



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

July 17, 2023

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 Donovan CPAs, Independent Public Accountants, for the period July 1, 2021 to June 30, 2022. 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, 2022, 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 39.

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 Indiana State Board of Accounts.

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

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

Tammy R. White, CPA
Deputy State Examiner

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

CONSOLIDATED FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2022 and 2021



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 3
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities and Change in Net Assets	5
Consolidated Statements of Functional Expenses	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	8 - 22
SUPPLEMENTARY INFORMATION	
Consolidated Schedule of Expenditures of Federal Awards	23
Notes to the Consolidated Schedule of Expenditures of Federal Awards	24
Consolidating Schedules of Financial Position	25 - 26
Consolidating Schedules of Activities and Change in Net Assets	27 - 28
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	29 - 30
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE <i>UNIFORM GUIDANCE</i>	31 - 33
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	34 - 37
CORRECTIVE ACTION PLAN	38 - 39
OTHER REPORT	40



Donovan CPAs

Independent Auditors' Report

The Board of Directors
Herron High School, Inc.

Opinion

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

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

Basis for Opinion

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

Other Matter

The consolidated financial statements of the Organization as of and for the year ended June 30, 2021 were audited by another auditor who expressed an unmodified opinion on those statements on March 1, 2022.

Responsibilities of Management for the Consolidated Financial Statements

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

www.cpadonovan.com

Avon | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Indianapolis | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Likewise, the consolidating schedules of financial position on pages 25 and 26 and the consolidating schedules of activities and change in net assets on pages 27 and 28 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards and the consolidating schedules are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2023 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The letters are cursive and connected, with a prominent initial "D".

Indianapolis, Indiana
February 21, 2023

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,024,835	\$ 2,297,282
Restricted cash	1,616,597	1,345,325
Grants receivable	1,775,239	1,002,293
Accounts receivable	9,352	45,641
Promises to give, net	2,611	6,397
Prepaid expenses	93,958	82,629
	<u>5,522,592</u>	<u>4,779,567</u>
<i>Total current assets</i>		
PROPERTY AND EQUIPMENT		
Land	614,000	614,000
Buildings and improvements	20,304,112	18,986,619
Furniture and equipment	1,252,185	1,124,016
Computer and office equipment	1,808,502	1,470,487
Books and educational materials	466,306	391,459
Vehicles	209,581	73,439
Less: accumulated depreciation	(6,828,040)	(5,738,072)
	<u>17,826,646</u>	<u>16,921,948</u>
<i>Property and equipment, net</i>		
OTHER ASSETS		
Restricted certificates of deposit	400,000	600,000
Equity investment	36,538	-
New Market Tax Credit note receivable	6,108,240	6,108,240
Intangible assets, net	8,168	7,866
	<u>6,552,946</u>	<u>6,716,106</u>
<i>Total other assets</i>		
TOTAL ASSETS	<u>\$ 29,902,184</u>	<u>\$ 28,417,621</u>
LIABILITIES AND NET ASSETS/MEMBERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of bonds and notes payable	\$ 358,411	\$ 329,494
Accounts payable	350,680	272,562
Accrued expenses	1,600,593	1,297,745
Paycheck Protection Program note payable	-	1,633,812
	<u>2,309,684</u>	<u>3,533,613</u>
<i>Total current liabilities</i>		
LONG-TERM LIABILITIES		
Bonds and notes payable, less current maturities and unamortized deferred financing costs	4,644,345	5,339,755
New Market Tax Credit notes payable, less unamortized deferred financing costs	8,887,162	8,879,158
	<u>13,531,507</u>	<u>14,218,913</u>
<i>Total long-term liabilities</i>		
TOTAL LIABILITIES	<u>15,841,191</u>	<u>17,752,526</u>
NET ASSETS/MEMBERS' EQUITY		
Without donor restrictions	10,403,048	8,108,462
With donor restrictions	3,375,738	2,039,361
Noncontrolling interest in members' equity	282,207	517,272
	<u>14,060,993</u>	<u>10,665,095</u>
<i>Total net assets/members' equity</i>		
TOTAL LIABILITIES AND NET ASSETS/MEMBERS' EQUITY	<u>\$ 29,902,184</u>	<u>\$ 28,417,621</u>

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

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NETS ASSETS
For the Years Ended June 30, 2022 and 2021**

	2022				2021			
	Without Donor Restrictions	With Donor Restrictions	Noncontrolling Interest	Total	Without Donor Restrictions	With Donor Restrictions	Noncontrolling Interest	Total
REVENUE AND SUPPORT								
State education support	\$ 13,514,114	\$ -	\$ -	\$ 13,514,114	\$ 11,245,325	\$ -	\$ -	\$ 11,245,325
Federal and state grant revenue	4,236,247	-	-	4,236,247	3,045,615	-	-	3,045,615
Individual and foundation contributions	429,024	1,600,000	-	2,029,024	391,788	315,000	-	706,788
Student fees	274,936	-	-	274,936	217,198	-	-	217,198
Other income	9,569	-	-	9,569	31,426	-	-	31,426
Net assets released from restrictions	277,930	(277,930)	-	-	155,676	(155,676)	-	-
<i>Total revenue and support</i>	<u>18,741,820</u>	<u>1,322,070</u>	<u>-</u>	<u>20,063,890</u>	<u>15,087,028</u>	<u>159,324</u>	<u>-</u>	<u>15,246,352</u>
EXPENSES								
Program services	15,688,453	-	-	15,688,453	11,719,819	-	-	11,719,819
Management and general	2,267,818	-	-	2,267,818	2,071,503	-	-	2,071,503
Fundraising	444,430	-	-	444,430	331,444	-	-	331,444
<i>Total expenses</i>	<u>18,400,701</u>	<u>-</u>	<u>-</u>	<u>18,400,701</u>	<u>14,122,766</u>	<u>-</u>	<u>-</u>	<u>14,122,766</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>341,119</u>	<u>1,322,070</u>	<u>-</u>	<u>1,663,189</u>	<u>964,262</u>	<u>159,324</u>	<u>-</u>	<u>1,123,586</u>
OTHER INCOME (EXPENSE)								
Equity loss in subsidiary	(10,994)	-	-	(10,994)	(8,539)	-	-	(8,539)
Interest income	93,129	14,307	-	107,436	93,115	21,915	-	115,030
Paycheck Protection Program loan forgiveness income	1,633,812	-	-	1,633,812	-	-	-	-
Gain on involuntary conversion	-	-	-	-	121,653	-	-	121,653
<i>Total other income</i>	<u>1,715,947</u>	<u>14,307</u>	<u>-</u>	<u>1,730,254</u>	<u>206,229</u>	<u>21,915</u>	<u>-</u>	<u>228,144</u>
CHANGE IN NET ASSETS	<u>2,059,521</u>	<u>1,336,377</u>	<u>-</u>	<u>3,395,898</u>	<u>1,173,121</u>	<u>181,239</u>	<u>-</u>	<u>1,354,360</u>
CHANGE IN NET ASSETS RELATED TO NONCONTROLLING INTEREST	<u>235,065</u>	<u>-</u>	<u>(235,065)</u>	<u>-</u>	<u>268,304</u>	<u>-</u>	<u>(268,304)</u>	<u>-</u>
NET ASSETS/MEMBERS' EQUITY, BEGINNING OF YEAR	<u>8,108,462</u>	<u>2,039,361</u>	<u>517,272</u>	<u>10,665,095</u>	<u>6,667,037</u>	<u>1,858,122</u>	<u>785,576</u>	<u>9,310,735</u>
NET ASSETS/MEMBERS' EQUITY, END OF YEAR	<u>\$ 10,403,048</u>	<u>\$ 3,375,738</u>	<u>\$ 282,207</u>	<u>\$ 14,060,993</u>	<u>\$ 8,108,462</u>	<u>\$ 2,039,361</u>	<u>\$ 517,272</u>	<u>\$ 10,665,095</u>

