



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B56560

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

April 5, 2021

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, 2019 to June 30, 2020. 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, 2020 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report on pages 35 through 39. Please see the Schedule of Findings and Questioned Costs for complete details related to the findings. Management's Corrective Action Plan appears on pages 40 through 42.

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, 2020 and 2019

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

CONTENTS

	Page
CONSOLIDATED FINANCIAL STATEMENTS	
Independent Auditors' Report	1-2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5-6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-23
CONSOLIDATING INFORMATION	
Consolidating Schedule – Statement of Financial Position Information	24
Consolidating Schedule – Statement of Activities Information	25
OTHER REPORTS AND SUPPLEMENTARY INFORMATION	
Other Reports	26
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 <i>Government Auditing Standards</i>	27-28
Schedule of Expenditures of Federal Awards	29-30
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	31-33
Schedule of Findings and Questioned Costs	34-39
Corrective Action Plan	40-42

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, 2020 and 2019, and the related consolidated statements of activities, functional expenses 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, 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 financial position of Herron High School, Inc. d/b/a Indianapolis Classical Schools and Its Wholly-Owned Subsidiaries as of June 30, 2020 and 2019, 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 2020, Herron High School, Inc. d/b/a Indianapolis Classical Schools and Its Wholly-Owned Subsidiaries adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. 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 consolidating schedules of statement of financial position information and statement of activities information are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. 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 also presented for purposes of additional analysis and is also 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 March 15, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

Katy, Apper & Miller, LLP

Indianapolis, Indiana
March 15, 2021

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019**

ASSETS

	2020	2019
CURRENT ASSETS		
Cash and equivalents	\$ 2,100,425	\$ 787,085
Restricted cash	1,039,781	852,591
Accounts receivable	39,689	3,280
Grants receivable	315,219	214,442
Current portion of promises to give, net	29,242	23,246
Insurance proceeds receivable		15,780
Prepaid expenses	82,952	110,448
Total Current Assets	<u>3,607,308</u>	<u>2,006,872</u>
PROPERTY AND EQUIPMENT		
Land	614,000	614,000
Buildings and improvements	18,722,510	18,571,147
Furniture and equipment	1,061,469	988,507
Computer and office equipment	1,246,978	1,069,641
Books and educational materials	280,024	268,431
Vehicles	104,445	53,644
	22,029,426	21,565,370
Less: Accumulated depreciation	(4,915,416)	(4,102,626)
Total Property and Equipment, net	<u>17,114,010</u>	<u>17,462,744</u>
OTHER ASSETS		
Restricted certificates of deposit	1,000,000	1,174,537
Promises to give, net of current portion and unamortized discounts	9,518	16,583
New Market Tax Credit note receivable	6,108,240	6,108,240
Intangible assets, other	8,332	8,470
Total Other Assets	<u>7,126,090</u>	<u>7,307,830</u>
TOTAL ASSETS	<u>\$ 27,847,408</u>	<u>\$ 26,777,446</u>

LIABILITIES AND NET ASSETS/MEMBERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 144,266	\$ 161,187
Accrued expenses	1,092,373	958,133
Line of credit borrowings		250,000
Paycheck Protection Program loan	1,633,812	
Current maturities of long-term debt	289,052	273,938
Total Current Liabilities	<u>3,159,503</u>	<u>1,643,258</u>
LONG-TERM LIABILITIES		
Long-term debt, less current maturities and unamortized deferred financing costs	6,514,463	6,789,049
New Market Tax Credit notes payable, less unamortized deferred financing costs	8,871,726	8,863,836
Total Long-term Liabilities	<u>15,386,189</u>	<u>15,652,885</u>
Total Liabilities	<u>18,545,692</u>	<u>17,296,143</u>
NET ASSETS/MEMBERS' EQUITY		
Without donor restrictions	6,658,018	6,904,197
With donor restrictions	1,858,122	1,617,904
Noncontrolling interest in members' equity	785,576	959,202
Total Net Assets/Members' Equity	<u>9,301,716</u>	<u>9,481,303</u>
TOTAL LIABILITIES AND NET ASSETS/MEMBERS' EQUITY	<u>\$ 27,847,408</u>	<u>\$ 26,777,446</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, 2020 and 2019**

	2020				2019			
	Without Donor Restrictions	With Donor Restrictions	Noncontrolling Interest	Total	Without Donor Restrictions	With Donor Restrictions	Noncontrolling Interest	Total
REVENUES AND SUPPORT								
School lunch program	\$ 315,346			\$ 315,346	\$ 339,718			\$ 339,718
Student fees	313,229			313,229	385,652			385,652
Contributions and grants	502,715	\$ 348,289		851,004	586,346	\$ 280,800		867,146
Federal and state support	11,401,643			11,401,643	9,733,804			9,733,804
Other income	131,609	35,132		166,741	171,737	32,984		204,721
Gain on involuntary conversion					274,211			274,211
Net assets released from restrictions	143,203	(143,203)			996,408	(996,408)		
Total Revenues and Support	<u>12,807,745</u>	<u>240,218</u>		<u>13,047,963</u>	<u>12,487,876</u>	<u>(682,624)</u>		<u>11,805,252</u>
EXPENSES								
Salaries and benefits	8,870,529			8,870,529	7,896,511			7,896,511
Instructional services	94,470			94,470	164,018			164,018
Information technology	129,970			129,970	102,333			102,333
Accounting services	53,093			53,093	45,975			45,975
Other outside services	819,602			819,602	575,539			575,539
Course materials and supplies	503,911			503,911	617,117			617,117
Nutritional support	400,593			400,593	416,637			416,637
Travel and entertainment	38,262			38,262	109,606			109,606
Vehicle and transportation expense	71,717			71,717	103,862			103,862
Rent and facilities	1,104,389			1,104,389	970,695			970,695
Depreciation	812,789			812,789	723,406			723,406
Interest expense	275,641			275,641	343,256			343,256
Insurance	134,316			134,316	125,138			125,138
Advertising	34,653			34,653	46,036			46,036
Loss on disposal of assets					36,504			36,504
Miscellaneous	14,500			14,500	23,464			23,464
Total Expenses	<u>13,358,435</u>			<u>13,358,435</u>	<u>12,300,097</u>			<u>12,300,097</u>
INCREASE (DECREASE) IN NET ASSETS	(550,690)	240,218		(310,472)	187,779	(682,624)		(494,845)
INCREASE (DECREASE) IN NET ASSETS RELATED TO NONCONTROLLING INTEREST	304,511		\$ (304,511)		248,705		\$ (248,705)	
CONTRIBUTIONS FROM MEMBERS, net			130,885	130,885			912,436	912,436
NET ASSETS/MEMBERS' EQUITY								
Beginning of Year	6,904,197	1,617,904	959,202	9,481,303	6,467,713	2,300,528	295,471	9,063,712
End of Year	<u>\$ 6,658,018</u>	<u>\$ 1,858,122</u>	<u>\$ 785,576</u>	<u>\$ 9,301,716</u>	<u>\$ 6,904,197</u>	<u>\$ 1,617,904</u>	<u>\$ 959,202</u>	<u>\$ 9,481,303</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, 2020**

