 2016-18 has been applied retrospectively to all years presented, which resulted in the consolidated statement of cash flows for the year ended June 30, 2018 explaining an increase in restricted cash of \$1,492,836 that was previously excluded.

Basis of Presentation: The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

- **Net Assets Without Donor Restrictions** are not subject to donor-imposed restrictions and may be used at the discretion of the Organization's management and Board of Directors. This net asset category includes Board-designated net assets.
- **Net Assets With Donor Restrictions** are subject to stipulations imposed by donors. All of the Organization's donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time.

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. 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.

Estimates: The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Cash and Equivalents consist of cash in demand deposit accounts and highly liquid investments purchased with an original maturity of three months or less. Cash and equivalents do not include cash restricted by donors for long-term purposes. The Organization maintains its cash in bank deposit accounts which, at times, may exceed the federally insured limits. The Organization has not experienced any losses from its bank accounts.

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. See Note 3 for discussion of fair value measurements.

Investment return, net, reported in the consolidated statements of activities in other income, 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.

Grants Receivable represent the uncollected portion of funds from grants awarded to the Organization. Grants receivable are reported net of an allowance for doubtful accounts. There were no allowances, as of June 30, 2019 and 2018, 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.

Promises to Give consist of gifts from various individuals payable in future installments. Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Amounts expected to be collected in future years 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. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Promises to give are reviewed for collectability and a provision for doubtful accounts is recorded based on management's judgment and analysis of the creditworthiness of the donors, historical experience, economic conditions, and other relevant factors.

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 that 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.

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. No adjustments to the carrying amount of long-lived assets were required in 2019 and 2018.

Deferred Financing Costs, incurred upon the issuance of debt are capitalized and amortized over the term of the related debt using the effective interest rate method. 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. At June 30, 2019 and 2018, deferred financing costs totaled \$339,925 and accumulated amortization totaled \$88,871 and \$38,867, respectively. Related amortization reported as interest expense was \$50,004 and \$11,606 in the years ended June 30, 2019 and 2018, respectively.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 support with donor restrictions if received with donor stipulations that limit the use of the donated assets.

Contributed Materials and Services: Contributions of services are recorded at estimated fair value when received if such services require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not donated. Volunteers contribute significant amounts of time to the Organization’s activities that do not meet recognition criteria, and the value of these contributed services is not reflected in the consolidated financial statements. Contributions of food, equipment, and other goods are recorded at estimated fair value when received. The Organization received no in-kind contributions during the years ended June 30, 2019 and 2018.

Advertising Costs are expensed as incurred and totaled \$46,036 in 2019 and \$28,423 in 2018.

Functional Allocation of Expenses: The costs of providing program and other activities have been summarized on a functional basis in the consolidated statement of functional expenses for 2019 and are summarized below for 2018. 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). Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Expenses by functional classifications for the year ended June 30, 2018, were as follows:

Education program	\$8,567,906
Management and general	941,343
Fundraising	<u>478,610</u>
 Total Expenses	 <u>\$9,987,859</u>

Network Cost Allocations: Financial transactions that relate to the overall management of the 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 percentages for the year ended June 30, 2019 were 76% to Herron High School and 24% to Riverside High School. The allocation percentages for the year ended June 30, 2018 were 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, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Internal Revenue Code. 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 tax for fiscal years 2019 and 2018.

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.

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 2016. Management believes that the Organization’s income tax filing position will be sustained on audit and does not anticipate any adjustments that will result in a material change.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$986,751 and \$2,088,771 in excess of insured limits at June 30, 2019 and 2018, 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 82% and 65% of the Organization's revenues and support for the years ended June 30, 2019 and 2018, 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.

Reclassifications: Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the presentation of the 2019 consolidated financial statements.

Subsequent Events: Management has evaluated the consolidated financial statements for subsequent events occurring through December 19, 2019, the date the consolidated financial statements were available to be issued. See Notes 2 and 8.