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

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2022 and 2021**

	2022					2021				
	<u>Program Services</u>	<u>Management and General</u>		<u>Fundraising</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>		<u>Fundraising</u>	<u>Total</u>
	<u>School Activities</u>	<u>Real Estate Activities</u>				<u>School Activities</u>	<u>Real Estate Activities</u>			
Salaries and benefits	\$ 11,240,553	\$ 1,067,490	\$ -	\$ 337,907	\$ 12,645,950	\$ 8,757,655	\$ 960,206	\$ -	\$ 253,584	\$ 9,971,445
Instructional services	140,714	-	-	-	140,714	78,035	-	-	-	78,035
Information technology	216,780	12,863	-	7,385	237,028	143,074	10,691	-	8,966	162,731
Accounting services	-	97,550	-	-	97,550	-	66,052	-	-	66,052
Other outside services	682,502	104,624	84,443	27,491	899,060	470,115	58,831	106,151	14,579	649,676
Authorizer oversight fee	82,671	-	-	-	82,671	77,561	-	-	-	77,561
Innovation management fee	25,000	-	-	-	25,000	25,000	-	-	-	25,000
Course materials and supplies	601,267	16,685	-	23,350	641,302	339,243	5,682	-	16,608	361,533
Nutritional support	692,247	2,195	-	1,792	696,234	236,011	1,696	-	814	238,521
Travel and entertainment	21,617	2,113	-	440	24,170	4,270	725	-	87	5,082
Vehicles and transportation	148,343	-	-	-	148,343	27,581	-	-	-	27,581
Rent and facilities	986,629	229,912	-	27,252	1,243,793	778,307	135,001	-	15,961	929,269
Depreciation	729,494	113,119	235,054	12,301	1,089,968	528,473	71,929	235,218	7,608	843,228
Interest expense	68,955	45,176	98,023	3,053	215,207	166,355	22,185	98,024	2,347	288,911
Insurance	32,752	123,331	-	-	156,083	57,260	125,621	-	-	182,881
Advertising	2,073	-	33,711	3,293	39,077	18,261	98,284	-	2,995	119,540
Loss on disposal of assets	-	-	-	-	-	-	70,152	-	-	70,152
Other	16,856	1,529	-	166	18,551	12,618	5,055	-	7,895	25,568
<i>Total functional expenses</i>	<u>\$ 15,688,453</u>	<u>\$ 1,816,587</u>	<u>\$ 451,231</u>	<u>\$ 444,430</u>	<u>\$ 18,400,701</u>	<u>\$ 11,719,819</u>	<u>\$ 1,632,110</u>	<u>\$ 439,393</u>	<u>\$ 331,444</u>	<u>\$ 14,122,766</u>

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

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 3,395,898	\$ 1,354,360
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Paycheck Protection Program loan forgiveness income	(1,633,812)	-
Depreciation	1,089,968	843,228
Amortization of debt issuance costs included in interest expense	17,105	60,847
Loss on disposal of assets	-	70,152
Gain on involuntary conversion	-	(121,653)
Change in certain assets and liabilities:		
Grants receivable	(772,946)	(687,074)
Accounts receivable	36,289	(5,952)
Promises to give	3,786	4,786
Prepaid expenses	(11,329)	323
Accounts payable	78,118	126,605
Accrued expenses	302,848	205,372
	<u>2,505,925</u>	<u>1,850,994</u>
<i>Net cash provided by operating activities</i>		
INVESTING ACTIVITIES		
Insurance proceeds received related to involuntary gain	-	121,653
Proceeds from sale of assets	-	4,500
Purchases of property and equipment	(1,994,775)	(715,023)
Maturity of certificates of deposit	200,000	400,000
Purchase of equity investment	(36,538)	-
	<u>(1,831,313)</u>	<u>(188,870)</u>
<i>Net cash used in investing activities</i>		
FINANCING ACTIVITIES		
Repayments of bonds and notes payable	(675,787)	(1,187,300)
Proceeds from contributions restricted for long-term investment	-	27,577
	<u>(675,787)</u>	<u>(1,159,723)</u>
<i>Net cash used in financing activities</i>		
NET CHANGE IN CASH AND RESTRICTED CASH	(1,175)	502,401
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	<u>3,642,607</u>	<u>3,140,206</u>
CASH AND RESTRICTED CASH, END OF YEAR	<u>\$ 3,641,432</u>	<u>\$ 3,642,607</u>
CASH AND RESTRICTED CASH, END OF YEAR		
Cash	\$ 2,024,835	\$ 2,297,282
Restricted cash	<u>1,616,597</u>	<u>1,345,325</u>
<i>Total cash and restricted cash, end of year</i>	<u>\$ 3,641,432</u>	<u>\$ 3,642,607</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 198,102	\$ 228,064

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

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Effective October 26, 2021, Herron High School, LLC changed its name to Herron Classical Schools. Herron Classical Schools (“HCS”) is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. HCS operates three public charter schools, as follows:

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

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

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

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

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

- Riverside High School RE MM, LLC (“RHS RE MM”) - established to serve as a 1% owner and the managing member of an affiliated entity, Riverside High School Real Estate, LLC (“RHS RE”), in connection with the New Markets Tax Credit and Historic Tax Credit financing of RHS RE. RHS RE owns the Heslar Naval Armory and leases it to RHS. See Note 6.
- Herron Main Building, LLC (“The Main Building”) - no activity during the years ended June 30, 2022 and 2021.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

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

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

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

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. The Organization had no cash equivalents as of June 30, 2022 and 2021.