	Education Program	Fundraising	Management and General		
			Other	Real Estate	Total
Salaries and benefits	\$ 7,867,046	\$ 115,228	\$ 888,255		\$ 8,870,529
Instructional services	94,470				94,470
Information technology	119,412	1,297	9,261		129,970
Accounting services			53,093		53,093
Other outside services	614,100	12,035	89,088	\$ 104,379	819,602
Course materials and supplies	479,677	14,659	9,575		503,911
Nutritional support	397,674	1,095	1,824		400,593
Travel and entertainment	37,190	157	915		38,262
Vehicle and transportation expense	71,717				71,717
Rent and facilities	877,619	23,744	203,026		1,104,389
Depreciation	480,830	7,879	89,110	234,970	812,789
Interest expense	155,958	2,050	19,395	98,238	275,641
Insurance	9,148		125,168		134,316
Advertising	10,447	8	24,198		34,653
Miscellaneous	5,337	13	9,150		14,500
TOTAL EXPENSES BY FUNCTION	\$ 11,220,625	\$ 178,165	\$ 1,522,058	\$ 437,587	\$ 13,358,435

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	<u>\$ 10,242,094</u>	<u>\$ 380,751</u>	<u>\$ 1,286,035</u>	<u>\$ 391,217</u>	<u>\$ 12,300,097</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, 2020 and 2019**

	2020	2019
OPERATING ACTIVITIES		
Decrease in net assets	\$ (310,472)	\$ (494,845)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Depreciation	812,789	723,406
Amortization of deferred financing costs in interest expense	22,619	50,004
Loss on disposal of assets		36,504
Gain on involuntary conversion		(274,211)
Unrealized (gain) loss on certificates of deposit	(463)	464
Contributions restricted for long-term investment		(56,050)
(Increase) decrease in certain assets:		
Accounts receivable	(36,409)	(3,280)
Grants receivable	(100,777)	(124,352)
Promises to give		(12,501)
Prepaid expenses	27,496	(3,647)
Increase (decrease) in certain liabilities:		
Accounts payable	(35,362)	(455,854)
Accrued expenses	134,240	177,341
Net Cash Provided (Used) by Operating Activities	<u>513,661</u>	<u>(437,021)</u>
INVESTING ACTIVITIES		
Insurance proceeds received related to involuntary gain		369,958
Decrease (increase) in insurance proceeds receivable	15,780	(15,780)
Purchases of property and equipment	(445,614)	(1,975,171)
Maturity of certificates of deposit	175,000	
Net Cash Used by Investing Activities	<u>(254,834)</u>	<u>(1,620,993)</u>
FINANCING ACTIVITIES		
Contributions from members, net	130,885	912,436
Line of credit borrowings	100,000	480,262
Line of credit repayments	(350,000)	(230,262)
Long-term debt repayments	(274,063)	(1,149,802)
Borrowings on Paycheck Protection Program loan	1,633,812	
Proceeds from contributions restricted for long-term investment	1,069	569,867
Net Cash Provided by Financing Activities	<u>1,241,703</u>	<u>582,501</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS AND RESTRICTED CASH	1,500,530	(1,475,513)
CASH AND EQUIVALENTS AND RESTRICTED CASH		
Beginning of Year	<u>1,639,676</u>	<u>3,115,189</u>
End of Year	<u>\$ 3,140,206</u>	<u>\$ 1,639,676</u>
CASH AND EQUIVALENTS AND RESTRICTED CASH		
Cash and equivalents	\$ 2,100,425	\$ 787,085
Restricted cash	<u>1,039,781</u>	<u>852,591</u>
TOTAL CASH AND EQUIVALENTS AND RESTRICTED CASH	<u>\$ 3,140,206</u>	<u>\$ 1,639,676</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	\$ 154,988	\$ 293,113
Noncash investing and financing activities:		
Property and equipment included in accounts payable	18,441	28,853

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, 2020 and 2019**

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.

The School currently operates two High Schools, Herron High School and Riverside High School. Herron High School opened in 2006 and is located on the historic campus in Herron-Morton Place. Riverside High School opened in 2017 and is housed in the renovated Heslar Naval Armory.

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, as 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.

During fiscal year 2020, the School received approval from the Office of the Mayor of Indianapolis to open a third campus, which will offer classes for kindergarten through 8th grade. The new school is scheduled to open in a temporary site in August 2021.

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, 2020 and 2019.

New Accounting Pronouncements: On July 1, 2019, the Organization adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and the related amendments with the same effective date (together, ASC 606) as prescribed by the Financial Accounting Standards Board (FASB) using the modified retrospective method of adoption by which the ASU was applied for contracts that were either not completed as of June 30, 2019 or entered into after June 30, 2019. The core principle of ASC 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of ASC 606 did not have a significant impact on the Organization's revenue recognition, financial position, results of operations or cash flows. Therefore, no cumulative-effect adjustment to net assets as of July 1, 2019 was required upon adoption.

Also, on July 1, 2019, the Organization adopted ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU No. 2018-08). ASU No. 2018-08 clarifies and improves the scope and accounting guidance for contributions received and contributions made by providing guidance on whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and whether a contribution is conditional. ASU No. 2018-08 has been applied using a modified prospective basis in the fiscal year 2020 consolidated financial statements by which the ASU was applied for agreements that were either not completed as of June 30, 2019 or entered into after June 30, 2019. Therefore, no prior period results were restated and there was no cumulative-effect adjustment to the net assets as of July 1, 2019. ASU No. 2018-08 did not have a significant impact on the Organization's consolidated financial statements.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The Organization maintains its cash in bank deposit accounts which, at times, may exceed the federally insured limits. See Note 13.

Restricted Cash and Restricted Certificates of Deposit: The School's restricted cash and restricted certificates of deposit consist of amounts in demand deposit accounts and certificates of deposit designated by the board of directors for a specific purpose or subject to donor-imposed use restrictions from previous capital campaigns. RHS RE's restricted cash consists of amounts in demand deposit accounts which must be maintained based on terms imposed by the New Market Tax Credits financing program (the NMTC program). See Note 9.

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, 2020 and 2019, based on management's estimate of the amount of receivables that will actually be collected. Grants receivable are charged to the allowance or 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.

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. At June 30, 2020 and 2019, the allowance was \$5,400.

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 2020 and 2019.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2020 and 2019, deferred financing costs totaled \$339,925 and accumulated amortization totaled \$113,389 and \$88,871, respectively. Related amortization reported as interest expense was \$22,481 and \$50,004 in the years ended June 30, 2020 and 2019, respectively.

Revenue Recognition: The Organization recognizes revenue from the following sources:

School Lunch Program revenues are comprised of a food sales and federal and state support. Sales of food to students and faculty are classified as exchange transactions and are recognized at the point of sale. Federal support is considered a contribution and is accounted for accordingly as noted below. School lunch program exchange transactions were \$85,696 in 2020 and \$105,228 in 2019. School lunch program federal and state support was \$229,650 in 2020 and \$234,490 in 2019.