NOTE 2 - AVAILABLE RESOURCES AND LIQUIDITY

The Organization's financial assets available for general expenditure within one year of June 30, 2019 were as follows:

Cash and equivalents	\$ 787,085
Restricted cash	852,591
Restricted certificates of deposit	1,174,537
Accounts receivable, net	35,780
Grants receivable	214,442
Promises to give, net	39,829
Insurance proceeds receivable	15,780
New Market Tax Credit note receivable	<u>6,108,240</u>
Total Financial Assets	<u>9,228,284</u>
Board-designated net assets	(64,202)
Restricted cash	(852,591)
Restricted certificates of deposit	(1,174,537)
Promises to give due in more than one year	(16,583)
New Market Tax Credit note receivable	(6,108,240)
Donor-imposed Restrictions:	
Funds subject to expenditure for specified purpose	<u>(66,159)</u>
Total Financial Assets Available Within One Year	<u>\$ 945,972</u>

NOTE 2 - AVAILABLE RESOURCES AND LIQUIDITY (CONTINUED)

The Organization considers contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major and central to its operations to be available to meet cash needs for general expenditures. Restricted cash and certificates of deposit for long-term or capital purposes are excluded. Board-designated assets are excluded, but could be made available for general expenditures if necessary.

The Organization maintains an annual budget which is reviewed and reported against internally throughout the year. The Board of Directors approves the annual budget and monitors performance.

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 8, the Organization also has a line of credit in the amount of \$250,000; however, there was no availability on the line of credit as of June 30, 2019. The line of credit was increased to \$350,000 on July 9, 2019. See Note 8.

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, 2019 and 2018.

Certificates of Deposit: Valued by discounting cash flows based on interest rates of similar instruments with similar credit ratings and duration.

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.

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2019 and 2018:

2019	Level 2	Total
Assets		
Certificates of Deposit	<u>\$1,174,537</u>	<u>\$1,174,537</u>
Total Assets at Fair Value	<u>\$1,174,537</u>	<u>\$1,174,537</u>
2018		
Assets		
Certificates of Deposit	<u>\$ 498,145</u>	<u>\$ 498,145</u>
Total Assets at Fair Value	<u>\$ 498,145</u>	<u>\$ 498,145</u>

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.

At June 30, 2019 and 2018, the Organization had no other assets and no liabilities that are measured at fair value on a recurring basis.

NOTE 4 - INVESTMENTS

Investments, which are included in the consolidated statements of financial position as restricted certificates of deposit, consisted of the following at June 30, 2019 and 2018:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Certificates of Deposit	<u>\$1,175,000</u>	<u>\$1,174,537</u>	<u>\$500,000</u>	<u>\$498,145</u>

The Organization’s investment income, included in other income on the consolidated statements of activities, consisted of \$464 and \$2,909 of unrealized losses for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, represented amounts due relating to the following sources and are all due within one year:

	2019	2018
Title I	\$102,822	\$28,040
Special education	30,921	24,438
Title II	3,500	6,921
IDOE		30,691
Charter School Program	52,899	
Title IV	<u>24,300</u>	<u> </u>
Total Grants Receivable	<u>\$214,442</u>	<u>\$90,090</u>

NOTE 6 - UNCONDITIONAL PROMISES TO GIVE

Promises to give were estimated to be collected as follows as of June 30, 2019 and 2018:

	2019	2018
Within one year	\$28,634	\$334,684
In one to five years	<u>17,666</u>	<u>225,432</u>
	46,300	560,116
Unamortized discounts	(1,071)	(13,571)
Allowances for uncollectible amounts	<u>(5,400)</u>	<u>(5,400)</u>
Total Promises to Give, net	<u>\$39,829</u>	<u>\$541,145</u>

Promises to give were restricted by donors for the following purposes as of June 30, 2019 and 2018:

	2019	2018
Capital campaign		\$ 50
Replication at Heslar Naval Armory	<u>\$39,829</u>	<u>541,095</u>
Total Promises to Give, net	<u>\$39,829</u>	<u>\$541,145</u>

Promises to give are discounted at 2.5% at June 30, 2019 and 2018.

