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July 20, 2022

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

We have reviewed the audit report of Herron High School, Inc. d/b/a Herron Classical Schools which was opined upon by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period July 1, 2020 to June 30, 2021. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Herron High School, Inc. d/b/a Herron Classical Schools as of June 30, 2021, 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 37. Please see the Schedule of Findings and Questioned Costs for complete details related to the findings. Management's Corrective Action Plan appears on pages 38 through 40.

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 Herron Classical Schools, was prepared in accordance with the guidelines established by the State Board of Accounts.

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

A handwritten signature in black ink that reads "Tammy R. White".

Tammy R. White, CPA
Deputy State Examiner



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

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

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

June 30, 2021 and 2020

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

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Independent Auditors' Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Herron High School, Inc. d/b/a Herron 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, 2021 and 2020, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Herron Classical Schools and Its Wholly-Owned Subsidiaries as of June 30, 2021 and 2020, 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.

Other 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 1, 2022 on our consideration of Herron High School, Inc. d/b/a Herron 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 Herron Classical Schools and Its Wholly-Owned Subsidiaries' internal control over financial reporting and compliance.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
March 1, 2022

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020**

ASSETS

	2021	2020
CURRENT ASSETS		
Cash and equivalents	\$ 2,297,282	\$ 2,100,425
Restricted cash	1,345,325	1,039,781
Accounts receivable	45,641	39,689
Grants receivable	1,002,293	315,219
Current portion of promises to give, net	3,611	29,242
Prepaid expenses	82,629	82,952
Total Current Assets	<u>4,776,781</u>	<u>3,607,308</u>
PROPERTY AND EQUIPMENT		
Land	614,000	614,000
Buildings and improvements	18,974,970	18,722,510
Furniture and equipment	1,124,016	1,061,469
Computer and office equipment	1,470,487	1,246,978
Books and educational materials	391,459	280,024
Vehicles	73,439	104,445
	<u>22,648,371</u>	<u>22,029,426</u>
Less: Accumulated depreciation	(5,738,072)	(4,915,416)
Total Property and Equipment, net	<u>16,910,299</u>	<u>17,114,010</u>
OTHER ASSETS		
Restricted certificates of deposit	600,000	1,000,000
Promises to give, net of current portion and unamortized discounts	2,786	9,518
New Market Tax Credit note receivable	6,108,240	6,108,240
Intangible assets, other	8,168	8,332
Total Other Assets	<u>6,719,194</u>	<u>7,126,090</u>
TOTAL ASSETS	<u>\$ 28,406,274</u>	<u>\$ 27,847,408</u>

LIABILITIES AND NET ASSETS/MEMBERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 272,562	\$ 144,266
Accrued expenses	1,297,745	1,092,373
Paycheck Protection Program loan	1,633,812	1,633,812
Current maturities of long-term debt	329,494	289,052
Total Current Liabilities	<u>3,533,613</u>	<u>3,159,503</u>
LONG-TERM LIABILITIES		
Long-term debt, less current maturities and unamortized deferred financing costs	5,339,755	6,514,463
New Market Tax Credit notes payable, less unamortized deferred financing costs	8,879,540	8,871,726
Total Long-term Liabilities	<u>14,219,295</u>	<u>15,386,189</u>
Total Liabilities	<u>17,752,908</u>	<u>18,545,692</u>
NET ASSETS/MEMBERS' EQUITY		
Without donor restrictions	8,096,707	6,658,018
With donor restrictions	2,039,361	1,858,122
Noncontrolling interest in members' equity	517,298	785,576
Total Net Assets/Members' Equity	<u>10,653,366</u>	<u>9,301,716</u>
TOTAL LIABILITIES AND NET ASSETS/MEMBERS' EQUITY	<u>\$ 28,406,274</u>	<u>\$ 27,847,408</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, 2021 and 2020**

	2021				2020			
	Without Donor Restrictions	With Donor Restrictions	Noncontrolling Interest	Total	Without Donor Restrictions	With Donor Restrictions	Noncontrolling Interest	Total
REVENUES AND SUPPORT								
School lunch program	\$ 162,563			\$ 162,563	\$ 315,346			\$ 315,346
Student fees	250,590			250,590	313,229			313,229
Contributions and grants	391,570	\$ 315,000		706,570	502,715	\$ 348,289		851,004
Federal and state support	14,094,989			14,094,989	11,401,643			11,401,643
Other income	109,006	21,915		130,921	131,609	35,132		166,741
Gain on involuntary conversion	121,653			121,653				
Net assets released from restrictions	155,676	(155,676)			143,203	(143,203)		
Total Revenues and Support	<u>15,286,047</u>	<u>181,239</u>		<u>15,467,286</u>	<u>12,807,745</u>	<u>240,218</u>		<u>13,047,963</u>
EXPENSES								
Salaries and benefits	9,971,445			9,971,445	8,870,529			8,870,529
Instructional services	78,035			78,035	94,470			94,470
Information technology	162,731			162,731	129,970			129,970
Accounting services	66,052			66,052	53,093			53,093
Other outside services	719,538			719,538	819,602			819,602
Course materials and supplies	394,201			394,201	503,911			503,911
Nutritional support	238,521			238,521	400,593			400,593
Travel and entertainment	5,082			5,082	38,262			38,262
Vehicle and transportation expense	27,581			27,581	71,717			71,717
Rent and facilities	929,380			929,380	1,104,389			1,104,389
Depreciation	843,228			843,228	812,789			812,789
Interest expense	288,911			288,911	275,641			275,641
Insurance	182,881			182,881	134,316			134,316
Advertising	119,540			119,540	34,653			34,653
Loss on disposal and sale of assets	70,152			70,152				
Miscellaneous	18,358			18,358	14,500			14,500
Total Expenses	<u>14,115,636</u>			<u>14,115,636</u>	<u>13,358,435</u>			<u>13,358,435</u>
INCREASE (DECREASE) IN NET ASSETS	1,170,411	181,239		1,351,650	(550,690)	240,218		(310,472)
INCREASE (DECREASE) IN NET ASSETS RELATED TO NONCONTROLLING INTEREST	268,278		\$ (268,278)		304,511		\$ (304,511)	
CONTRIBUTIONS FROM MEMBERS, net							130,885	130,885
NET ASSETS/MEMBERS' EQUITY								
Beginning of Year	6,658,018	1,858,122	785,576	9,301,716	6,904,197	1,617,904	959,202	9,481,303
End of Year	<u>\$ 8,096,707</u>	<u>\$ 2,039,361</u>	<u>\$ 517,298</u>	<u>\$ 10,653,366</u>	<u>\$ 6,658,018</u>	<u>\$ 1,858,122</u>	<u>\$ 785,576</u>	<u>\$ 9,301,716</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, 2021**