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

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

Accounts Receivable – 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 judgement 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 no allowance was necessary at June 30, 2022 and 2021.

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

Property and Equipment – Property and equipment are stated at cost for purchased assets, or at fair value at the date of donation for donated assets, less accumulated depreciation. The Organization capitalizes additions of property and equipment with a useful life of more than one year. Costs of maintenance and repairs 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 2022 or 2021.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Deferred Financing Costs – Financing costs incurred upon the issuance of debt are capitalized and amortized over the term of the related debt. The unamortized financing costs are presented as a reduction of the carrying amount of the debt. Amortization of the financing costs is reported as interest expense in the consolidated statements of activities and change in net assets. As of June 30, 2022 and 2021, deferred financing costs totaled \$307,175 and accumulated amortization totaled \$156,590 and \$139,485, respectively. Related amortization reported as interest expense was \$17,105 and \$60,847 during the years ended June 30, 2022 and 2021, respectively.

Advertising Costs – Advertising costs are expensed as incurred and totaled \$39,077 and \$119,540 during the years ended June 30, 2022 and 2021, respectively.

Network Cost Allocations – Financial transactions that relate to the overall management of the Organization are allocated to the operational locations for financial reporting purposes; Herron High School, Herron-Riverside High School, and Herron Preparatory Academy. Transactions 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, 2022 were 65% to Herron High School, 27% to Herron-Riverside High School, and 8% to Herron Preparatory Academy. The allocation percentages for the year ended June 30, 2021 were 69% to Herron High School and 31% to Herron-Riverside High School. Since Herron Preparatory Academy was not operational during 2020-2021 school year it was excluded from the network allocation.

Taxes on Income – The School has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2022 and 2021, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

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

Professional accounting standards require the Organization to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The Organization has examined this issue and has determined there are no material contingent tax liabilities or questionable tax positions. The tax years ended after June 30, 2018 are open to audit for both federal and state purposes.

Reclassifications – Certain amounts in the 2021 consolidated financial statements have been reclassified to conform to the presentation of the 2022 consolidated financial statements. There was no change to net assets previously reported as a result of the reclassification.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Subsequent Events – The Organization evaluated subsequent events through February 21, 2023, the date these consolidated financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the consolidated financial statements or related disclosures would be required.

NOTE 2 - REVENUE RECOGNITION

State Education Support – The majority of revenue comes from IPS as part of the Innovation Network Charter School Agreement. Under the agreement with IPS, the School receives an amount per student in equal portion as if the School functioned as a traditional charter school. Funding from IPS is received monthly. Revenue is recognized in the year in which the educational services are rendered.

Grant Revenue – A significant portion of the Schools’ revenue is the product of cost reimbursement grants. Accordingly, the Schools recognize revenue under these grants in the amount of costs and expenses at the time they are incurred. Incurring approved costs under each grant is considered satisfaction of the performance obligations.

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

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

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

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021**

NOTE 3 - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that 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 three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

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

Level 2: Inputs to the valuation methodology include:

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

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

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

The asset or liability's fair 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2022 and 2021.

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

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

June 30, 2022		<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>		<u>Total</u>
Certificates of deposit	\$	-	\$	400,000	\$	-	\$	400,000
June 30, 2021								
Certificates of deposit	\$	-	\$	600,000	\$	-	\$	600,000

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021**

NOTE 4 - LINE OF CREDIT

The Organization has a revolving line of credit with a bank providing maximum borrowings of \$350,000. Borrowings bear interest at the prime rate, as defined in the credit agreement (4.75% at June 30, 2022). The credit agreement is secured by substantially all School assets and requires compliance with certain financial and nonfinancial covenants. As of both June 30, 2022 and 2021, there were no borrowings outstanding on the line of credit and the Organization was in compliance with all covenants.

NOTE 5 - BONDS AND NOTES PAYABLE

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

	<u>2022</u>	<u>2021</u>
Qualified School Construction Bonds Series 2010A secured by real estate and assignments of leases and rents. The bond bears interest at 6.75% per annum (less a rebate of 5.27% from the U.S. Treasury), payable in quarterly installments of \$91,486, including interest, maturing on July 1, 2025. (A)	\$ 2,695,113	\$ 2,871,601
Qualified School Construction Bonds Series 2010B secured by real estate and assignments of leases and rents. The bond bears interest at 7.00% per annum (less a rebate of 5.17% from the U.S. Treasury), payable in quarterly installments of \$5,592, including interest, maturing on July 1, 2025. (B)	64,514	81,610
IFF loan payable. See Note 6.	272,381	272,381
Redevelopment Commission of the City of Indianapolis – Marion County loan payable (“TIF Loan”). See Note 6.	1,500,000	1,500,000
Educational Facilities Revenue Bond, Series 2014. The bond bears interest at 3.17% per annum, payable in quarterly installments of \$41,268 including interest, maturing on April 17, 2024.	<u>487,686</u>	<u>969,887</u>
	<u>\$ 5,019,694</u>	<u>\$ 5,695,479</u>

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021**

NOTE 5 - BONDS AND NOTES PAYABLE, Continued

	<u>2022</u>	<u>2021</u>
Total from previous page	\$ 5,019,694	\$ 5,695,479
Less: unamortized deferred financing costs	(16,938)	(26,230)
Less: current maturities	<u>(358,411)</u>	<u>(329,494)</u>
	<u>\$ 4,644,345</u>	<u>\$ 5,339,755</u>

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

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

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

	Herron High School			Herron - Riverside High School		Total
	Series 2010A Bonds	Series 2010B Bonds	Series 2014 Bonds	IFF Loan	TIF Loan	
2023	\$ 188,707	\$ 18,325	\$ 151,376	\$ -	\$ -	\$ 358,408
2024	201,771	19,641	336,310	-	-	557,722
2025	215,739	21,053	-	272,381	-	509,173
2026	2,088,896	5,495	-	-	-	2,094,391
Forgivable loan	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>	<u>1,500,000</u>
Total	<u>\$ 2,695,113</u>	<u>\$ 64,514</u>	<u>\$ 487,686</u>	<u>\$ 272,381</u>	<u>\$ 1,500,000</u>	<u>\$ 5,019,694</u>

Total interest expense was \$198,102 and \$228,064 for the years ended June 30, 2022 and 2021, respectively.