Promises to give are included in the consolidated statements of financial position at June 30, 2019 and 2018 as follows:

	2019	2018
Current portion of promises to give, net	\$23,246	\$329,283
Long-term promises to give, net of current portion and unamortized discounts	<u>16,583</u>	<u>211,862</u>
Total Promises to Give, net	<u>\$39,829</u>	<u>\$541,145</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, 2019 and 2018, rent expense with the Center totaled \$20,350 and \$20,700, respectively. See Note 12.

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 30th 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.

See Note 1 for discussion of leasing transactions between RHS and RHS RE.

NOTE 8 - DEBT AND CREDIT ARRANGEMENTS

Effective November 6, 2018, the School entered into a revolving credit agreement with a bank to provide for maximum borrowings of \$250,000. At June 30, 2019 outstanding borrowings totaled \$250,000. Borrowings bear interest at the Prime rate, as defined in the credit agreement (5.50% at June 30, 2019). The credit agreement is secured by substantially all of the School’s assets and requires compliance with certain financial and nonfinancial covenants. Effective July 9, 2019, maximum borrowings on the line of credit were increased to \$350,000.

Long-term debt consisted of the following at June 30, 2019 and 2018:

	2019	2018
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)	\$3,190,477	\$3,335,418
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)	112,441	126,324
IFF loan payable. See Note 9.	409,887	1,000,000
Redevelopment Commission of the City of Indianapolis – Marion County loan payable (TIF Loan). See Note 9.	1,500,000	1,500,000
Note payable to a board member. The note was non-interest bearing and due on demand. The note was repaid in 2019. See Note 12.		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>1,944,072</u>	<u>2,044,937</u>
	7,156,877	8,306,679
Less: Unamortized deferred financing costs	(93,890)	(103,255)
Less: Current maturities	<u>(273,938)</u>	<u>(556,872)</u>
Total Long-term Debt, net	<u>\$6,789,049</u>	<u>\$7,646,552</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 - DEBT AND CREDIT ARRANGEMENTS (CONTINUED)

At June 30, 2019, 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	IFF Loan	TIF Loan	
June 30, 2020	\$ 154,377	\$ 14,881	\$ 104,680			\$ 273,938
June 30, 2021	165,062	15,950	108,038			289,050
June 30, 2022	176,489	17,096	111,504			305,089
June 30, 2023	188,707	18,325	115,080			322,112
June 30, 2024	201,771	19,641	1,504,770			1,726,182
Thereafter	<u>2,304,071</u>	<u>26,548</u>		<u>\$ 409,887</u>		2,740,506
Forgiveable Loans					<u>\$ 1,500,000</u>	1,500,000
Total	<u>\$ 3,190,477</u>	<u>\$ 112,441</u>	<u>\$ 1,944,072</u>	<u>\$ 409,887</u>	<u>\$ 1,500,000</u>	<u>\$ 7,156,877</u>

Total interest expense for long-term debt was \$198,889 and \$172,774 for the years ended June 30, 2019 and 2018, 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 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.

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 statements of financial position in the amount of \$6,108,240 at June 30, 2019 and 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 NMTC 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, 2019, the loan was paid in full.

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.

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, 2019, 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 12.

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

A summary of the Organization's NMTC notes payable included in the consolidated statements of financial position is as follows as of June 30, 2019 and 2018.

	2019	2018
NMTC Note A	\$6,108,240	\$6,108,240
NMTC Note B	<u>2,912,760</u>	<u>2,912,760</u>
	9,021,000	9,021,000
Less: Unamortized deferred financing cost	<u>(157,164)</u>	<u>(197,804)</u>
Total New Market Tax Credit Notes Payable, net	<u>\$8,863,836</u>	<u>\$8,823,196</u>

Interest of \$47,861 was capitalized for the year ended June 30, 2018. No interest was capitalized for the year ended June 30, 2019, as the assets were placed in service.