	Education Program	Fundraising	Management and General		Total
			Other	Real Estate	
Salaries and benefits	\$ 8,757,655	\$ 253,584	\$ 960,206		\$ 9,971,445
Instructional services	78,035				78,035
Information technology	143,074	8,966	10,691		162,731
Accounting services			66,052		66,052
Other outside services	539,977	14,579	58,831	\$ 106,151	719,538
Course materials and supplies	371,911	16,608	5,682		394,201
Nutritional support	236,011	814	1,696		238,521
Travel and entertainment	4,270	87	725		5,082
Vehicle and transportation expense	27,581				27,581
Rent and facilities	778,418	15,961	135,001		929,380
Depreciation	528,473	7,608	71,929	235,218	843,228
Interest expense	166,355	2,347	22,185	98,024	288,911
Insurance	57,260		125,621		182,881
Advertising	18,261	2,995	98,284		119,540
Loss on disposal and sale of assets			70,152		70,152
Miscellaneous	5,408	7,895	5,055		18,358
TOTAL EXPENSES BY FUNCTION	<u>\$ 11,712,689</u>	<u>\$ 331,444</u>	<u>\$ 1,632,110</u>	<u>\$ 439,393</u>	<u>\$ 14,115,636</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		Total
			Other	Real Estate	
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	<u>\$ 11,220,625</u>	<u>\$ 178,165</u>	<u>\$ 1,522,058</u>	<u>\$ 437,587</u>	<u>\$ 13,358,435</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, 2021 and 2020**

	2021	2020
OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 1,351,650	\$ (310,472)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	843,228	812,789
Amortization of deferred financing costs in interest expense	60,847	22,619
Loss on disposal and sale of assets	70,152	
Gain on involuntary conversion	(121,653)	
Unrealized (gain) loss on certificates of deposit		(463)
(Increase) decrease in certain assets:		
Accounts receivable	(5,952)	(36,409)
Grants receivable	(687,074)	(100,777)
Promises to give	4,786	
Prepaid expenses	323	27,496
Increase (decrease) in certain liabilities:		
Accounts payable	126,605	(35,362)
Accrued expenses	205,372	134,240
Net Cash Provided by Operating Activities	<u>1,848,284</u>	<u>513,661</u>
INVESTING ACTIVITIES		
Insurance proceeds received related to involuntary gain	121,653	
Decrease (increase) in insurance proceeds receivable		15,780
Proceeds from sale of assets	4,500	
Purchases of property and equipment	(712,313)	(445,614)
Maturity of certificates of deposit	400,000	175,000
Net Cash Used by Investing Activities	<u>(186,160)</u>	<u>(254,834)</u>
FINANCING ACTIVITIES		
Contributions from members, net		130,885
Line of credit borrowings		100,000
Line of credit repayments		(350,000)
Long-term debt repayments	(1,187,300)	(274,063)
Borrowings on Paycheck Protection Program loan		1,633,812
Proceeds from contributions restricted for long-term investment	27,577	1,069
Net Cash Provided (Used) by Financing Activities	<u>(1,159,723)</u>	<u>1,241,703</u>
NET INCREASE IN CASH AND EQUIVALENTS AND RESTRICTED CASH	502,401	1,500,530
CASH AND EQUIVALENTS AND RESTRICTED CASH		
Beginning of Year	<u>3,140,206</u>	<u>1,639,676</u>
End of Year	<u>\$ 3,642,607</u>	<u>\$ 3,140,206</u>
CASH AND EQUIVALENTS AND RESTRICTED CASH		
Cash and equivalents	\$ 2,297,282	\$ 2,100,425
Restricted cash	<u>1,345,325</u>	<u>1,039,781</u>
TOTAL CASH AND EQUIVALENTS AND RESTRICTED CASH	<u>\$ 3,642,607</u>	<u>\$ 3,140,206</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	\$ 131,861	\$ 154,988
Noncash investing and financing activities:		
Property and equipment included in accounts payable	1,691	18,441

See accompanying notes.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: Herron High School, Inc. d/b/a Herron 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 October 26, 2021. As of that date, the School does business under the name Herron 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 Herron-Riverside High School. Herron High School opened in 2006 and is located on the historic campus in Herron-Morton Place. Herron-Riverside High School opened in 2017 and is housed in the renovated Heslar Naval Armory. Herron-Riverside High School completed the certificate of assumed business name change with the State of Indiana, effective October 26, 2021. As of that date, Herron-Riverside High School does business under the name Herron Classical Schools.

During 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 opened in a temporary site in August 2021 as Herron Preparatory Academy and is a division of the School.

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

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, 2021 and 2020.

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

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

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

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

Cash and Equivalents consist of cash in demand deposit accounts and highly liquid investments purchased with an original maturity of three months or less. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable represent amounts due for exchange transactions with third parties. Accounts receivable are reviewed regularly for collectability and an allowance for doubtful accounts receivable is recorded, if necessary, based on management's judgment and analysis of the creditworthiness of the creditors, historical experience, economic conditions, and other relevant factors. Accounts receivable are written off against the allowance when deemed uncollectible. Management determined that no allowance was necessary at June 30, 2021 and 2020.