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

The debt agreements require the School to maintain certain financial and non-financial covenants, all of which were met as of both June 30, 2022 and 2021.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021**

NOTE 6 - NEW MARKET TAX CREDIT NOTES PAYABLE

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

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

The Organization’s Leverage Loan note receivable and the Organization’s NMTC Borrower NMTC Note A are offsetting in amount and have identical interest, payment, and maturity terms. The note receivable is included on the consolidated statements of financial position in the amount of \$6,108,240 at June 30, 2022 and 2021.

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

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021**

NOTE 6 - NEW MARKET TAX CREDIT NOTES PAYABLE, Continued

IFF Loan Payable

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

Additional Loans

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

Pursuant to the agreement, the TIF Loan has a 0% interest rate through December 2026 (the first 8 years). The TIF Loan bears interest at a rate of 2% from January 2027 through maturity on December 31, 2055. During this time period, the Organization is responsible for bi-annual principal and interest payments. The agreement defines various forgiveness stipulations for the interest and principal payments during this time period. As of June 30, 2022, the Organization was meeting all the defined forgiveness stipulations.

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

	<u>2022</u>	<u>2021</u>
NMTC Note A	\$ 6,108,240	\$ 6,108,240
NMTC Note B	2,912,760	2,912,760
Less: unamortized deferred financing costs	(133,838)	(141,842)
New Market Tax Credit notes payable, net	\$ 8,887,162	\$ 8,879,158

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021**

NOTE 7 - PAYCHECK PROTECTION PROGRAM

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

NOTE 8 - NET ASSETS

Net assets without donor restrictions consisted of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Board-designated		
– Replication at Heslar Naval Armory	\$ -	\$ 64,202
Undesignated	10,403,048	8,044,260
<i>Total net assets without donor restrictions</i>	\$ 10,403,048	\$ 8,108,462

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

	<u>2022</u>	<u>2021</u>
Purpose-restricted:		
Capital campaign	\$ 1,441,477	\$ 1,525,586
Charter School Growth Fund – K-8 Start Up	882,041	282,041
The Mind Trust – HPA Temporary Location	-	178,845
The Mind Trust – HPA Permanent Site	1,000,000	-
CICF – Russell Masonry	8,550	8,550
CICF – Library	3,811	3,811
HRHS Library	14,931	15,000
Woodrow Wilson – Science Equipment	510	510
Prevention Matters	10,121	10,121
Children’s Bureau – Free/Reduced Lunch	8,979	9,579
Allen Whitehill Clowes Capital Grant	5,318	5,318
<i>Total net assets with donor restrictions</i>	\$ 3,375,738	\$ 2,039,361

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021**

NOTE 8 - NET ASSET, Continued

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

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions:		
Capital campaign	\$ 98,417	\$ -
Charter School Growth Fund – K-8 Start Up	-	17,175
The Mind Trust – HPA Temporary Location	178,845	121,155
The Mind Trust – Capacity Building Funds	-	16,347
CICF – Library	-	370
HRHS Library	69	-
Children’s Bureau – Free/Reduced Lunch	599	629
<i>Total net assets released from donor restrictions</i>	\$ 277,930	\$ 155,676

NOTE 9 - RETIREMENT PLANS

The Schools provide retirement benefits covering substantially all full-time employees. Retirement benefits for teaching personnel are provided by the Indiana State Teachers’ Retirement Fund (“TRF”), which is a cost-sharing multiple-employer defined benefit retirement plan governed by the State of Indiana and administered by the Indiana Public Retirement System (“INPRS”) Board. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plan, the Schools contribute 7.5% of compensation for electing teaching faculty to TRF. Should the Schools elect to withdraw from TRF, it could be subject to a withdrawal fee. The Schools’ contributions represent an insignificant percentage of the total contributions received by TRF. As of June 30, 2022, TRF was approximately 92% funded.

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

Retirement plan expense, net of forfeitures, for both plans totaled \$871,983 and \$642,891 for the years ended June 30, 2022 and 2021, respectively.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021**

NOTE 10 - OPERATING LEASES

The Schools have an operating lease with the Harrison Center of the Arts (the “Center”) which is renewed annually. The lease allows the Schools to use the Center’s gymnasium. Rent expense with the Center totaled \$19,500 and \$21,000, during the years ended June 30, 2022 and 2021, respectively. See Note 1 for discussion of leasing transactions between RHS and RHS RE.

The Schools also signed a lease in April 2021 for certain modular classrooms requiring monthly rental payments of \$10,499 through August 2023. During the year ended June 30, 2022, the Schools paid \$138,875 under the lease for one-time installation fees and monthly rental payments. Future minimum lease payments for the modular classrooms are \$125,388 for the year ending June 30, 2023 and \$20,898 for the year ending June 30, 2024.

NOTE 11 - RELATED PARTIES

The Organization recorded related party transactions with other organizations in which one or more of the Board members have an interest. The Schools paid Claude McNeal Productions, owned by the Board Presidents’ spouse, for instructional services for the theater program. The related expense was \$98,890 and \$61,998 for the years ended June 30, 2022 and 2021, respectively.

During May 2013, a member of the Organization’s Board of Directors prepaid \$100,000 of the construction bond debt. Another Board member then purchased the construction bond which was originally purchased by the Local Initiatives Support Corporation (“LISC”) in October 2010, thus repaying LISC and making the School his debtor. The bond bears an interest rate of 7.00% and matures in July 2025. The outstanding principal balance on the note was \$64,514 and \$81,610 as of June 30, 2022 and 2021, respectively. During fiscal years 2022 and 2021, interest expense paid to the member of the Organization’s Board was \$5,270 and \$6,417, respectively. See Note 5.

NOTE 12 - COMMITMENTS

As the Schools’ sponsoring organization, OEI exercises certain oversight responsibilities and assesses a fee equal to 1% of the state education support received. Total fees paid to OEI were \$82,671 and \$77,561 during the years ended June 30, 2022 and 2021, respectively.

The Schools also pay an innovation management fee to IPS in conjunction with the Innovation Network Charter School agreement totaling \$25,000 for both years ended June 30, 2022 and 2021.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021**

NOTE 13 - RISKS AND UNCERTAINTIES

The Organization provides education services to families residing in Marion and surrounding counties in Indiana and is subject to the risks of economic and competitive forces within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation and/or the agreements with IPS could significantly affect the Organization. Additionally, the Organization is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the Organization.