NOTE 10 - NET ASSETS***Net Assets Without Donor Restrictions***

Net assets without donor restrictions consisted of the following at June 30, 2019 and 2018:

	2019	2018
Board-designated – Replication at Heslar Naval Armory	\$ 64,202	
Undesignated	<u>6,839,995</u>	<u>\$6,467,713</u>
Total Net Assets Without Donor Restrictions	<u>\$6,904,197</u>	<u>\$6,467,713</u>

Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of June 30, 2019 and 2018:

	2019	2018
Subject to Expenditures for Specified Purpose:		
Capital campaign	\$1,551,746	\$1,680,180
Replication at Heslar Naval Armory		532,623
The Mind Trust – Capacity Building Funds	7,881	31,843
CICF – Russell Masonry	8,550	8,550
CICF – Library	4,298	6,500
Photography		23,103
Prevention Matters	10,121	10,700
Science equipment		1,711
Children's Bureau – Programming for free and reduced lunch students	29,990	
Allen Whitehill Clowes Capital Grant	<u>5,318</u>	<u>5,318</u>
Total Net Assets With Donor Restrictions	<u>\$1,617,904</u>	<u>\$2,300,528</u>

NOTE 10 - NET ASSETS (CONTINUED)

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 for fiscal years 2019 and 2018:

	2019	2018
Satisfaction of Purpose Restrictions:		
Capital campaign	\$161,315	\$ 149,839
Replication at Heslar Naval Academy	589,776	1,968,232
The Mind Trust – Capacity Building Funds	212,713	218,157
College visits		5,000
Lilly Endowment Counseling		28,500
CICF – Russell Masonry		450
CICF – Library	2,202	
Photography	23,103	26,897
Prevention Matters	578	1,800
Science equipment	1,711	3,240
Children’s Bureau – Programming for free and reduced lunch students	<u>5,010</u>	<u> </u>
Total Net Assets Released from Restrictions	<u>\$996,408</u>	<u>\$2,402,115</u>

NOTE 11 - BENEFIT PLANS

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 \$475,593 and \$357,051 for the years ended June 30, 2019 and 2018, 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, IC 5-10.4, and 35 IAC 14) 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 \$41,274 and \$30,751 for the years ended June 30, 2019 and 2018, 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 12 - 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. During fiscal year 2018, a board member from the School also served as the Executive Director of the Center. The individual was no longer a voting member of the board during fiscal year 2019. Related party rent expense totaled \$20,700 for the year ended June 30, 2018. Additional payments to the Center totaled \$4,637 for the year ended June 30, 2018. 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 \$74,759 and \$61,940 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, the outstanding principal balance on the note was \$112,441 and \$126,324, respectively. During fiscal years 2019 and 2018, interest expense paid to the member of the School's board was \$8,484 and \$9,414, respectively. 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 and was paid in full on March 14, 2018. 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. The loan was repaid in full during fiscal year 2019. As of June 30, 2018, the outstanding principal balance was \$300,000. See Note 8.

Gross promises to give from members of the School's board totaled \$25,333 and \$535,000 at June 30, 2019 and 2018, respectively.

NOTE 13 - CONCENTRATIONS

Contributions from two donors represented 56.4% and 57.9% of total contributions and grants during the years ended June 30, 2019 and 2018, respectively.

NOTE 14 - 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 years ended June 30, 2019 and 2018, the School received a 60% discount for internet connectivity.

NOTE 15 - INVOLUNTARY CONVERSION

During fiscal year 2019, the School had water damage at Riverside High School. Under the School's insurance policy, property and equipment losses were reimbursed at replacement costs. Additional expenses due to water damage were determined under various methods. During 2019, the School received \$369,958 in gross proceeds from the School's insurance policy. In 2019, a gain on involuntary conversion of \$274,211 was recorded and insurance proceeds receivable at June 30, 2019 were \$15,780.