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, 2021 and 2020, 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, 2021 and 2020, 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 2021 and 2020.

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, 2021 and 2020, deferred financing costs totaled \$307,175 and accumulated amortization totaled \$139,485 and \$78,638, respectively. Related amortization reported as interest expense was \$60,847 and \$22,619 in the years ended June 30, 2021 and 2020, respectively. Fully amortized deferred financing costs reported at June 30, 2020 were excluded from amounts above.

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

School Lunch Program revenues are comprised of 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 \$23,138 and \$85,696 in 2021 and 2020, respectively. School lunch program federal and state support was \$139,425 and \$229,650 in 2021 and 2020, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Student Fees consists of sales of goods and services, such as textbooks or field trips, as well as support received from 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 services 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 \$194,060 and \$261,204 in 2021 and 2020, respectively. Support received from the State of Indiana for textbooks was \$56,530 and \$52,025 in 2021 and 2020, respectively.

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.

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. Contributed materials for various program related activities totaled \$3,8000 in 2021. Contributed services for educational administration totaled \$140,411 in 2020.

Advertising Costs are expensed as incurred and totaled \$119,540 in 2021 and \$34,653 in 2020.

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, 2021 and 2020. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Network Cost Allocations: Financial transactions that relate to the overall management of the network are allocated to the operational locations for financial reporting purposes; Herron High School and Herron-Riverside High School. Since Herron Preparatory Academy was not operational during fiscal year 2021 or 2020 it has been excluded from the network allocation. 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, 2021 were 69% to Herron High School and 31% to Herron-Riverside High School. The allocation percentages for the year ended June 30, 2020 were 73% to Herron High School and 27% to Herron-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 2021 and 2020.

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 2018. 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 regard to federal and state standards and regulations could result in a reduction of funding or repayment of disallowed costs.

Reclassifications: Certain amounts in the 2020 consolidated financial statements have been reclassified to conform to the presentation of the 2021 consolidated financial statements.

Subsequent Events: Management has evaluated the consolidated financial statements for subsequent events occurring through March 1, 2022, 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, 2021 and 2020 were as follows:

	2021	2020
Cash and equivalents	\$ 2,297,282	\$ 2,100,425
Restricted cash	1,345,325	1,039,781
Restricted certificates of deposit	600,000	1,000,000
Accounts receivable	45,641	39,689
Grants receivable	1,002,293	315,219
Promises to give, net	6,397	38,760
New Market Tax Credit note receivable	<u>6,108,240</u>	<u>6,108,240</u>
Total Financial Assets	11,405,178	10,642,114

NOTE 2 - AVAILABLE RESOURCES AND LIQUIDITY (CONTINUED)

	2021	2020
Board-designated net assets	\$ (64,202)	\$ (64,202)
Restricted cash	(1,345,325)	(1,039,781)
Restricted certificates of deposit	(600,000)	(1,000,000)
Promises to give due in more than one year	(2,786)	(9,518)
New Market Tax Credit note receivable	(6,108,240)	(6,108,240)
Donor-imposed Restrictions:		
Funds subject to expenditure for specified purpose	<u>(1,002,293)</u>	<u>(315,219)</u>
Total Financial Assets Available Within One Year	<u>\$ 2,282,332</u>	<u>\$ 2,105,154</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.

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, 2021.

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.

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2021 and 2020.

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, 2021 and 2020:

2021	Level 2	Total
Assets		
Certificates of Deposit	<u>\$ 600,000</u>	<u>\$ 600,000</u>
Total Assets at Fair Value	<u>\$ 600,000</u>	<u>\$ 600,000</u>
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 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, 2021 and 2020:

	2021	2020
	Cost	Fair Value
	Cost	Fair Value
Certificates of Deposit	<u>\$600,000</u>	<u>\$600,000</u>
	<u>\$1,000,000</u>	<u>\$1,000,000</u>

The Organization's investment income, included in other income on the consolidated statements of activities, consisted of \$463 of realized gains year ended June 30, 2020. 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, 2021 and 2020, represented amounts due relating to the following sources and are all due within one year:

	2021	2020
Title I	\$ 105,439	\$ 29,677
Special education	41,840	27,998
Title II	13,539	6,626

NOTE 5 - GRANTS RECEIVABLE AND CONDITIONAL GRANTS (CONTINUED)

	2021	2020
Title IV	\$ 24,355	\$ 25,022
IDHS Secured School Safety Grant Program		81,817
Charter School Program	426,162	144,079
Cares – ESSER I	60,787	
CRRSA – ESSER II	107,015	
ARP – ESSER III	44,707	
GEER	28,449	
The Mind Trust	<u>150,000</u>	
Total Grants Receivable	<u>\$1,002,293</u>	<u>\$315,219</u>

Conditional grants outstanding as of June 30, 2021 consisted of the following:

Title I	\$ 49,443
Title II	108
Special education	9,704
Charter School Program	1,451,529
Elementary and Secondary School Emergency Relief Fund	4,545,277
Governor’s Emergency Education Relief Fund	1,228
Charter School Growth Fund	<u>450,000</u>
Total Conditional Grants Outstanding	<u>\$6,507,289</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, 2021 and 2020:

	2021	2020
Within one year	\$ 9,000	\$31,642
In one to five years	<u>3,000</u>	<u>13,000</u>
	12,000	44,642
Unamortized discounts	(203)	(482)
Allowances for uncollectible amounts	<u>(5,400)</u>	<u>(5,400)</u>
Total Promises to Give, net	<u>\$ 6,397</u>	<u>\$38,760</u>

Promises to give were restricted by donors for the following purposes as of June 30, 2021 and 2020:

	2021	2020
Replication at Heslar Naval Armory	<u>\$6,397</u>	<u>\$38,760</u>
Total Promises to Give, net	<u>\$6,397</u>	<u>\$38,760</u>

Promises to give are discounted at 2.5% at June 30, 2021 and 2020.