Student Fees, consists of sales of goods and services, such as textbooks or field trips, as well as support received the State of Indiana for student textbooks. Revenues derived from the sales of goods and services are considered exchange transactions and are recognized at the point of sale or when the service are provided. Support received from the State of Indiana for textbooks is a contribution and is accounted for accordingly as noted below. Revenues derived from exchange transactions recorded in student fees in the consolidated financial statements were \$261,204 in 2020 and \$347,371 in 2019. Support received from the State of Indiana for textbooks was \$52,025 in 2020 and \$38,281 in 2019.

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

Federal and State Support, primarily comes from resources provided under the Indiana Charter Schools Act (the Act). Under the Act, the School receives state support, as 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 School in May prior to the start of the school year. The official enrollment for first semester is submitted in September and any difference from the estimates are reconciled in monthly payments through December. Similarly, official enrollment for second semester is submitted in February with differences reconciled in monthly payments through June. Revenue is recognized in the year in which the educational services are rendered. The School also receives federal support, which is classified as contributions and given consistent treatment with contributions and grants described above.

Federal support received through grants and contracts normally provides for the recovery of direct costs or payment of a unit-price fee based on performance of measurable outputs. Entitlement to the recovery of the direct costs and performance-based unit-priced fee are conditional upon compliance with the terms and conditions of the grant agreements and with applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all federal support grants are subject to financial and compliance reviews and audits by the grantors. Management believes an adverse material outcome from those reviews and audits is unlikely.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 contributed services for educational administration totaling \$140,411 in 2020 which was recorded in the consolidated statement of activities as contributions and grants. The Organization received no in-kind contributions during 2019.

Advertising Costs are expensed as incurred and totaled \$34,653 in 2020 and \$46,036 in 2019.

Functional Allocation of Expenses: The costs of providing program and other activities have been summarized on a functional basis in the accompanying consolidated statements of functional expenses for the fiscal years ended June 30, 2020 and 2019. 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.

Network Cost Allocations: Financial transactions that relate to the overall management of the network are allocated to 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, 2020 were 73% to Herron High School and 27% to Riverside High School. The allocation percentages for the year ended June 30, 2019 were 76% to Herron High School and 24% 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 2020 and 2019.

The Main Building, RHS, and RHS RE MM are disregarded entities for income tax purposes. RHS RE is a limited-liability company, and its taxable income or loss is allocated to its members in accordance with their ownership percentage. Therefore, no provision or liability for income taxes has been included in the 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 2017. Management believes that the School's income tax filing position will be sustained on audit and does not anticipate any adjustments that will result in a material change.

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)

On January 30, 2020, the World Health Organization declared a global health emergency over the novel coronavirus known as COVID-19. Due to executive orders by local and State of Indiana elected officials, enacted in March 2020, the Organization was forced to suspend in-person instruction for the remainder of the 2019 – 2020 school year, resulting in virtual learning for all students. The School was able to provide a hybrid model of in-person instruction and online learning during the 2020 – 2021 school year. As of the date the consolidated financial statements were available to be issued, the School had not experienced any significant reductions in student population; its primary population served and major source of funding. The School received a Paycheck Protection Program (PPP) loan through the Coronavirus Aid, Relief and Economic Security Act (CARES Act) to help mitigate the impact. See Note 8.

The Organization’s continued operations have yet to result in any materially adverse impacts on financial position, revenues, or cash flows; however, the ultimate impact of the outbreak to Organization’s financial results and operations cannot be determined at this time. The extent of the impact of COVID-19 on the Organization’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on its employees and students, all of which are uncertain and cannot be predicted.

Reclassifications: Certain amounts in the 2019 consolidated financial statements have been reclassified to conform to the presentation of the 2020 consolidated financial statements.

Subsequent Events: Management has evaluated the consolidated financial statements for subsequent events occurring through March 15, 2021, the date the consolidated financial statements were available to be issued.

NOTE 2 - AVAILABLE RESOURCES AND LIQUIDITY

The Organization’s financial assets available for general expenditure within one year of June 30, 2020 and 2019 were as follows:

	2020	2019
Cash and equivalents	\$ 2,100,425	\$ 787,085
Restricted cash	1,039,781	852,591
Restricted certificates of deposit	1,000,000	1,174,537
Accounts receivable	39,689	3,280
Grants receivable	315,219	214,442
Promises to give, net	38,760	39,829
Insurance proceeds receivable		15,780
New Market Tax Credit note receivable	<u>6,108,240</u>	<u>6,108,240</u>
Total Financial Assets	10,642,114	9,195,784
Board-designated net assets	(64,202)	(64,202)
Restricted cash	(1,039,781)	(852,591)
Restricted certificates of deposit	(1,000,000)	(1,174,537)
Promises to give due in more than one year	(9,518)	(16,583)
New Market Tax Credit note receivable	(6,108,240)	(6,108,240)
Donor-imposed Restrictions:		
Funds subject to expenditure for specified purpose	<u>(315,219)</u>	<u>(214,442)</u>
Total Financial Assets Available Within One Year	<u>\$ 2,105,154</u>	<u>\$ 765,189</u>

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.

NOTE 2 - AVAILABLE RESOURCES AND LIQUIDITY (CONTINUED)

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 \$350,000 as of June 30, 2020.

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, 2020 and 2019.

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.

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, 2020 and 2019:

2020	Level 2	Total
Assets		
Certificates of Deposit	<u>\$1,000,000</u>	<u>\$1,000,000</u>
Total Assets at Fair Value	<u>\$1,000,000</u>	<u>\$1,000,000</u>

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

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>

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, 2020 and 2019:

	2020		2019
	Cost	Fair Value	Cost
			Fair Value
Certificates of Deposit	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>\$1,175,000</u>
			<u>\$1,174,537</u>

The Organization's investment income, included in other income on the consolidated statements of activities, consisted of \$463 of realized gains and \$464 of unrealized losses for the years ended June 30, 2020 and 2019, 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 AND CONDITIONAL GRANTS

Grants receivable at June 30, 2020 and 2019, represented amounts due relating to the following sources and are all due within one year:

	2020	2019
Title I	\$ 29,677	\$102,822
Special education	27,998	30,921
Title II	6,626	3,500
IDOE	81,817	
Charter School Program	144,079	52,899
Title IV	<u>25,022</u>	<u>24,300</u>
Total Grants Receivable	<u>\$315,219</u>	<u>\$214,442</u>

Conditional grants outstanding as of June 30, 2020 consisted of the following:

Title I	\$ 1,910
Title II	4,701
Special education	10,913
Charter School Program	2,087,819
Elementary and Secondary School Emergency Relief Fund	277,850
Charter School Growth Fund	<u>450,000</u>
Total Conditional Grants Outstanding	<u>\$2,833,193</u>

The above grants are conditional on compliance with the terms and conditions of the grant agreements and with applicable regulations, including the expenditure of the resources for eligible purposes.

NOTE 6 - UNCONDITIONAL PROMISES TO GIVE

Promises to give were estimated to be collected as follows as of June 30, 2020 and 2019:

	2020	2019
Within one year	\$31,642	\$28,634
In one to five years	<u>13,000</u>	<u>17,666</u>
	44,642	46,300
Unamortized discounts	(482)	(1,071)
Allowances for uncollectible amounts	<u>(5,400)</u>	<u>(5,400)</u>
Total Promises to Give, net	<u>\$38,760</u>	<u>\$39,829</u>

Promises to give were restricted by donors for the following purposes as of June 30, 2020 and 2019:

	2020	2019
Replication at Heslar Naval Armory	<u>\$38,760</u>	<u>\$39,829</u>
Total Promises to Give, net	<u>\$38,760</u>	<u>\$39,829</u>

Promises to give are discounted at 2.5% at June 30, 2020 and 2019.