CONSOLIDATING INFORMATION

*Independent Auditors' Report
on Consolidating 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, 2019, and our report thereon dated December 19, 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
December 19, 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, 2019**

ASSETS	Herron High School, Inc.	Riverside High School, LLC	Total	Riverside High School RE MM, LLC - Consolidated		Eliminations	Total	Eliminations	Consolidated
				Riverside High School RE MM, LLC	Riverside High School Real Estate, LLC				
CURRENT ASSETS									
Cash and equivalents	\$ 455,226	\$ 331,859	\$ 787,085						\$ 787,085
Restricted cash	370,510	9,520	380,030						852,591
Accounts receivable	275	3,005	3,280		\$ 472,561		\$ 472,561	\$ (32,500)	3,280
Grants receivable	78,433	136,009	214,442		32,500		32,500		214,442
Current portion of promises to give, net of allowance for uncollectible accounts of \$5,400		23,246	23,246						23,246
Insurance proceeds receivable		15,780	15,780						15,780
Prepaid expenses	95,838	14,610	110,448						110,448
Total Current Assets	<u>1,000,282</u>	<u>534,029</u>	<u>1,534,311</u>		<u>505,061</u>		<u>505,061</u>		<u>2,006,872</u>
PROPERTY AND EQUIPMENT									
Land	614,000		614,000		354,100		354,100	(354,100)	614,000
Buildings and improvements	9,362,650	25,996	9,388,646		9,754,344		9,754,344	(571,843)	18,571,147
Furniture and equipment	778,048	210,459	988,507						988,507
Computer and office equipment	806,422	263,219	1,069,641						1,069,641
Books and educational materials	254,995	13,436	268,431						268,431
Vehicles	20,354	33,290	53,644						53,644
	11,836,469	546,400	12,382,869		10,108,444		10,108,444	(925,943)	21,565,370
Less: Accumulated depreciation	(3,812,332)	(75,444)	(3,887,776)		(214,850)		(214,850)		(4,102,626)
Total Property and Equipment, net	<u>8,024,137</u>	<u>470,956</u>	<u>8,495,093</u>		<u>9,893,594</u>		<u>9,893,594</u>	<u>(925,943)</u>	<u>17,462,744</u>
OTHER ASSETS									
Restricted certificates of deposit	1,174,537		1,174,537						1,174,537
Promises to give, net of current portion and unamortized discounts		16,583	16,583						16,583
Investment in subsidiary		330,173	330,173	\$ 330,173		\$ (330,173)		(330,173)	
New Market Tax Credit note receivable		6,108,240	6,108,240						6,108,240
Intangible assets, other					8,470		8,470		8,470
Due from affiliates		253,914	253,914					(253,914)	
Total Other Assets	<u>1,174,537</u>	<u>6,708,910</u>	<u>7,883,447</u>	<u>330,173</u>	<u>8,470</u>	<u>(330,173)</u>	<u>8,470</u>	<u>(584,087)</u>	<u>7,307,830</u>
TOTAL ASSETS	<u>\$ 10,198,956</u>	<u>\$ 7,713,895</u>	<u>\$ 17,912,851</u>	<u>\$ 330,173</u>	<u>\$ 10,407,125</u>	<u>\$ (330,173)</u>	<u>\$ 10,407,125</u>	<u>\$ (1,510,030)</u>	<u>\$ 26,777,446</u>
LIABILITIES AND NET ASSETS/MEMBERS' EQUITY									
CURRENT LIABILITIES									
Accounts payable	\$ 108,807	\$ 84,880	\$ 193,687					\$ (32,500)	\$ 161,187
Accrued expenses	741,542	216,591	958,133						958,133
Line of credit borrowings	190,210	59,790	250,000						250,000
Current maturities of long-term debt	273,938		273,938						273,938
Total Current Liabilities	<u>1,314,497</u>	<u>361,261</u>	<u>1,675,758</u>						<u>1,643,258</u>
LONG-TERM LIABILITIES									
Long-term debt, less current maturities and unamortized deferred financing costs	4,893,181	1,895,868	6,789,049						6,789,049
Intercompany payable									
New Market Tax Credit notes payable, less unamortized deferred financing costs					\$ 8,863,836		\$ 8,863,836		8,863,836
Due to affiliates					253,914		253,914	(253,914)	
Total Long-term Liabilities	<u>4,893,181</u>	<u>1,895,868</u>	<u>6,789,049</u>		<u>9,117,750</u>		<u>9,117,750</u>	<u>(253,914)</u>	<u>15,652,885</u>
Total Liabilities	<u>6,207,678</u>	<u>2,257,129</u>	<u>8,464,807</u>		<u>9,117,750</u>		<u>9,117,750</u>		<u>17,296,143</u>
NET ASSETS/MEMBERS' EQUITY									
Without donor restrictions	2,382,902	5,447,238	7,830,140					(925,943)	6,904,197
With donor restrictions	1,608,376	9,528	1,617,904						1,617,904
Members' equity				\$ 330,173	330,173	\$ (330,173)	330,173	(330,173)	
Noncontrolling interest in members' equity					959,202		959,202		959,202
Total Net Assets/Members' Equity	<u>3,991,278</u>	<u>5,456,766</u>	<u>9,448,044</u>	<u>330,173</u>	<u>1,289,375</u>	<u>(330,173)</u>	<u>1,289,375</u>	<u>(1,510,030)</u>	<u>9,481,303</u>
TOTAL LIABILITIES AND NET ASSETS/MEMBERS' EQUITY	<u>\$ 10,198,956</u>	<u>\$ 7,713,895</u>	<u>\$ 17,912,851</u>	<u>\$ 330,173</u>	<u>\$ 10,407,125</u>	<u>\$ (330,173)</u>	<u>\$ 10,407,125</u>	<u>\$ (1,510,030)</u>	<u>\$ 26,777,446</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, 2019