NOTE 6 - UNCONDITIONAL PROMISES TO GIVE (CONTINUED)

Promises to give are included in the consolidated statements of financial position at June 30, 2021 and 2020 as follows:

	2021	2020
Current portion of promises to give, net	\$3,611	\$29,242
Long-term promises to give, net of current portion and unamortized discounts	<u>2,786</u>	<u>9,518</u>
Total Promises to Give, net	<u>\$6,397</u>	<u>\$38,760</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, 2021 and 2020, rent expense with the Center totaled \$21,000 and \$20,000, 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, 2021 and 2020, there were no borrowings outstanding. Borrowings bear interest at the Prime rate, as defined in the credit agreement (3.25% at June 30, 2021). The credit agreement is secured by substantially all of the School's assets and requires compliance with certain financial and nonfinancial covenants.

Long-term debt consisted of the following at June 30, 2021 and 2020:

	2021	2020
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)	\$2,871,601	\$3,036,663
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)	81,610	97,560
IFF loan payable. See Note 9.	272,381	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>969,887</u> 5,695,479	<u>1,838,668</u> 6,882,778

NOTE 8 - DEBT AND CREDIT ARRANGEMENTS (CONTINUED)

	2021	2020
Less: Unamortized deferred financing costs	\$ (26,230)	\$ (79,263)
Less: Current maturities	<u>(329,494)</u>	<u>(289,052)</u>
Total Long-term Debt, net	<u>\$5,339,755</u>	<u>\$6,514,463</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.

At June 30, 2021, the principal maturities of long-term debt, excluding the forgivable Paycheck Protection Program (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, 2022	\$ 176,489	\$ 17,096	\$ 135,909			\$ 329,494
June 30, 2023	188,707	18,325	140,267			347,299
June 30, 2024	201,771	19,641	693,711			915,123
June 30, 2025	215,739	21,053		\$ 272,381		509,173
June 30, 2026	<u>2,088,895</u>	<u>5,495</u>				2,094,390
Forgiveable Loans					<u>\$ 1,500,000</u>	<u>1,500,000</u>
Total	<u>\$ 2,871,601</u>	<u>\$ 81,610</u>	<u>\$ 969,887</u>	<u>\$ 272,381</u>	<u>\$ 1,500,000</u>	<u>\$ 5,695,479</u>

Total interest expense for long-term debt was \$190,887 and \$177,403 for the years ended June 30, 2021 and 2020, 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 Coronavirus Aid, Relief, and Economic Security Act (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 received full forgiveness during August 2022.

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, 2021 and 2020.

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)

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, 2021, 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.

A summary of the Organization’s NMTC notes payable included in the consolidated statements of financial position is as follows as of June 30, 2021 and 2020.

	2021	2020
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>(141,460)</u>	<u>(149,274)</u>
Total New Market Tax Credit Notes Payable, net	<u>\$8,879,540</u>	<u>\$8,871,726</u>

NOTE 10 - NET ASSETS

Net Assets Without Donor Restrictions

Net assets without donor restrictions consisted of the following at June 30, 2021 and 2020:

	2021	2020
Board-designated – Replication at Heslar Naval Armory	\$ 64,202	\$ 64,202
Undesignated	<u>7,901,288</u>	<u>6,593,816</u>
Total Net Assets Without Donor Restrictions	<u>\$7,965,490</u>	<u>\$6,658,018</u>

NOTE 10 - NET ASSETS (CONTINUED)

Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of June 30, 2021 and 2020:

	2021	2020
Subject to Expenditures for Specified Purpose:		
Capital campaign	\$1,525,586	\$1,503,671
Charter School Growth Fund – K-8 Start Up	282,041	299,216
The Mind Trust – Capacity Building Funds		16,347
The Mind Trust – HPA Temporary Location	178,845	
CICF – Russell Masonry	8,550	8,550
CICF – Library	3,811	4,181
RHS Library	15,000	
Woodrow Wilson – Science Equipment	510	510
Prevention Matters	10,121	10,121
Children’s Bureau – Programming for free and reduced lunch students	9,579	10,208
Allen Whitehill Clowes Capital Grant	<u>5,318</u>	<u>5,318</u>
Total Net Assets With Donor Restrictions	<u>\$2,039,361</u>	<u>\$1,858,122</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 2021 and 2020:

	2021	2020
Satisfaction of Purpose Restrictions:		
Capital campaign		\$ 83,207
The Mind Trust – Capacity Building Funds	\$ 16,347	37,784
Charter School Growth Fund – K-8 Start Up	17,175	784
The Mind Trust – HPA Temporary Location	121,155	
CICF – Library	370	117
Woodrow Wilson – Science Equipment		1,529
Children’s Bureau – Programming for free and reduced lunch students	<u>629</u>	<u>19,782</u>
Total Net Assets Released from Restrictions	<u>\$155,676</u>	<u>\$143,203</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 \$595,839 and \$572,964 for the years ended June 30, 2021 and 2020, 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 has no required contribution rate. The School may elect to make additional contributions on behalf of the member. Retirement plan contributions for TRF were \$47,052 and \$40,650 for the years ended June 30, 2021 and 2020, 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 Presidents' spouse, for instructional services for the theater program. The related expense was \$61,998 and \$78,184 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, the outstanding principal balance on the note was \$81,610 and \$97,560, respectively. During fiscal years 2021 and 2020, interest expense paid to the member of the School's board was \$6,417 and \$7,486, respectively. See Note 8.

Gross promises to give from members of the School's board totaled \$12,000 and \$23,666 at June 30, 2021 and 2020, 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 \$2,854,977 and \$2,066,734 in excess of insured limits at June 30, 2021 and 2020, 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 92% and 88% of the Organization's revenues and support for the years ended June 30, 2021 and 2020, 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 42.5% and 28.2% of total contributions and grants during the years ended June 30, 2021 and 2020, respectively.