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2022 and 2021, substantially all of the grants receivable balance was due from the State of Indiana. In addition, deposits are maintained at Horizon Bank and Capital One and are insured up to the FDIC insurance limit. At June 30, 2022 and 2021, and regularly throughout the years, funds held at these banks exceeded the FDIC insurance limit.

NOTE 14 - LIQUIDITY

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

	<u>2022</u>	<u>2021</u>
Cash	\$ 2,009,748	\$ 2,297,282
Restricted cash	1,616,597	1,345,325
Restricted certificates of deposit	400,000	600,000
Grants receivable	1,775,239	1,002,293
Accounts receivable	9,352	45,641
Promises to give, net	2,611	6,397
New Market Tax Credit note receivables	<u>6,108,240</u>	<u>6,108,240</u>
<i>Total financial assets</i>	<u>11,921,787</u>	<u>11,405,178</u>
Board-designated net assets	-	64,202
Restricted cash	1,616,597	1,345,325
Restricted certificates of deposit	415,087	600,000
New Market Tax Credit note receivable	6,108,240	6,108,240
Donor-imposed restrictions	<u>3,375,738</u>	<u>2,039,272</u>
<i>Funds subject to expenditure for specified purpose</i>	<u>11,515,662</u>	<u>10,157,039</u>
<i>Total financial assets available within one year</i>	<u>\$ 406,125</u>	<u>\$ 1,248,139</u>

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021**

NOTE 14 - LIQUIDITY, Continued

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

The Organization 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 4, the Organization has a line of credit with available borrowings of \$350,000 as of June 30, 2022.

NOTE 15 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the consolidated statements of activities and change in net assets. Directly identifiable expenses are charged to the specific program or supporting service benefited. Expenses related to more than one function are allocated among program and support services based on time spent by Organization staff, including personnel expenses, materials and supplies, information technology, travel and entertainment, rent and facilities, depreciation, and interest expense. 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 16 - SUBSEQUENT EVENT

The Organization acquired property in October 2022 for the permanent site of Herron Preparatory Academy. The construction project will occur in two phases. The Organization secured a construction loan of \$3,460,000 in October 2022 for the renovation of the existing building on the property. This loan will mature in April 2024 and is secured by the real estate. The loan bears interest at a variable interest rate. At closing the interest rate was 6.25% per annum. The second phase of the construction project is scheduled to begin 2023 and will include the construction of a new building.

The Organization also acquired property in December 2022 near Herron High School. A temporary loan for the purchase of the building was provided by a member of the Board of Directors. The loan of \$750,000 will mature at the end of 2023 and bears interest of 4.1% per annum. The appraised value of the property significantly exceeded the purchase price.

SUPPLEMENTARY INFORMATION

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2022**

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 72,909
National School Lunch Program	10.555		609,190
Summer Food Service Program for Children	10.559		<u>47,461</u>
<i>Total U.S. Department of Agriculture</i>			<u>729,560</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Part A; Grants to Local Educational Agencies	84.010	S010A210014	428,575
Title II, Supporting Effective Instruction State Grants	84.367A	S367A210013	58,567
Title II, Supporting Effective Instruction State Grants	84.367A	S367A200013	1,042
Title IV, Student Support Academic Enrichment Program	84.424A	S424A210015	27,056
Pass-through Indiana Department of Education			
Special Education Cluster			
Special Education - Grants to States	84.027	22611-534-PN01	136,602
Special Education - Grants to States	84.027	22611-613-PN01	72,124
Special Education - Grants to States	84.027	22611-534-PN01	9,704
Special Education - Grants to States	84.027	22611-651-DY01	4,277
Charter Schools			
Charter Schools Facility Incentive Program: Keys to Quality	84.282D		759,797
Charter Schools Program: Quality Counts	84.282A	U282A200017	512,939
Education Stabilization Fund			
Elementary & Secondary School Emergency Relief	84.425D	S425D200013	43,180
Elementary & Secondary School Emergency Relief	84.425D	S425D210013	770,074
Elementary & Secondary School Emergency Relief	84.425D	S425U210013	679,545
American Rescue Plan – Homeless Children and Youth	84.425W		<u>3,205</u>
<i>Total U.S. Department of Education</i>			<u>3,506,687</u>
<i>Total federal awards expended</i>			<u>\$ 4,236,247</u>

See independent auditors' report and accompanying notes to this schedule

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
NOTES TO THE CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS
For the Year Ended June 30, 2022**

NOTE 1 - BASIS OF PRESENTATION

The accompanying consolidated schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Herron High School, Inc. d/b/a Herron Classical Schools and its Wholly-Owned Subsidiaries (collectively, the “Organization”) under programs of the federal government for the year ended June 30, 2022. The information in this consolidated schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the consolidated financial position, changes in net assets, functional expenses, or cash flows of the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 - INDIRECT COST RATE