	Herron High School, Inc.			Riverside High School, LLC			Riverside High School RE MM, LLC - Consolidated							
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Riverside High School RE MM, LLC Without Donor Restrictions	Riverside High School Real Estate, LLC Without Donor Restrictions	Noncontrolling Interest	Eliminations	Total	Eliminations	Consolidated	
REVENUES AND SUPPORT														
School lunch program	\$ 243,421		\$ 243,421	\$ 96,297		\$ 96,297	\$ 339,718						\$ 339,718	
Student fees and fundraising	338,521		338,521	47,131		47,131	385,652						385,652	
Contributions and grants	461,516	\$ 163,500	625,016	124,830	\$ 117,300	242,130	867,146						867,146	
Federal and state support	7,209,465		7,209,465	2,524,339		2,524,339	9,733,804						9,733,804	
Other income	64,892	32,831	97,723	846,276	153	846,429	944,152	\$ (2,512)	\$ 140,000		\$ 2,512	\$ 140,000	\$ (879,431)	204,721
Gain on involuntary conversion				274,211		274,211	274,211						274,211	
Net assets released from restrictions	351,529	(351,529)		644,879	(644,879)									
Total Revenues and Support	8,669,344	(155,198)	8,514,146	4,557,963	(527,426)	4,030,537	12,544,683	(2,512)	140,000		2,512	140,000	(879,431)	11,805,252
EXPENSES														
Salaries and benefits	5,879,402		5,879,402	2,017,109		2,017,109	7,896,511						7,896,511	
Instructional services	110,859		110,859	53,160		53,160	164,018						164,018	
Information technology	76,017		76,017	26,316		26,316	102,333						102,333	
Accounting services	34,980		34,980	10,995		10,995	45,975						45,975	
Other outside services	367,131		367,131	176,408		176,408	543,539		32,000	32,000			575,539	
Course materials and supplies	421,556		421,556	195,561		195,561	617,117						617,117	
Nutritional support	282,265		282,265	134,372		134,372	416,637						416,637	
Travel and entertainment	99,834		99,834	9,772		9,772	109,606						109,606	
Vehicle and transportation expense	71,134		71,134	32,728		32,728	103,862						103,862	
Rent and facilities	662,436		662,436	448,259		448,259	1,110,695					(140,000)	970,695	
Depreciation	428,385		428,385	80,171		80,171	508,556		214,850	214,850			723,406	
Interest expense	136,635		136,635	62,254		62,254	198,889		144,367	144,367			343,256	
Insurance	77,335		77,335	47,803		47,803	125,138						125,138	
Advertising	27,695		27,695	18,341		18,341	46,036						46,036	
Loss on disposal of assets				36,504		36,504	36,504						36,504	
Miscellaneous	20,551		20,551	2,913		2,913	23,464						23,464	
Total Expenses	8,696,214		8,696,214	3,352,666		3,352,666	12,048,880	-	391,217		-	391,217	(140,000)	12,300,097
INCREASE (DECREASE) IN NET ASSETS	(26,870)	(155,198)	(182,068)	1,205,297	(527,426)	677,871	495,803	(2,512)	(251,217)		2,512	(251,217)	(739,431)	(494,845)
TRANSFERS				184,000	(184,000)									
INCREASE (DECREASE) IN NET ASSETS RELATED TO NONCONTROLLING INTEREST									248,705	\$ (248,705)				
CONTRIBUTIONS FROM MEMBERS, net								314,151	18,680	912,436	(314,151)	931,116	(18,680)	912,436
NET ASSETS/MEMBERS' EQUITY														
Beginning of Year	2,409,772	1,763,574	4,173,346	4,057,941	720,954	4,778,895	8,952,241	18,534	314,005	295,471	(18,534)	609,476	(498,005)	9,063,712
End of Year	\$ 2,382,902	\$ 1,608,376	\$ 3,991,278	\$ 5,447,238	\$ 9,528	\$ 5,456,766	\$ 9,448,044	\$ 330,173	\$ 330,173	\$ 959,202	\$ (330,173)	\$ 1,289,375	\$ (1,256,116)	\$ 9,481,303