NOTE 14 - COMMITMENTS

The School has a 5-year service contract requiring monthly payments of \$4,377 for connectivity and supporting services. The contract expires in June 2025. 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, 2021 and 2020, the School received a 60% discount for internet connectivity.

NOTE 15 - INVOLUNTARY CONVERSION

During fiscal year 2021, the School had storm damage at Herron High School and Herron-Riverside High School. Under the School's insurance policy, property and equipment losses were reimbursed at replacement costs. During 2021, the School received \$121,653 in gross proceeds from the School's insurance policy which were recorded as a gain on involuntary conversion in the consolidated statements of activities.

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, 2021**

ASSETS	Herron High School, Inc.			Total	Riverside High School RE MM, LLC - Consolidated				Total	Eliminations	Consolidated
	Herron High School	Herron Preparatory Academy	Riverside High School, LLC		Riverside High School RE MM, LLC	Riverside High School Real Estate, LLC	Eliminations	Eliminations			
CURRENT ASSETS											
Cash and equivalents	\$ 2,320,415	\$ 43,200	\$ (66,333)	\$ 2,297,282						\$ 2,297,282	
Restricted cash	919,198			922,085		\$ 423,240		\$ 423,240		1,345,325	
Accounts receivable	399		45,242	45,641		45,000		45,000	\$ (45,000)	45,641	
Grants receivable	318,618	370,296	313,379	1,002,293						1,002,293	
Current portion of promises to give, net			3,611	3,611						3,611	
Prepaid expenses	55,895	22,605	4,129	82,629						82,629	
Total Current Assets	<u>3,614,525</u>	<u>436,101</u>	<u>302,915</u>	<u>4,353,541</u>		<u>468,240</u>		<u>468,240</u>	<u>(45,000)</u>	<u>4,776,781</u>	
PROPERTY AND EQUIPMENT											
Land	614,000			614,000		354,100		354,100	(354,100)	614,000	
Buildings and improvements	9,569,675	101,507	113,592	9,784,774		9,767,745		9,767,745	(577,549)	18,974,970	
Furniture and equipment	785,653	62,546	275,817	1,124,016						1,124,016	
Computer and office equipment	975,114	947	494,426	1,470,487						1,470,487	
Books and educational materials	297,053	85,202	9,204	391,459						391,459	
Vehicles	11,531		61,908	73,439						73,439	
	<u>12,253,026</u>	<u>250,202</u>	<u>954,947</u>	<u>13,458,175</u>		<u>10,121,845</u>		<u>10,121,845</u>	<u>(931,649)</u>	<u>22,648,371</u>	
Less: Accumulated depreciation	<u>(4,673,449)</u>	<u>(4,813)</u>	<u>(374,936)</u>	<u>(5,053,198)</u>		<u>(684,874)</u>		<u>(684,874)</u>		<u>(5,738,072)</u>	
Total Property and Equipment, net	<u>7,579,577</u>	<u>245,389</u>	<u>580,011</u>	<u>8,404,977</u>		<u>9,436,971</u>		<u>9,436,971</u>	<u>(931,649)</u>	<u>16,910,299</u>	
OTHER ASSETS											
Restricted certificates of deposit	600,000			600,000						600,000	
Promises to give, net of current portion and unamortized discounts			2,786	2,786						2,786	
Investment in subsidiary			324,467	324,467	\$ 324,387				(324,467)		
New Market Tax Credit note receivable			6,108,240	6,108,240						6,108,240	
Intangible assets, other						8,168		8,168		8,168	
Due from affiliates			172,159	172,159					(172,159)		
Total Other Assets	<u>600,000</u>		<u>6,607,652</u>	<u>7,207,652</u>	<u>324,387</u>	<u>8,168</u>		<u>8,168</u>	<u>(496,626)</u>	<u>6,719,194</u>	
TOTAL ASSETS	<u>\$ 11,794,102</u>	<u>\$ 681,490</u>	<u>\$ 7,490,578</u>	<u>\$ 19,966,170</u>	<u>\$ 324,387</u>	<u>\$ 9,913,379</u>	<u>\$ (324,387)</u>	<u>\$ 9,913,379</u>	<u>\$ (1,473,275)</u>	<u>\$ 28,406,274</u>	
LIABILITIES AND NET ASSETS/MEMBERS' EQUITY											
CURRENT LIABILITIES											
Accounts payable	\$ 110,936	\$ 4,854	\$ 181,751	\$ 297,541		\$ 20,021		\$ 20,021	\$ (45,000)	\$ 272,562	
Accrued expenses	894,647	7,464	395,634	1,297,745						1,297,745	
Paycheck Protection Program loan	1,193,552		440,260	1,633,812						1,633,812	
Current maturities of long-term debt	329,494			329,494						329,494	
Total Current Liabilities	<u>2,528,629</u>	<u>12,318</u>	<u>1,017,645</u>	<u>3,558,592</u>		<u>20,021</u>		<u>20,021</u>	<u>(45,000)</u>	<u>3,533,613</u>	
LONG-TERM LIABILITIES											
Long-term debt, less current maturities and unamortized deferred financing costs	3,571,738		1,768,017	5,339,755						5,339,755	
New Market Tax Credit notes payable, less unamortized deferred financing costs						8,879,540		8,879,540		8,879,540	
Due to affiliates						172,159		172,159	(172,159)		
Total Long-term Liabilities	<u>3,571,738</u>		<u>1,768,017</u>	<u>5,339,755</u>		<u>9,051,699</u>		<u>9,051,699</u>	<u>(172,159)</u>	<u>14,219,295</u>	
Total Liabilities	<u>6,100,367</u>	<u>12,318</u>	<u>2,785,662</u>	<u>8,898,347</u>		<u>9,071,720</u>		<u>9,071,720</u>	<u>(217,159)</u>	<u>17,752,908</u>	
NET ASSETS/MEMBERS' EQUITY											
Without donor restrictions	4,129,470	208,286	4,690,706	9,028,462					(931,755)	8,096,707	
With donor restrictions	1,564,265	460,886	14,210	2,039,361					(324,361)	2,039,361	
Members' equity					\$ 324,387	324,361	\$ (324,387)	324,361	(324,361)		
Noncontrolling interest in members' equity						517,298		517,298		517,298	
Total Net Assets/Members' Equity	<u>5,693,735</u>	<u>669,172</u>	<u>4,704,916</u>	<u>11,067,823</u>	<u>324,387</u>	<u>841,659</u>	<u>(324,387)</u>	<u>841,659</u>	<u>(1,256,116)</u>	<u>10,653,366</u>	
TOTAL LIABILITIES AND NET ASSETS/MEMBERS' EQUITY	<u>\$ 11,794,102</u>	<u>\$ 681,490</u>	<u>\$ 7,490,578</u>	<u>\$ 19,966,170</u>	<u>\$ 324,387</u>	<u>\$ 9,913,379</u>	<u>\$ (324,387)</u>	<u>\$ 9,913,379</u>	<u>\$ (1,473,275)</u>	<u>\$ 28,406,274</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, 2021**