Promises to give are included in the consolidated statements of financial position at June 30, 2020 and 2019 as follows:

	2020	2019
Current portion of promises to give, net	\$29,242	\$23,246
Long-term promises to give, net of current portion and unamortized discounts	<u>9,518</u>	<u>16,583</u>
Total Promises to Give, net	<u>\$38,760</u>	<u>\$39,829</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, 2020 and 2019, rent expense with the Center totaled \$20,000 and \$20,350, respectively. 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. Effective July 9, 2019, maximum borrowings on the line of credit were increased to \$350,000. At June 30, 2020, there were no borrowings outstanding. At June 30, 2019 outstanding borrowings totaled \$250,000. Borrowings bear interest at the Prime rate, as defined in the credit agreement (3.25% at June 30, 2020). The credit agreement is secured by substantially all of the School's assets and requires compliance with certain financial and nonfinancial covenants.

NOTE 8 - DEBT AND CREDIT ARRANGEMENTS (CONTINUED)

Long-term debt consisted of the following at June 30, 2020 and 2019:

	2020	2019
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)	\$3,036,663	\$3,190,477
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)	97,560	112,441
IFF loan payable. See Note 9.	409,887	409,887
Redevelopment Commission of the City of Indianapolis – Marion County loan payable (TIF Loan). See Note 9.	1,500,000	1,500,000
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>1,838,668</u>	<u>1,944,072</u>
	6,882,778	7,156,877
Less: Unamortized deferred financing costs	(79,263)	(93,890)
Less: Current maturities	<u>(289,052)</u>	<u>(273,938)</u>
Total Long-term Debt, net	<u>\$6,514,463</u>	<u>\$6,789,049</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, 2020, the principal maturities of long-term debt, excluding the forgivable PPP loan discussed below, 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, 2021	\$ 165,064	\$ 15,950	\$ 108,038			\$ 289,052
June 30, 2022	176,489	17,096	111,503			305,088
June 30, 2023	188,707	18,325	115,080			322,112
June 30, 2024	201,771	19,641	1,504,047			1,725,459
June 30, 2025	215,739	21,053				236,792
Thereafter	<u>2,088,893</u>	<u>5,495</u>		<u>\$ 409,887</u>		2,504,275
Forgiveable Loans					<u>\$ 1,500,000</u>	<u>1,500,000</u>
Total	<u>\$ 3,036,663</u>	<u>\$ 97,560</u>	<u>\$ 1,838,668</u>	<u>\$ 409,887</u>	<u>\$ 1,500,000</u>	<u>\$ 6,882,778</u>

Total interest expense for long-term debt was \$177,403 and \$198,889 for the years ended June 30, 2020 and 2019, 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.

On April 27, 2020, the School received loan proceeds of \$1,633,812 under the PPP established as part of the CARES Act. PPP loans, including accrued interest, are forgivable as long as the entity uses the proceeds for eligible purposes, including payroll, benefits, rent and utilities. Under the PPP, the amount of forgiveness is reduced if the entity terminates employees or reduces salaries during the covered period. The School believes it used the proceeds for purposes consistent with the PPP and plans to apply for forgiveness during fiscal year 2021.

While the School believes that its use of the proceeds will meet the conditions for forgiveness of the loan, such forgiveness is subject to approval by the bank and the U.S. Small Business Administration (SBA). Any unforgiven portion accrues interest at 1% and is due in April 2022. Under the Paycheck Protection Flexibility Act, loan payments, including interest, have been deferred until the SBA remits the loan forgiveness amount to the bank. The Organization will recognize the loan forgiveness amount as income upon legal release of the obligation by the bank. The Organization has classified the loan as a noncurrent liability based on the expectation that no payments will be required by the Organization for the loan.

NOTE 9 - NEW MARKET TAX CREDIT NOTES PAYABLE

The School participated in 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, 2020 and 2019.

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

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.

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

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, 2020, 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.

A summary of the Organization's NMTC notes payable included in the consolidated statements of financial position is as follows as of June 30, 2020 and 2019.

	2020	2019
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>(149,274)</u>	<u>(157,164)</u>
Total New Market Tax Credit Notes Payable, net	<u>\$8,871,726</u>	<u>\$8,863,836</u>

NOTE 10 - NET ASSETS

Net Assets Without Donor Restrictions

Net assets without donor restrictions consisted of the following at June 30, 2020 and 2019:

	2020	2019
Board-designated – Replication at Heslar Naval Armory	\$ 64,202	\$ 64,202
Undesignated	<u>6,593,816</u>	<u>6,839,995</u>
Total Net Assets Without Donor Restrictions	<u>\$6,658,018</u>	<u>\$6,904,197</u>

NOTE 10 - NET ASSETS (CONTINUED)

Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of June 30, 2020 and 2019:

	2020	2019
Subject to Expenditures for Specified Purpose:		
Capital campaign	\$1,503,671	\$1,551,746
Charter School Growth Fund – K-8 Start Up	299,216	
The Mind Trust – Capacity Building Funds	16,347	7,881
CICF – Russell Masonry	8,550	8,550
CICF – Library	4,181	4,298
Woodrow Wilson – Science Equipment	510	
Prevention Matters	10,121	10,121
Children’s Bureau – Programming for free and reduced lunch students	10,208	29,990
Allen Whitehill Clowes Capital Grant	<u>5,318</u>	<u>5,318</u>
Total Net Assets With Donor Restrictions	<u>\$1,858,122</u>	<u>\$1,617,904</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows for fiscal years 2020 and 2019:

	2020	2019
Satisfaction of Purpose Restrictions:		
Capital campaign	\$ 83,207	\$161,315
Replication at Heslar Naval Academy		589,776
The Mind Trust – Capacity Building Funds	37,784	212,713
Charter School Growth Fund – K-8 Start Up	784	
CICF – Library	117	2,202
Photography		23,103
Prevention Matters		578
Woodrow Wilson – Science Equipment	1,529	1,711
Children’s Bureau – Programming for free and reduced lunch students	<u>19,782</u>	<u>5,010</u>
Total Net Assets Released from Restrictions	<u>\$143,203</u>	<u>\$996,408</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 \$572,964 and 475,593 for the years ended June 30, 2020 and 2019, 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.

NOTE 11 - BENEFIT PLANS (CONTINUED)

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 were \$40,650 and \$41,274 for the years ended June 30, 2020 and 2019, 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 paid Claude McNeal Productions, owned by the Head of School's spouse, for instructional services for the theater program. The related expense was \$78,184 and \$74,759 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, the outstanding principal balance on the note was \$97,560 and \$112,441, respectively. During fiscal years 2020 and 2019, interest expense paid to the member of the School's board was \$7,486 and \$8,484, respectively. See Note 8.

Gross promises to give from members of the School's board totaled \$23,666 and \$25,333 at June 30, 2020 and 2019, respectively.