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

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

June 30, 2022

	<u>Herron High School, Inc.</u>			<u>Total</u>	<u>Riverside High School RE MM, LLC - Consolidated</u>				<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
	<u>Herron High School</u>	<u>Herron Preparatory Academy</u>	<u>Herron - Riverside High School, LLC</u>		<u>Riverside High School RE MM, LLC</u>	<u>Riverside High School Real Estate, LLC</u>	<u>Eliminations</u>	<u>Eliminations</u>			
ASSETS											
CURRENT ASSETS											
Cash	\$ 3,213,071	\$ (501,381)	\$ (686,855)	\$ 2,024,835	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,024,835
Restricted cash	1,119,680	-	2,887	1,122,567	-	494,030	-	494,030	-	-	1,616,597
Grants receivable	246,430	1,266,057	262,752	1,775,239	-	-	-	-	-	-	1,775,239
Accounts receivable	6,101	699	2,552	9,352	-	-	-	-	-	-	9,352
Promises to give, net	2	-	2,609	2,611	-	-	-	-	-	-	2,611
Prepaid expenses	61,409	33,724	(1,175)	93,958	-	-	-	-	-	-	93,958
<i>Total current assets</i>	<u>4,646,693</u>	<u>799,099</u>	<u>(417,230)</u>	<u>5,028,562</u>	<u>-</u>	<u>494,030</u>	<u>-</u>	<u>494,030</u>	<u>-</u>	<u>-</u>	<u>5,522,592</u>
PROPERTY AND EQUIPMENT											
Land	614,000	-	-	614,000	-	354,100	-	354,100	(354,100)	-	614,000
Buildings and improvements	9,811,907	1,048,394	241,966	11,102,267	-	9,767,745	-	9,767,745	(565,900)	-	20,304,112
Furniture and equipment	803,019	142,312	306,854	1,252,185	-	-	-	-	-	-	1,252,185
Computer and office equipment	1,102,421	123,617	582,464	1,808,502	-	-	-	-	-	-	1,808,502
Books and educational materials	309,897	142,577	13,832	466,306	-	-	-	-	-	-	466,306
Vehicles	58,286	5,712	145,583	209,581	-	-	-	-	-	-	209,581
Less: accumulated depreciation	(5,092,045)	(253,379)	(562,688)	(5,908,112)	-	(919,928)	-	(919,928)	-	-	(6,828,040)
<i>Property and equipment, net</i>	<u>7,607,485</u>	<u>1,209,233</u>	<u>728,011</u>	<u>9,544,729</u>	<u>-</u>	<u>9,201,917</u>	<u>-</u>	<u>9,201,917</u>	<u>(920,000)</u>	<u>-</u>	<u>17,826,646</u>
OTHER ASSETS											
Restricted certificates of deposit	400,000	-	-	400,000	-	-	-	-	-	-	400,000
Investment in subsidiary	-	2,891	319,121	322,012	322,012	-	(322,012)	-	(322,012)	-	-
Equity investment	36,538	-	-	36,538	-	-	-	-	-	-	36,538
New Market Tax Credit note receivable	-	-	6,108,240	6,108,240	-	-	-	-	-	-	6,108,240
Intangible assets, net	-	-	-	-	-	8,168	-	8,168	-	-	8,168
Due from affiliates	-	-	172,159	172,159	-	-	-	-	(172,159)	-	-
<i>Total other assets</i>	<u>436,538</u>	<u>2,891</u>	<u>6,599,520</u>	<u>7,038,949</u>	<u>322,012</u>	<u>8,168</u>	<u>(322,012)</u>	<u>8,168</u>	<u>(494,171)</u>	<u>-</u>	<u>6,552,946</u>
TOTAL ASSETS	<u>\$ 12,690,716</u>	<u>\$ 2,011,223</u>	<u>\$ 6,910,301</u>	<u>\$ 21,612,240</u>	<u>\$ 322,012</u>	<u>\$ 9,704,115</u>	<u>\$ (322,012)</u>	<u>\$ 9,704,115</u>	<u>\$ (1,414,171)</u>	<u>\$ -</u>	<u>\$ 29,902,184</u>
LIABILITIES AND NET ASSETS/MEMBERS' EQUITY											
CURRENT LIABILITIES											
Current maturities of bonds and notes payable	\$ 358,411	\$ -	\$ -	\$ 358,411	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 358,411
Accounts payable	113,730	137,522	58,853	310,105	-	40,575	-	40,575	-	-	350,680
Accrued expenses	903,862	172,880	523,851	1,600,593	-	-	-	-	-	-	1,600,593
<i>Total current liabilities</i>	<u>1,376,003</u>	<u>310,402</u>	<u>582,704</u>	<u>2,269,109</u>	<u>-</u>	<u>40,575</u>	<u>-</u>	<u>40,575</u>	<u>-</u>	<u>-</u>	<u>2,309,684</u>
LONG-TERM LIABILITIES											
Bonds and notes payable, less current maturities and unamortized deferred financing costs	2,873,578	-	1,770,767	4,644,345	-	-	-	-	-	-	4,644,345
New Market Tax Credit notes payable, less unamortized deferred financing costs	-	-	-	-	-	8,887,162	-	8,887,162	-	-	8,887,162
Due to affiliates	-	-	-	-	-	172,159	-	172,159	(172,159)	-	-
<i>Total long-term liabilities</i>	<u>2,873,578</u>	<u>-</u>	<u>1,770,767</u>	<u>4,644,345</u>	<u>-</u>	<u>9,059,321</u>	<u>-</u>	<u>9,059,321</u>	<u>(172,159)</u>	<u>-</u>	<u>13,531,507</u>
TOTAL LIABILITIES	<u>4,249,581</u>	<u>310,402</u>	<u>2,353,471</u>	<u>6,913,454</u>	<u>-</u>	<u>9,099,896</u>	<u>-</u>	<u>9,099,896</u>	<u>(172,159)</u>	<u>-</u>	<u>15,841,191</u>
NET ASSETS/MEMBERS' EQUITY											
Without donor restrictions	6,963,157	(181,220)	4,541,111	11,323,048	-	-	-	-	(920,000)	-	10,403,048
With donor restrictions	1,477,978	1,882,041	15,719	3,375,738	-	-	-	-	-	-	3,375,738
Members' equity	-	-	-	-	322,012	322,012	(322,012)	322,012	(322,012)	-	-
Noncontrolling interest in members' equity	-	-	-	-	-	282,207	-	282,207	-	-	282,207
<i>Total net assets/members' equity</i>	<u>8,441,135</u>	<u>1,700,821</u>	<u>4,556,830</u>	<u>14,698,786</u>	<u>322,012</u>	<u>604,219</u>	<u>(322,012)</u>	<u>604,219</u>	<u>(1,242,012)</u>	<u>-</u>	<u>14,060,993</u>
TOTAL LIABILITIES AND NET ASSETS/MEMBERS' EQUITY	<u>\$ 12,690,716</u>	<u>\$ 2,011,223</u>	<u>\$ 6,910,301</u>	<u>\$ 21,612,240</u>	<u>\$ 322,012</u>	<u>\$ 9,704,115</u>	<u>\$ (322,012)</u>	<u>\$ 9,704,115</u>	<u>\$ (1,414,171)</u>	<u>\$ -</u>	<u>\$ 29,902,184</u>