	Herron High School, Inc.						Riverside High School, LLC		
	Herron High School			Herron Preparatory Academy					
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT									
School lunch program	\$ 90,279		\$ 90,279				\$ 72,284		\$ 72,284
Student fees	194,831		194,831				55,759		55,759
Contributions and grants	234,078		234,078	\$ 6,850	\$ 300,000	\$ 306,850	150,642	\$ 15,000	165,642
Federal and state support	9,707,620		9,707,620	\$ 230,177		\$ 230,177	4,157,192		4,157,192
Other income	14,831	\$ 21,915	36,746				80,796		80,796
Gain on involuntary conversion	66,938		66,938				54,715		\$ 54,715
Net assets released from restrictions	12,078	(12,078)		138,330	(138,330)		5,268	(5,268)	
Total Revenues and Support	<u>10,320,655</u>	<u>9,837</u>	<u>10,330,492</u>	<u>375,357</u>	<u>161,670</u>	<u>537,027</u>	<u>4,576,656</u>	<u>9,732</u>	<u>4,586,388</u>
EXPENSES									
Salaries and benefits	6,440,278		6,440,278	120,732		120,732	3,410,435		3,410,435
Instructional services	58,935		58,935				19,100		19,100
Information technology	109,152		109,152				53,579		53,579
Accounting Services	45,411		45,411				20,641		20,641
Other outside services	339,480		339,480	17,328		17,328	256,579		256,579
Course materials and supplies	239,150		239,150	22,734		22,734	132,317		132,317
Nutritional support	171,481		171,481	255		255	66,785		66,785
Travel and entertainment	3,112		3,112	439		439	1,531		1,531
Vehicle and transportation expense	22,812		22,812				4,769		4,769
Rent and facilities	576,768		576,768	490		490	507,122		507,122
Depreciation	432,424		432,424	4,813		4,813	170,773		170,773
Interest expense	168,872		168,872				22,015		22,015
Insurance	78,661		78,661				104,220		104,220
Advertising	72,001		72,001	280		280	47,259		47,259
Loss on disposal and sale of assets	28,811		28,811				41,341		41,341
Miscellaneous	9,891		9,891				8,467		8,467
Total Expenses	<u>8,797,239</u>		<u>8,797,239</u>	<u>167,071</u>		<u>167,071</u>	<u>4,866,933</u>		<u>4,866,933</u>
INCREASE (DECREASE) IN NET ASSETS	1,523,416	9,837	1,533,253	208,286	161,670	369,956	(290,277)	9,732	(280,545)
INCREASE (DECREASE) IN NET ASSETS RELATED TO NONCONTROLLING INTEREST									
NET ASSETS/MEMBERS' EQUITY									
Beginning of Year	2,606,054	1,554,428	4,160,482	-	299,216	299,216	4,980,983	4,478	4,985,461
End of Year	<u>\$ 4,129,470</u>	<u>\$ 1,564,265</u>	<u>\$ 5,693,735</u>	<u>\$ 208,286</u>	<u>\$ 460,886</u>	<u>\$ 669,172</u>	<u>\$ 4,690,706</u>	<u>\$ 14,210</u>	<u>\$ 4,704,916</u>

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

**CONSOLIDATING SCHEDULE - STATEMENT OF ACTIVITIES INFORMATION (CONTINUED)
Year Ended June 30, 2021**

	Riverside High School RE MM, LLC - Consolidated							
	Total	Riverside High School RE MM, LLC	Riverside High School Real Estate, LLC	Noncontrolling Interest	Eliminations	Total	Eliminations	Consolidated
		Without Donor Restrictions	Without Donor Restrictions					
REVENUES AND SUPPORT								
School lunch program	\$ 162,563							\$ 162,563
Student fees	250,590							250,590
Contributions and grants	706,570							706,570
Federal and state support	14,094,989							14,094,989
Other income	117,542	\$ (2,710)	\$ 168,379		\$ 2,710	\$ 168,379	\$ (155,000)	130,921
Gain on involuntary conversion	\$ 121,653							\$ 121,653
Net assets released from restrictions								
Total Revenues and Support	<u>15,453,907</u>	<u>(2,710)</u>	<u>168,379</u>		<u>2,710</u>	<u>168,379</u>	<u>(155,000)</u>	<u>15,467,286</u>
EXPENSES								
Salaries and benefits	9,971,445							9,971,445
Instructional services	78,035							78,035
Information technology	162,731							162,731
Accounting Services	66,052							66,052
Other outside services	613,387		106,151			106,151		719,538
Course materials and supplies	394,201							394,201
Nutritional support	238,521							238,521
Travel and entertainment	5,082							5,082
Vehicle and transportation expense	27,581							27,581
Rent and facilities	1,084,380						(155,000)	929,380
Depreciation	608,010		235,218			235,218		843,228
Interest expense	190,887		98,024			98,024		288,911
Insurance	182,881							182,881
Advertising	119,540							119,540
Loss on disposal and sale of assets	70,152							70,152
Miscellaneous	18,358							18,358
Total Expenses	<u>13,831,243</u>		<u>439,393</u>			<u>439,393</u>	<u>(155,000)</u>	<u>14,115,636</u>
INCREASE (DECREASE) IN NET ASSETS	1,622,664	(2,710)	(271,014)		2,710	(271,014)		1,351,650
INCREASE (DECREASE) IN NET ASSETS RELATED TO NONCONTROLLING INTEREST			268,278	\$ (268,278)				
NET ASSETS/MEMBERS' EQUITY								
Beginning of Year	<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>
End of Year	<u>\$ 11,067,823</u>	<u>\$ 324,387</u>	<u>\$ 324,361</u>	<u>\$ 517,298</u>	<u>\$ (324,387)</u>	<u>\$ 841,659</u>	<u>\$ (1,256,116)</u>	<u>\$ 10,653,366</u>