NOTE 13 - CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of custodial credit risk consist primarily of temporary cash investments. The Organization places its temporary cash investments with financial institutions. There was \$2,066,734 and \$986,751 in excess of insured limits at June 30, 2020 and 2019, respectively. The Organization has not experienced any losses in these accounts.

The Organization also has financial instruments, primarily grants receivable, which are exposed to credit risk. 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 88% and 82% of the Organization's revenues and support for the years ended June 30, 2020 and 2019, 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.

Contributions from two donors represented 28.2% and 56.4% of total contributions and grants during the years ended June 30, 2020 and 2019, 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, 2020 and 2019, 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

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

**CONSOLIDATING SCHEDULE - STATEMENT OF FINANCIAL POSITION INFORMATION
June 30, 2020**

ASSETS	Herron High School, Inc.	Riverside High School, LLC	Herron Preparatory Academy, 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	\$ 1,466,134	\$ 335,075	\$ 299,216	\$ 2,100,425						\$ 2,100,425
Restricted cash	496,921	9,525		506,446		\$ 533,335	\$ 533,335			1,039,781
Accounts receivable	39,548	141		39,689		65,000	65,000	\$ (65,000)		39,689
Grants receivable	204,842	110,377		315,219						315,219
Current portion of promises to give, net		29,242		29,242						29,242
Prepaid expenses	73,811	9,141		82,952						82,952
Total Current Assets	<u>2,281,256</u>	<u>493,501</u>	<u>299,216</u>	<u>3,073,973</u>		<u>598,335</u>	<u>598,335</u>	<u>(65,000)</u>		<u>3,607,308</u>
PROPERTY AND EQUIPMENT										
Land	614,000			614,000		354,100	354,100	(354,100)		614,000
Buildings and improvements	9,475,793	53,877		9,529,670		9,767,745	9,767,745	(574,905)		18,722,510
Furniture and equipment	785,652	275,817		1,061,469						1,061,469
Computer and office equipment	874,941	372,037		1,246,978						1,246,978
Books and educational materials	262,365	17,659		280,024						280,024
Vehicles	57,466	46,979		104,445						104,445
	<u>12,070,217</u>	<u>766,369</u>		<u>12,836,586</u>		<u>10,121,845</u>	<u>10,121,845</u>	<u>(929,005)</u>		<u>22,029,426</u>
Less: Accumulated depreciation	<u>(4,255,056)</u>	<u>(210,540)</u>		<u>(4,465,596)</u>		<u>(449,820)</u>	<u>(449,820)</u>			<u>(4,915,416)</u>
Total Property and Equipment, net	<u>7,815,161</u>	<u>555,829</u>		<u>8,370,990</u>		<u>9,672,025</u>	<u>9,672,025</u>	<u>(929,005)</u>		<u>17,114,010</u>
OTHER ASSETS										
Restricted certificates of deposit	1,000,000			1,000,000						1,000,000
Promises to give, net of current portion and unamortized discounts		9,518		9,518						9,518
Investment in subsidiary		327,097		327,097	\$ 327,097			\$ (327,097)		
New Market Tax Credit note receivable		6,108,240		6,108,240						6,108,240
Intangible assets, other						8,332	8,332			8,332
Due from affiliates		271,428		271,428					(271,428)	
Total Other Assets	<u>1,000,000</u>	<u>6,716,283</u>		<u>7,716,283</u>	<u>327,097</u>	<u>8,332</u>	<u>8,332</u>	<u>(327,097)</u>	<u>(598,525)</u>	<u>7,126,090</u>
TOTAL ASSETS	<u>\$ 11,096,417</u>	<u>\$ 7,765,613</u>	<u>\$ 299,216</u>	<u>\$ 19,161,246</u>	<u>\$ 327,097</u>	<u>\$ 10,278,692</u>	<u>\$ 10,278,692</u>	<u>\$ (327,097)</u>	<u>\$ (1,592,530)</u>	<u>\$ 27,847,408</u>
LIABILITIES AND NET ASSETS/MEMBERS' EQUITY										
CURRENT LIABILITIES										
Accounts payable	\$ 47,933	\$ 138,454		\$ 186,387		\$ 22,879	\$ 22,879	\$ (65,000)		\$ 144,266
Accrued expenses	798,610	293,763		1,092,373						1,092,373
Paycheck Protection Program loan	1,193,552	440,260		1,633,812						1,633,812
Current maturities of long-term debt	289,052			289,052						289,052
Total Current Liabilities	<u>2,329,147</u>	<u>872,477</u>		<u>3,201,624</u>		<u>22,879</u>	<u>22,879</u>	<u>(65,000)</u>		<u>3,159,503</u>
LONG-TERM LIABILITIES										
Long-term debt, less current maturities and unamortized deferred financing costs	4,606,788	1,907,675		6,514,463						6,514,463
New Market Tax Credit notes payable, less unamortized deferred financing costs						8,871,726	8,871,726			8,871,726
Due to affiliates						271,414	271,414	(271,414)		
Total Long-term Liabilities	<u>4,606,788</u>	<u>1,907,675</u>		<u>6,514,463</u>		<u>9,143,140</u>	<u>9,143,140</u>	<u>(271,414)</u>		<u>15,386,189</u>
Total Liabilities	<u>6,935,935</u>	<u>2,780,152</u>		<u>9,716,087</u>		<u>9,166,019</u>	<u>9,166,019</u>	<u>(336,414)</u>		<u>18,545,692</u>
NET ASSETS/MEMBERS' EQUITY										
Without donor restrictions	2,606,054	4,980,983		7,587,037					(929,019)	6,658,018
With donor restrictions	1,554,428	4,478	\$ 299,216	1,858,122						1,858,122
Members' equity					\$ 327,097	327,097	327,097	(327,097)	(327,097)	
Noncontrolling interest in members' equity						785,576	785,576			785,576
Total Net Assets/Members' Equity	<u>4,160,482</u>	<u>4,985,461</u>	<u>299,216</u>	<u>9,445,159</u>	<u>327,097</u>	<u>1,112,673</u>	<u>1,112,673</u>	<u>(327,097)</u>	<u>(1,256,116)</u>	<u>9,301,716</u>
TOTAL LIABILITIES AND NET ASSETS/MEMBERS' EQUITY	<u>\$ 11,096,417</u>	<u>\$ 7,765,613</u>	<u>\$ 299,216</u>	<u>\$ 19,161,246</u>	<u>\$ 327,097</u>	<u>\$ 10,278,692</u>	<u>\$ 10,278,692</u>	<u>\$ (327,097)</u>	<u>\$ (1,592,530)</u>	<u>\$ 27,847,408</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, 2020**