See independent auditors' report

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

June 30, 2021

	Herron High School, Inc.			Total	Riverside High School RE MM, LLC - Consolidated				Total	Eliminations	Consolidated
	Herron High School	Herron Preparatory Academy	Herron - Riverside High School, LLC		Riverside High School RE MM, LLC	Riverside High School Real Estate, LLC	Eliminations	Eliminations			
ASSETS											
CURRENT ASSETS											
Cash	\$ 2,320,415	\$ 43,200	\$ (66,333)	\$ 2,297,282	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,297,282	
Restricted cash	919,198	-	2,887	922,085	-	423,240	-	423,240	-	1,345,325	
Grants receivable	318,618	370,296	313,379	1,002,293	-	-	-	-	-	1,002,293	
Accounts receivable	399	-	45,242	45,641	-	45,000	-	45,000	(45,000)	45,641	
Promises to give, net	-	-	6,397	6,397	-	-	-	-	-	6,397	
Prepaid expenses	55,895	22,605	4,129	82,629	-	-	-	-	-	82,629	
<i>Total current assets</i>	<u>3,614,525</u>	<u>436,101</u>	<u>305,701</u>	<u>4,356,327</u>	<u>-</u>	<u>468,240</u>	<u>-</u>	<u>468,240</u>	<u>(45,000)</u>	<u>4,779,567</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	(565,900)	18,986,619	
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	
Less: accumulated depreciation	(4,673,449)	(4,813)	(374,936)	(5,053,198)	-	(684,874)	-	(684,874)	-	(5,738,072)	
<i>Property and equipment, net</i>	<u>7,579,577</u>	<u>245,389</u>	<u>580,011</u>	<u>8,404,977</u>	<u>-</u>	<u>9,436,971</u>	<u>-</u>	<u>9,436,971</u>	<u>(920,000)</u>	<u>16,921,948</u>	
OTHER ASSETS											
Restricted certificates of deposit	600,000	-	-	600,000	-	-	-	-	-	600,000	
Investment in subsidiary	-	-	324,467	324,467	324,467	-	(324,467)	-	(324,467)	-	
New Market Tax Credit note receivable	-	-	6,108,240	6,108,240	-	-	-	-	-	6,108,240	
Intangible assets, net	-	-	-	-	-	7,866	-	7,866	-	7,866	
Due from affiliates	-	-	172,159	172,159	-	-	-	-	(172,159)	-	
<i>Total other assets</i>	<u>600,000</u>	<u>-</u>	<u>6,604,866</u>	<u>7,204,866</u>	<u>324,467</u>	<u>7,866</u>	<u>(324,467)</u>	<u>7,866</u>	<u>(496,626)</u>	<u>6,716,106</u>	
TOTAL ASSETS	<u>\$ 11,794,102</u>	<u>\$ 681,490</u>	<u>\$ 7,490,578</u>	<u>\$ 19,966,170</u>	<u>\$ 324,467</u>	<u>\$ 9,913,077</u>	<u>\$ (324,467)</u>	<u>\$ 9,913,077</u>	<u>\$ (1,461,626)</u>	<u>\$ 28,417,621</u>	
LIABILITIES AND NET ASSETS/MEMBERS' EQUITY											
CURRENT LIABILITIES											
Current maturities of bonds and notes payable	\$ 329,494	\$ -	\$ -	\$ 329,494	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 329,494	
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 note payable	1,193,552	-	440,260	1,633,812	-	-	-	-	-	1,633,812	
<i>Total current liabilities</i>	<u>2,528,629</u>	<u>12,318</u>	<u>1,017,645</u>	<u>3,558,592</u>	<u>-</u>	<u>20,021</u>	<u>-</u>	<u>20,021</u>	<u>(45,000)</u>	<u>3,533,613</u>	
LONG-TERM LIABILITIES											
Bonds and notes payable, 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	-	-	-	-	-	8,879,158	-	8,879,158	-	8,879,158	
Due to affiliates	-	-	-	-	-	172,159	-	172,159	(172,159)	-	
<i>Total long-term liabilities</i>	<u>3,571,738</u>	<u>-</u>	<u>1,768,017</u>	<u>5,339,755</u>	<u>-</u>	<u>9,051,317</u>	<u>-</u>	<u>9,051,317</u>	<u>(172,159)</u>	<u>14,218,913</u>	
TOTAL LIABILITIES	<u>6,100,367</u>	<u>12,318</u>	<u>2,785,662</u>	<u>8,898,347</u>	<u>-</u>	<u>9,071,338</u>	<u>-</u>	<u>9,071,338</u>	<u>(217,159)</u>	<u>17,752,526</u>	
NET ASSETS/MEMBERS' EQUITY											
Without donor restrictions	4,129,470	208,286	4,690,706	9,028,462	-	-	-	-	(920,000)	8,108,462	
With donor restrictions	1,564,265	460,886	14,210	2,039,361	-	-	-	-	-	2,039,361	
Members' equity	-	-	-	-	324,467	324,467	(324,467)	324,467	(324,467)	-	
Noncontrolling interest in members' equity	-	-	-	-	-	517,272	-	517,272	-	517,272	
<i>Total net assets/members' equity</i>	<u>5,693,735</u>	<u>669,172</u>	<u>4,704,916</u>	<u>11,067,823</u>	<u>324,467</u>	<u>841,739</u>	<u>(324,467)</u>	<u>841,739</u>	<u>(1,244,467)</u>	<u>10,665,095</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>\$ 324,467</u>	<u>\$ 9,913,077</u>	<u>\$ (324,467)</u>	<u>\$ 9,913,077</u>	<u>\$ (1,461,626)</u>	<u>\$ 28,417,621</u>	

See independent auditors' report

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

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

See independent auditors' report

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGE IN NETS ASSETS
For the Year Ended June 30, 2021**