OTHER REPORTS AND SUPPLEMENTARY INFORMATION

**HERRON HIGH SCHOOL, INC.
d/b/a HERRON 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 Herron 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 Herron 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 Herron 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, 2021, 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 1, 2022.

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 the limitations discussed above, 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 1, 2022

**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, 2021**

	Federal Assistance Listing 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 2020-2021	\$ 36,626
National School Lunch Program	10.555	FY 2020-2021	73,368
Summer Food Service Program for Children Program for Children	10.559	FY 2020-2021	24,698
Total Child Nutrition Cluster			<u>134,692</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through Indiana State Department of Education:			
Special Education Cluster (IDEA):			
Special Education Grants to States	84.027	H027A180084	227,631
Title I Grants to Local Educational Agencies	84.010	S010A200014	377,849
Charter Schools	84.282	0000000000000000000000000036802	308,250
	84.282	S282D190002	1,202,956
	84.282	0000000000000000000000000047509	230,177
Total Charter Schools			<u>1,741,383</u>
Supporting Effective Instruction State Grants	84.367	7000-S367A180013	50,319
Student Support and Academic Enrichment Program	84.424	S424A200015	24,355
Education Stabilization Fund			
COVID-19 - Governor's Emergency Education Relief Fund	84.425C	S425C200018	87,320
COVID-19 - Elementary and Secondary School Emergency Relief Fund I	84.425D	7000-S425D200013	251,031
COVID-19 - Elementary and Secondary School Emergency Relief Fund II	84.425D	S425D200013	107,015
COVID-19 - American Rescue Plan - Elementary and Secondary School Emergency Relief Fund	84.425U	S425U200013	44,707
Total Education Stabilization Fund			<u>490,073</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 3,046,302</u></u>

See accompanying notes to schedule of expenditures of federal awards.

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2021**

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 Herron Classical Schools and Its Wholly-Owned Subsidiaries (the Organization) for the year ended June 30, 2021. 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 Herron 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 Herron 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, 2021. 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 AL 84.282 Charter Schools

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding AL 84.282 Charter Schools as described in item 2021-002 for Equipment and Real Property Management and item 2021-003 for Procurement and Suspension and Debarment. 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 AL 84.425C, 84.425D, and 84.425U Educations Stabilization Fund

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding AL 84.425C, 84.425D, and 84.425U Educations Stabilization Fund as described in items 2021-002 Equipment and Real Property Management. 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 Herron 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, 2021.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding 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. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 1, 2022

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2021**

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>AL Numbers</u>	<u>Name of Federal Program</u>
84.282 84.425C, 84.425D & 84.425U	Charter Schools Education Stabilization Fund

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 HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2021**

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

U.S. Department of Education

2021-001 Charter Schools – AL #84.282

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

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)”.

This is a repeat finding of 2020-001.

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. The Organization also implements the use of federal funds through different departments. Certain individuals, within a department, responsible for the use of federal funds or maintenance and safeguard of assets acquired with federal funds lacked knowledge of the compliance requirements pertaining to the use of the funds or the maintenance and safeguard of the acquired assets.

Cause and Effect: The material weakness resulted in the noncompliance findings described below in items 2021-002 and 2021-003.

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

Views of Responsible Officials and Planned Corrective Actions: The Organization is in agreement with this finding. As the organization has grown, compliance of federal programs has become decentralized. The Organization agrees that additional resources need to be added to ensure compliance with all state and federal awards. The Organization plans to add an additional staff person to the Business Office to centralize the compliance and reporting responsibilities. Management is in the process of developing the job description and identifying possible candidates for the position.

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

U.S. Department of Education

2021-002 Charter Schools – AL #84.282

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

Noncompliance – Equipment and Real Property Management

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

Condition and Context: We selected 3 equipment acquisitions under AL #84.282 Charter Schools and 4 equipment acquisitions under AL #84.425C, 84.425D & 84.425U Education Stabilization Fund. Our sample was not a statistically valid sample. Of the items selected the following issues were noted:

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

Cause and Effect: As described in item 2021-001, the Organization has not established a formal process related to federal awards to identify all key compliance requirements and changes in compliance requirements, evaluate risks of noncompliance with these requirements, and respond to such risks of noncompliance through establishing or changing processes and internal controls. Additionally, certain individuals within a department responsible for the maintenance and safeguard of assets acquired with federal funds lacked knowledge of the compliance requirements pertaining the maintenance and safeguard of the acquired assets. As a result, adequate documentation was not maintained for equipment acquired with federal funds or to support the performance of a physical inventory occurring within the required time period.