	Herron High School, Inc.			Riverside High School, LLC			Herron Preparatory Academy, LLC			Riverside High School RE MM, LLC - Consolidated							
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	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	\$ 215,702		\$ 215,702	\$ 99,644		\$ 99,644				\$ 315,346							\$ 315,346
Student fees	252,406		252,406	60,823		60,823				313,229							313,229
Contributions and grants	241,390	\$ 33,786	275,176	120,914	\$ 14,503	135,417	\$ 140,411	\$ 300,000	\$ 440,411	851,004							851,004
Federal and state support	8,138,720		8,138,720	3,262,923		3,262,923				11,401,643							11,401,643
Other income	46,770	35,132	81,902	84,839		84,839				166,741	\$ (3,076)	\$ 130,000		\$ 3,076	\$ 130,000	\$ (130,000)	166,741
Net assets released from restrictions	122,866	(122,866)		19,553	(19,553)		\$ 784	(784)									
Total Revenues and Support	<u>9,017,854</u>	<u>(53,948)</u>	<u>8,963,906</u>	<u>3,648,696</u>	<u>(5,050)</u>	<u>3,643,646</u>	<u>141,195</u>	<u>299,216</u>	<u>440,411</u>	<u>13,047,963</u>	<u>(3,076)</u>	<u>130,000</u>		<u>3,076</u>	<u>130,000</u>	<u>(130,000)</u>	<u>13,047,963</u>
EXPENSES																	
Salaries and benefits	6,151,203		6,151,203	2,578,915		2,578,915	140,411		140,411	8,870,529							8,870,529
Instructional services	63,925		63,925	30,545		30,545				94,470							94,470
Information technology	98,260		98,260	31,710		31,710				129,970							129,970
Accounting services	38,786		38,786	14,307		14,307				53,093							53,093
Other outside services	379,801		379,801	335,422		335,422				715,223							715,223
Course materials and supplies	343,064		343,064	160,063		160,063	784		784	503,911		104,379			104,379		503,911
Nutritional support	250,599		250,599	149,994		149,994				400,593							400,593
Travel and entertainment	27,278		27,278	10,984		10,984				38,262							38,262
Vehicle and transportation expense	43,352		43,352	28,365		28,365				71,717							71,717
Rent and facilities	707,539		707,539	526,850		526,850				1,234,389						(130,000)	1,104,389
Depreciation	442,723		442,723	135,096		135,096				577,819		234,970			234,970		812,789
Interest expense	135,464		135,464	41,939		41,939				177,403		98,238			98,238		275,641
Insurance	75,936		75,936	58,380		58,380				134,316							134,316
Advertising	25,403		25,403	9,250		9,250				34,653							34,653
Miscellaneous	11,369		11,369	3,131		3,131				14,500							14,500
Total Expenses	<u>8,794,702</u>	<u>(53,948)</u>	<u>8,794,702</u>	<u>4,114,951</u>	<u>(5,050)</u>	<u>4,114,951</u>	<u>141,195</u>	<u>299,216</u>	<u>440,411</u>	<u>13,050,848</u>	<u>-</u>	<u>437,587</u>		<u>-</u>	<u>437,587</u>	<u>(130,000)</u>	<u>13,358,435</u>
INCREASE (DECREASE) IN NET ASSETS	223,152	(53,948)	169,204	(466,255)	(5,050)	(471,305)	-	299,216	299,216	(2,885)	(3,076)	(307,587)		3,076	(307,587)	-	(310,472)
INCREASE (DECREASE) IN NET ASSETS RELATED TO NONCONTROLLING INTEREST												304,511	\$ (304,511)				
CONTRIBUTIONS FROM MEMBERS, net													130,885		130,885		130,885
NET ASSETS/MEMBERS' EQUITY																	
Beginning 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
End of Year	<u>\$ 2,606,054</u>	<u>\$ 1,554,428</u>	<u>\$ 4,160,482</u>	<u>\$ 4,980,983</u>	<u>\$ 4,478</u>	<u>\$ 4,985,461</u>	<u>\$ -</u>	<u>\$ 299,216</u>	<u>\$ 299,216</u>	<u>\$ 9,445,159</u>	<u>\$ 327,097</u>	<u>\$ 327,097</u>	<u>\$ 785,576</u>	<u>\$ (327,097)</u>	<u>\$ 1,112,673</u>	<u>\$ (1,256,116)</u>	<u>\$ 9,301,716</u>

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 (an Indiana not-for-profit organization) and Its Wholly-Owned Subsidiaries (the Organization), which comprise the consolidated statement of financial position as of June 30, 2020, 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 March 15, 2021.

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) as a basis for designing 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 financial statements. 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
March 15, 2021

**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, 2020**

	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:			
School Breakfast Program	10.553	FY 2019-2020	\$ 19,674
COVID-19 - School Breakfast Program	10.553	FY 2019-2020	1,297
			<u>20,971</u>
National School Lunch Program	10.555	FY 2019-2020	149,352
COVID-19 - National School Lunch Program	10.555	FY 2019-2020	8,788
			<u>158,140</u>
Summer Food Service Program for Children	10.559	FY 2019-2020	32,952
COVID-19 - Summer Food Service Program for Children	10.559	FY 2019-2020	13,388
			<u>46,340</u>
Total Child Nutrition Cluster			<u>225,451</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through Indiana State Department of Education:			
Special Education Cluster:			
Special Education Grants to States	84.027	H027A180084	193,343
Title I Grants to Local Educational Agencies	84.010	S010A180014	331,402
Charter Schools	84.282	0000000000000000000028403	246,824
	84.282	S282D190002	228,550
			<u>475,374</u>
Supporting Effective Instruction State Grants	84.367	S367A180013	45,136
Student Support and Academic Enrichment Program	84.424	S424A180015	25,022
			<u>25,022</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,295,728</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, 2020**

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, 2020. 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, 2020. 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 qualified opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Basis for Qualified Opinion on CFDA 84.010 Title I Grants to Local Educational Agencies

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding CFDA 84.010 Title I Grants to Local Educational Agencies as described in item 2020-002 for Special Tests and Provisions-Annual Report Card, High School Graduation Rate. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

Basis for Qualified Opinion on CFDA 10.553, 10.555, and 10.559 Child Nutrition Cluster

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding CFDA 10.553, 10.555, and 10.559 Child Nutrition Cluster as described in items 2020-003 and 2020-004 for Eligibility and item 2020-005 for Special Tests and Provisions-Verification of Free and Reduced Price Applications. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

Qualified Opinion on Each Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraphs, 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, 2020.

Other Matters

The results of our auditing procedures disclosed no other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance.

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

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-001, that we consider to be a material weakness.

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

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

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
March 15, 2021

**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, 2020**

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*]:

Qualified

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
10.553, 10.555 & 10.559	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? yes no

FINDINGS – FINANCIAL STATEMENT AUDIT

None

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2020**

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

U.S. Department of Education and U.S. Department of Agriculture

**2020-001 Title I Grants to Local Educational Agencies – CFDA #84.010
Child Nutrition Cluster – CFDA #10.553, 10.555 & 10.559**

**Material Weakness in Internal Control over Compliance – Risk Assessment Process Related to
Compliance Requirements**

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

Condition and Context: The Organization has not established a formal process related to federal awards to identify all key compliance requirements and changes in compliance requirements, evaluate risks of noncompliance with these requirements, and respond to such risks of noncompliance through establishing or changing processes and internal controls.

Cause and Effect: The material weakness resulted in the noncompliance findings described below in items 2020-002, 2020-003, 2020-004, and 2020-005.