OTHER REPORTS AND SUPPLEMENTARY INFORMATION

**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*.

*Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards*

Board of Directors

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Herron High School, Inc. d/b/a Indianapolis Classical Schools and Its Wholly-Owned Subsidiaries (the Organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon, dated December 19, 2019.

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 that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
December 19, 2019

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019**

	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through Indiana State Department of Education:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	FY 2018-2019	\$ 203,456
Summer Food Service Program for Children	10.559	FY 2018-2019	27,144
Total Child Nutrition Cluster			<u>230,600</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through Indiana State Department of Education:			
Special Education Cluster:			
Special Education Grants to States	84.027	H027A180084	167,628
Title I Grants to Local Educational Agencies	84.010	S010A180014	297,376
Charter Schools	84.282	000000000000000000028403	270,583
Supporting Effective Instruction State Grants	84.367	S367A180013	27,542
Student Support and Academic Enrichment Program	84.424	S424A180015	24,300
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,018,029</u></u>

See accompanying notes to schedule of expenditures of federal awards.

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Herron High School, Inc. d/b/a Indianapolis Classical Schools and Its Wholly-Owned Subsidiaries (the Organization) for the year ended June 30, 2019. The information in the 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 operations of the Organization, it is not intended to and does not present the net assets, changes in net assets, or cash flows of the Organization.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 2 - INDIRECT COST RATE

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

*Independent Auditors' Report on Compliance
for Each Major Federal Program and on Internal Control
over Compliance Required by the Uniform Guidance*

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

Report on Compliance for Each Major Federal Program

We have audited Herron High School, Inc. d/b/a Indianapolis Classical Schools and Its Wholly-Owned Subsidiaries (the Organization)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2019. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Herron High School, Inc. d/b/a Indianapolis Classical Schools and Its Wholly-Owned Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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.

Katz, Apper & Miller, LLP

Indianapolis, Indiana
December 19, 2019

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019**

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued [*unmodified, qualified, adverse, or disclaimer*]: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditors' report issued on compliance for major programs [*unmodified, qualified, adverse, or disclaimer*]: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
84.010	Title I Grants to Local Educational Agencies
84.282	Charter Schools

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

FINANCIAL STATEMENT AUDIT FINDINGS

None

FEDERAL AWARDS PROGRAM AUDIT FINDINGS AND QUESTIONED COSTS

None