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

Views of Responsible Officials and Planned Corrective Actions: The Organization is in agreement with this finding. The Organization has implemented a location software for student devices that tracks the majority of the required information for devices that are live on the network. The Organization concurs that additional internal controls are necessary to ensure all compliance requirements are met. These controls will include exports from the location software for a periodic inventory as well as additional procedures for tracking defective devices. Further controls will be implemented to ensure that the inventory records are easily traced to the invoices retained in the financial records. Similar controls will be implemented to ensure proper tracking and inventory of all assets purchased with federal funds. The additional position described above in 2021-001 will oversee the implementation of these controls and will conduct periodic internal audit to ensure adherence to all compliance requirements.

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

U.S. Department of Education

2021-003 Charter Schools – AL #84.282

Noncompliance – Procurement and Suspension and Debarment

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

Condition and Context: We noted 3 new procurements in the current fiscal year, all of which were selected for testing, totaling \$145,418 for student devices and curriculum materials. Based on discussions with personnel of the Organization it is our understanding these procurements occurred during the pandemic and were either done out of immediate need or procured from an exclusive vendor. We noted the entity lacked sufficient documentation to support the rationale of the procurement method, selection of contract type, contractor selection or rejection, and basis for the contract price. We also noted suspension and debarments requirements were not given consideration prior to entering into these transactions. However, we noted there were adequate invoices to support the purchases.

Cause and Effect: As described in 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. Additionally, certain individuals within a department responsible for the use of federal funds lacked knowledge of the compliance requirements pertaining to the use of the funds. As a result, they did not comply with requirement for proper procurement or in relation to suspension and debarment.

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

Views of Responsible Officials and Planned Corrective Actions: While the Organization believes procurement requirements are followed, management concurs that the documentation of procurement activities does not always occur. The additional position described above in 2021-001 will oversee procurement of purchases with federal funds and will be responsible for ensuring all compliance requirements are followed and appropriately documented.



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

CORRECTIVE ACTION PLAN Year Ended June 30, 2021

U.S. Department of Education

Herron High School, Inc. d/b/a Herron Classical Schools and its Wholly-Owned Subsidiaries (the Organization) respectively submits the following corrective action plan for the year ended June 30, 2021.

Name and address of independent public accounting firm:

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

Audit period: Year ended June 30, 2021

The findings from the schedule of findings and questioned costs for the year ended June 30, 2021, are discussed below. The findings are numbered consistently with the numbers assigned in the Schedule.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

Charter Schools – AL #84.282

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

2021-001 Material Weakness in Internal Control over Compliance – Risk Assessment Process Related to Compliance Requirements (Repeat Finding of 2020-001)

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

Planned Corrective Action: As the organization has grown, compliance of federal programs has become decentralized. We agree that additional resources need to be added to ensure compliance with all state and federal awards. The Organization plans to add an additional staff person to the Business Office to centralize the compliance and reporting responsibilities. Management is in the process of developing the job description and identifying possible candidates for the position.



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

Charter Schools – AL #84.282

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

2021-002 Noncompliance – Equipment and Real Property Management

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

Planned Corrective Action: The Organization has implemented a location software for student devices that tracks the majority of the required information for devices that are live on the network. The Organization concurs that additional internal controls are necessary to ensure all compliance requirements are met. These controls will include exports from the location software for a periodic inventory as well as additional procedures for tracking defective devices. Further controls will be implemented to ensure that the inventory records are easily traced to the invoices retained in the financial records. Similar controls will be implemented to ensure proper tracking and inventory of all assets purchased with federal funds. The additional position described above in 2021-001 will oversee the implementation of these controls and will conduct periodic internal audit to ensure adherence to all compliance requirements.

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

Charter Schools – AL #84.282

2021-003 Noncompliance – Procurement and Suspension and Debarment

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

Planned Corrective Action: While procurement requirements are followed, management concurs that the documentation of procurement activities does not always occur. The additional position described above in 2021-001 will oversee procurement of purchases with federal funds and will be responsible for ensuring all compliance requirements are followed and appropriately documented.



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If the U.S. Department of Education has questions regarding this plan, please call Juli Woodrum, Vice President & Chief Financial Officer at 317.231.0010 x16109.

Sincerely yours,

Juli Woodrum, Vice President & Chief Financial Officer
Herron High School, Inc. d/b/a Herron Classical Schools and its Wholly-Owned Subsidiaries



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS Year Ended June 30, 2021

FINANCIAL STATEMENT FINDINGS

None

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

Recommendation: The Organization should consider 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.

Status: 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. Organizational leadership will consider adding this position for the fiscal year beginning July 1, 2022.

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*

Recommendation: The Organization's 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, the Organization should implement a review process of the withdrawal forms entered to ensure accurate entry of data occurs. Finally, the Organization should establish a process to identify requirements specified by the IDOE in addition to the federal requirements.

Status: The student withdrawal process has been formalized and the policy has been updated to include a detailed list of required documentation as outlined in IDOE's "Documentation Needed for Mobile Students." IDOE conducted an audit of the graduated students from the Class of 2021. The sample selection included students who withdrew to move out of state or to homeschool. Through this process, the withdrawal process and required documentation has been clarified for students withdrawing to homeschool. Internal review processes have been implemented to ensure proper documentation is obtained for all withdrawals.

U.S. Department of Agriculture

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

Noncompliance – Eligibility

Recommendation: The Organization should 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, the Organization implement a review process of the configuration of the application to ensure the application is configured to prevent and detect noncompliance.

Status: 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 has implemented 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

Noncompliance – Eligibility

Recommendation: The Organization should properly configure the computer application to allow only allowable direct-certifications and to properly categorize students based on IDOE provided Medicaid data. Additionally, 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.

Status: Meals Plus was implemented during fiscal year 2020 to administer all activities involved with the Child Nutrition Cluster. The error noted above 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

Noncompliance – Special Tests and Provisions *Verification of Free and Reduced Price Applications*

Recommendation: The second review of applications should 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.

Status: 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.