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

Views of Responsible Officials and Planned Corrective Actions: The Organization is in agreement with this finding. As the Organization has grown, compliance of federal programs has become decentralized. The Organization is evaluating adding a Director of Compliance & Reporting to its full-time staff. Until that time, the Business Office of the Organization will assume the role of ensuring all appropriate staff members are aware of compliance requirements as they relate to federal funding. The Organization will work with our third party partners, such as the Indiana Department of Education, to ensure management has the knowledge of all compliance requirements and will work to create an internal monitoring process.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

U.S. Department of Education

2020-002 Title I Grants to Local Educational Agencies – CFDA #84.010

Noncompliance – Special Tests and Provisions *Annual Report Card, High School Graduation Rate*

Criteria: The Elementary and Secondary Education Act of 1965 (ESEA) section 1111(h)(1)(C)(iii)(II) and 8101(23), (25) (20 USC 6311(h)(1)(C)(iii)(II) and 7801(23), (25)) requires that to remove a student from the cohort, the Organization must confirm, in writing, that the student transferred out, emigrated to another country, transferred to a prison or juvenile facility, or is deceased. Furthermore, the Indiana Department of Education (IDOE) “Documentation Needed for Mobile Students” requires the specific documentation to support students removed from a cohort, which varies based on the specific reason for the removal.

Condition and Context: We selected 50 student withdrawals for testing. Our sample was not a statistically valid sample. Of the items selected the following issues were noted:

- (a) The Organization maintained writing documentation confirming every student’s removal from the cohort; however, 42 of 50 withdrawal requests had documentation which did not meet the IDOE requirements referenced above.
- (b) 5 of 50 withdrawals were improperly coded and reported based on withdrawal requests examined.

Cause and Effect: As described in item 2020-001, the Organization has not established a formal process related to federal awards to identify all key compliance requirements and changes in compliance requirements, evaluate risks of noncompliance with these requirements, and respond to such risks of noncompliance through establishing or changing processes and internal controls. As a result, the Organization was not aware of the specific documentation requirements established by the IDOE and did not have internal controls established to identify routine errors made during the completion of written forms. This could lead to inadequately documented or inaccurate student withdrawals resulting in potential improper cohort reporting for High School Graduation Rate calculations.

Recommendation: We recommend the policies in accordance with the IDOE “Documentation Needed for Mobile Students” be written by the Organization, approved by the Board of Directors and included in the permanent files of the Organization. Additionally, we recommend the Organization implement a review process of the withdrawal forms entered to ensure accurate entry of data occurs. Finally, we recommend that the Organization establish a process to identify requirements specified by the IDOE in addition to the federal requirements.

Views of Responsible Officials and Planned Corrective Actions: The Organization is in agreement with this finding. The Organization’s enrollment department will review and make revisions to the withdrawal procedure to ensure that all required documentation is obtained. Staff members will be required to clearly and thoroughly document all attempts to obtain documentation. A thorough, written procedure will be finalized and reviewed annually to ensure all state and federal compliance requirements are being met. Further, the Chief Enrollment Officer will implement a monitoring process to ensure the policy is being adhered to by school personnel.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

U.S. Department of Agriculture

2020-003 Child Nutrition Cluster – CFDA #10.553, 10.555 & 10.559

Noncompliance – Eligibility

Criteria: 7 CFR 245.2 sets the maximum price allowed to be charged for a free price breakfast at \$0.30.

Condition and Context: We selected 40 students for testing eligibility. Our sample was not a statistically valid sample. Of the items selected we noted one student who was charged \$0.40 which is above the maximum allowable prices as noted in the criteria referenced above. The error as due to improper configuration of the computer application used to administer the Child Nutrition Cluster and applied to all reduced-price breakfasts served during the fiscal year 2020. The total reduced-price breakfast served during fiscal year 2020 were 1,474 and the total amount overcharged to students was \$147.40.

Questioned Costs: \$147.40

Cause and Effect: As described in item 2020-001, the Organization has not established a formal process related to federal awards to identify all key compliance requirements and changes in compliance requirements, evaluate risks of noncompliance with these requirements, and respond to such risks of noncompliance through establishing or changing processes and internal controls. As a result, the Organization's computer application was improperly configured resulting in overcharging reduced-price breakfast students for each breakfast served during the fiscal year 2020.

Recommendation: We recommend the Organization properly configure the computer application to set the price of reduced-price breakfast to \$0.30 and monitor any changes made to the maximum prices allowed for meals to ensure continuing compliance. Additionally, we recommend the Organization implement a review process of the configuration of the application to ensure the application is configured to prevent and detect noncompliance.

Views of Responsible Officials and Planned Corrective Actions: The Organization is in agreement with this finding. Meals Plus was implemented during fiscal year 2020 to administer all activities involved with the Child Nutrition Cluster. An error in the initial configuration occurred causing the finding noted above. The Organization has since corrected the configuration error. Management will implement a process to ensure the prices included in the configuration are accurate at the beginning of each school year.

U.S. Department of Agriculture

2020-004 Child Nutrition Cluster – CFDA #10.553, 10.555 & 10.559

Significant Deficiency in Internal Control over Compliance and Noncompliance – Eligibility

Criteria: 7 CFR section 245.6(b) define the allowable reasons for direct certification of households. The allowable reasons do not include households or children who receive Medicaid benefits.

Condition and Context: We selected 40 student for testing eligibility. Our sample was not a statistically valid sample. Of the items selected the following issues were noted that 7 of 40 students selected were improperly direct-certified based on Medicaid case numbers provided in the household application.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

Cause and Effect: As described in item 2020-001, the Organization has not established a formal process related to federal awards to identify all key compliance requirements and changes in compliance requirements, evaluate risks of noncompliance with these requirements, and respond to such risks of noncompliance through establishing or changing processes and internal controls. As a result, the Organization's computer application was improperly configured to allow households to submit applications for direct-certification using Medicaid case numbers. When this occurred those students were also improperly designated as free-price students. These findings resulted in the IDOE taking fiscal action totaling \$2,632.67 to be deducted against future claims for reimbursement based on improperly served lunches.

Questioned Costs: \$2,632,67

Recommendation: We recommend the Organization properly configure the computer application to allow only allowable direct-certifications and to properly categorize students based on IDOE provided Medicaid data. Additionally, we recommend the Organization implement a review process of the configuration of the application to ensure the application is configured to prevent and detect noncompliance and evaluate changes in compliance requirements to identify any necessary changes to the configuration of the application in the future.

Views of Responsible Officials and Planned Corrective Actions: The Organization is in agreement with this finding. Meals Plus was implemented during fiscal year 2020 to administer all activities involved with the Child Nutrition Cluster. This error was the result of configurations when the system was implemented and was uncovered by the Indiana Department of Education during a monitoring visit in late 2019. Restrictions have been added to the system in that users are unable to select an "Other" category for direct certification. In addition, the Organization requested that the case number be restricted to just 10 digits to eliminate the submission of ineligible case numbers. These corrections eliminated the error in eligibility determination of free based on direct certification for families that received Medicaid. To receive free lunch, these families now need to submit income information for eligibility determination.

U.S. Department of Agriculture

2020-005 Child Nutrition Cluster – CFDA #10.553, 10.555 & 10.559

Significant Deficiency in Internal Control over Compliance and Noncompliance – Special Tests and Provisions *Verification of Free and Reduced Price Applications*

Criteria: 7 CFR section 245.11(c)(1) requires local educational agencies to complete the second review of applications in a timely manner. 7 CFR section 245.11(c)(3) requires reporting of the second review be submitted to the State agency by a date they establish.

Condition and Context: We reviewed the second review of applications completed by the Organization noting the following issues:

- (a) The second review of applications was not completed timely (during the initial approval process).
- (b) The required Local Educational Agency Second Review of Applications Report (FNS-742a) was not submitted.
- (c) The benefits changes required from the second review process did not give households adequate advance notice (10 calendar days)

Cause and Effect: As described in item 2020-001, the Organization has not established a formal process related to federal awards to identify all key compliance requirements and changes in compliance requirements, evaluate risks of noncompliance with these requirements, and respond to such risks of noncompliance through establishing or changing processes and internal controls. As a result, the Organization did not complete the second review of applications appropriately. This resulted in noncompliance with this special provision and could result in improperly serving meals to students based on incorrect eligibility determinations. The completion of the second review of application may have been beneficial in detecting the issues noted in finding 2020-004.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

Recommendation: We recommend the second review of applications be completed as required and that the Organization establish internal controls to ensure the second review is completed timely, the FNS-742a report is submitted, and that changes were made to eligibility status, as necessary, based on the second review.

Views of Responsible Officials and Planned Corrective Actions: The Organization is in agreement with this finding. Meals Plus was implemented during fiscal year 2020 to administer all activities involved with the Child Nutrition Cluster. As the system was implemented there were delays that occurred in the initial review and second review of applications. Further, the second review was documented and submitted to the Indiana Department of Education for assistance as some of the configuration errors mentioned in this report were uncovered during this process. Much of the issues uncovered during the second review were addressed in the Indiana Department of Education site visit shortly after the documentation was submitted. The process was streamlined for the 2020-2021 school year.



March 9, 2021

Katz, Sapper & Miller
800 East 96th Street, Suite 500
Indianapolis, IN 46240

Re: OFFICIAL RESPONSE

To Whom It May Concern:

Please accept the following corrective action plan in response Schedule of Findings and Questioned Costs that accompanies the Major Federal Awards Programs audit report of Herron High School, Inc. for the year ended June 30, 2020.

Material Weakness in Internal Control over Compliance – Risk Assessment Process Related to Compliance Requirements

The Organization has not established a formal process related to federal awards to identify all key compliance requirements and changes in compliance requirements, evaluate risks of noncompliance with these requirements, and respond to such risks of noncompliance through establishing or changing processes and internal controls.

Management Response and Corrective Action As the organization has grown, compliance of federal programs has become decentralized. We have had discussions of having adding a Director of Compliance & Reporting to our staff. Until that time, the Business Office will assume the role of ensuring all appropriate staff members are aware of compliance requirements as they relate to federal funding. We will work with our partners at IDOE to ensure we have knowledge of all compliance requirements and will create an internal monitoring process.

Noncompliance – Special Tests and Provisions Annual Report Card, High School Graduation Rate

We selected 50 student withdrawals for testing. Our sample was not a statistically valid sample. Of the items selected, the following issues were noted:

- a) The Organization maintained documentation confirming every student's removal from the cohort, however, 42 of 50 withdrawal requests had documentation which did not meet the IDOE requirements reference above.
- b) 5 of 50 withdrawals were improperly coded and reported based on withdrawal requests examined.

One community of two great high schools.

110 East 16th Street Indianapolis, Indiana 46202 317.231.0010

HERRON HIGH SCHOOL IS NOT AFFILIATED WITH HERRON SCHOOL OF ART AND DESIGN AT IUPUI

Management Response and Corrective Action The Enrollment department will review and make revisions to the withdrawal procedure to ensure that all required documentation is obtained. Staff members will be required to clearly and thoroughly document all attempts to obtain documentation. A thorough, written procedure will be finalized and reviewed annually to ensure all state and Federal compliance requirements are being met. Further, the Chief Enrollment Officer will implement a monitoring process to ensure the policy is being adhered to by school personnel.

Noncompliance - Eligibility

We selected 40 students for testing eligibility. Our sample was not statistically valid sample. Of the items selected, we noted one student who was charged \$0.40 which is above the maximum allowable prices as noted in the criteria referenced above {7 CFR 245.2}. The error was due to improper configuration of the computer application used to administer the Child Nutrition Cluster and applied to all reduced-price breakfasts served during the fiscal year 2020. The total reduced-price breakfasts served during the fiscal year 2020 were 1,474 and the total amount of overcharged to students was \$147.40.

Management Response and Corrective Action

Meals Plus was implemented during fiscal year 2020 to administer all activities involved with the Child Nutrition Cluster. As mentioned above, this resulted from an error in the initial configuration. This has since been corrected. Management will implement process to ensure the prices included in the configuration are accurate at the beginning of each school year.

Significant Deficiency in Internal Control over Compliance and Noncompliance - Eligibility

We selected 40 students for testing eligibility. Our sample was not statistically valid sample. Of the items selected, the following issues were noted: 7 of 40 students selected were improperly direct-certified based on Medicaid case numbers provided in the household application.

Management Response and Corrective Action

Meals Plus was implemented during fiscal year 2020 to administer all activities involved with the Child Nutrition Cluster. This error was the result of configurations when the system was implemented and was uncovered with an IDOE monitoring in late 2019. Restrictions have been added to the system in that users are unable to select an "Other" category for direct certification. In addition, we requested that the case number be restricted to just 10 digits to eliminate the submission of ineligible case numbers. These corrections eliminated the error in eligibility determination of free based on direct certification for families that received Medicaid. To receive free lunch, these families now need to submit income information for eligibility determination.

Significant Deficiency in Internal Control over Compliance and Noncompliance – Special Tests and Provisions Verification of Free and Reduced Price Applications.

We reviewed the second review of applications completed by the Organization noting the following issues:

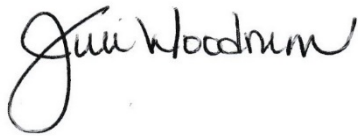
- a) The second review of applications was not completed timely (during the initial approval process).
- b) The required Local Educational Agency Second Review of Applications Report (FNS-742a) was not submitted.
- c) The benefits changes required from second review process did not give household adequate advance notice (10 calendar days).

Management Response and Corrective Action

Meals Plus was implemented during fiscal year 2020 to administer all activities involved with the Child Nutrition Cluster. There was a learning curve in the initial review and second review of applications that resulted in the delays mentioned above. Further, the second review was documented and submitted to IDOE for assistance as some of the configuration errors mentioned in this report were uncovered during this process. Much of the issues uncovered during the second review were addressed in an IDOE site visit soon after the documentation was submitted. The process was streamlined for the 2020-2021 school year.

We appreciate the recommendations provided by your team. If you require further information or clarification, please do not hesitate to contact me directly at jwoodrum@indianapolisclassicalschoools.org or 317.231.0010 x16109.

Respectfully,

A handwritten signature in black ink that reads "Juli Woodrum". The signature is written in a cursive, flowing style.

Juli Woodrum
Vice President & Chief Financial Officer