	Herron High School, Inc.				Riverside High School RE MM, LLC - Consolidated						
	Herron High School	Herron Preparatory Academy	Herron - Riverside High School, LLC	Total	Riverside High School RE MM, LLC	Riverside High School Real Estate, LLC	Noncontrolling Interest	Eliminations	Total	Eliminations	Consolidated
REVENUE AND SUPPORT											
State education support	\$ 8,503,542	\$ -	\$ 2,741,783	\$ 11,245,325	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,245,325
Federal and state grant revenue	1,400,029	230,177	1,415,409	3,045,615	-	-	-	-	-	-	3,045,615
Individual and foundation contributions	234,296	306,850	165,642	706,788	-	-	-	-	-	-	706,788
Student fees	89,155	-	128,043	217,198	-	-	-	-	-	-	217,198
Other income (loss)	(62,749)	-	80,796	18,047	(2,630)	168,379	-	2,630	168,379	(155,000)	31,426
<i>Total revenue and support</i>	<u>10,164,273</u>	<u>537,027</u>	<u>4,531,673</u>	<u>15,232,973</u>	<u>(2,630)</u>	<u>168,379</u>	<u>-</u>	<u>2,630</u>	<u>168,379</u>	<u>(155,000)</u>	<u>15,246,352</u>
EXPENSES											
Salaries and benefits	6,440,278	120,732	3,410,435	9,971,445	-	-	-	-	-	-	9,971,445
Instructional services	58,935	-	19,100	78,035	-	-	-	-	-	-	78,035
Information technology	109,152	-	53,579	162,731	-	-	-	-	-	-	162,731
Accounting services	45,411	-	20,641	66,052	-	-	-	-	-	-	66,052
Other outside services	269,698	17,328	256,579	543,605	-	106,071	-	-	106,071	-	649,676
Authorizer oversight fee	77,561	-	-	77,561	-	-	-	-	-	-	77,561
Innovation management fee	25,000	-	-	25,000	-	-	-	-	-	-	25,000
Course materials and supplies	206,482	22,734	132,317	361,533	-	-	-	-	-	-	361,533
Nutritional support	171,481	255	66,785	238,521	-	-	-	-	-	-	238,521
Travel and entertainment	3,112	439	1,531	5,082	-	-	-	-	-	-	5,082
Vehicle and transportation expense	22,812	-	4,769	27,581	-	-	-	-	-	-	27,581
Rent and facilities	576,657	490	507,122	1,084,269	-	-	-	-	-	(155,000)	929,269
Depreciation	432,424	4,813	170,773	608,010	-	235,218	-	-	235,218	-	843,228
Interest expense	168,872	-	22,015	190,887	-	98,024	-	-	98,024	-	288,911
Insurance	78,661	-	104,220	182,881	-	-	-	-	-	-	182,881
Advertising	72,001	280	47,259	119,540	-	-	-	-	-	-	119,540
Loss on disposal of assets	28,811	-	41,341	70,152	-	-	-	-	-	-	70,152
Other	17,101	-	8,467	25,568	-	-	-	-	-	-	25,568
<i>Total expenses</i>	<u>8,804,449</u>	<u>167,071</u>	<u>4,866,933</u>	<u>13,838,453</u>	<u>-</u>	<u>439,313</u>	<u>-</u>	<u>-</u>	<u>439,313</u>	<u>(155,000)</u>	<u>14,122,766</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>1,359,824</u>	<u>369,956</u>	<u>(335,260)</u>	<u>1,394,520</u>	<u>(2,630)</u>	<u>(270,934)</u>	<u>-</u>	<u>2,630</u>	<u>(270,934)</u>	<u>-</u>	<u>1,123,586</u>
OTHER INCOME (EXPENSE)											
Equity loss in subsidiary	(8,539)	-	-	(8,539)	-	-	-	-	-	-	(8,539)
Interest income	115,030	-	-	115,030	-	-	-	-	-	-	115,030
Gain on involuntary conversion	66,938	-	54,715	121,653	-	-	-	-	-	-	121,653
Change in net assets related to noncontrolling interest	-	-	-	-	-	268,304	(268,304)	-	-	-	-
<i>Total other income</i>	<u>173,429</u>	<u>-</u>	<u>54,715</u>	<u>228,144</u>	<u>-</u>	<u>268,304</u>	<u>(268,304)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>228,144</u>
CHANGE IN NET ASSETS	<u>1,533,253</u>	<u>369,956</u>	<u>(280,545)</u>	<u>1,622,664</u>	<u>(2,630)</u>	<u>(2,630)</u>	<u>(268,304)</u>	<u>2,630</u>	<u>(270,934)</u>	<u>2,630</u>	<u>1,354,360</u>
NET ASSETS/MEMBERS' EQUITY, BEGINNING OF YEAR	<u>4,160,482</u>	<u>299,216</u>	<u>4,985,461</u>	<u>9,445,159</u>	<u>327,097</u>	<u>327,097</u>	<u>785,576</u>	<u>(327,097)</u>	<u>1,112,673</u>	<u>(1,247,097)</u>	<u>9,310,735</u>
NET ASSETS/MEMBERS' EQUITY, END OF YEAR	<u>\$ 5,693,735</u>	<u>\$ 669,172</u>	<u>\$ 4,704,916</u>	<u>\$ 11,067,823</u>	<u>\$ 324,467</u>	<u>\$ 324,467</u>	<u>\$ 517,272</u>	<u>\$ (324,467)</u>	<u>\$ 841,739</u>	<u>\$ (1,244,467)</u>	<u>\$ 10,665,095</u>

See independent auditors' report



Donovan CPAs

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

The Board of Directors
Herron High School, Inc.

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 financial statements of Herron High School, Inc. d/b/a Herron Classical Schools and its Wholly-Owned Subsidiaries (collectively, the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022 and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 21, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

www.cpadonovan.com

Avon | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Indianapolis | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

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

Indianapolis, Indiana
February 21, 2023



Donovan CPAs

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

The Board of Directors
Herron High School, Inc.

Report on Compliance for Each Major Federal Program

We have audited Herron High School, Inc. d/b/a Herron Classical Schools and its Wholly-Owned Subsidiaries (collectively, the "Organization") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on the Organization's major federal programs for the year ended June 30, 2022. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for 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 (CFR) 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.

www.cpadonovan.com

Avon | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Indianapolis | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

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 items 2022-001, 2022-002, and 2022-003. 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 84.425 Education Stabilization Fund

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding AL 84.425 Education Stabilization Fund as described in items 2022-001 and 2022-002. 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 Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraphs, the Organization 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, 2022.

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 Corrective Action Plan on pages 38 and 39. 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 as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. 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. We consider the deficiencies in internal control over compliance described in the accompanying schedules of findings and questioned costs as items 2022-002 and 2022-003 to be significant deficiencies.

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.

DONOVAN

A handwritten signature in dark ink, appearing to read "DONOVAN", written in a cursive style.

Indianapolis, Indiana
February 21, 2023

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022**

I. Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>AL Number</u>	<u>Name of Federal Program or Cluster</u>
84.425D	Education Stabilization Fund Elementary & Secondary School Emergency Relief
84.282D	Charter Schools Charter Schools Facility Incentive Program: Keys to Quality
84.282A	Charter Schools Program: Quality Counts

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

II. Financial Statement Findings

No matters are reportable.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022**

III. Federal Award Findings and Questioned Costs

FINDING 2022-001 - RISK ASSESSMENT PROCESS RELATED TO COMPLIANCE
REQUIREMENTS (Repeat Finding of 2021-001)
Material Weakness

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

Criteria

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

Condition

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

Cause and Effect

The material weakness resulted in the noncompliance findings described in items 2022-002 and 2022-003.

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

The Organization’s Corrective Action Plan is included on pages 38 and 39.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022**

III. Federal Award Findings and Questioned Costs, Continued

FINDING 2022-002 – EQUIPMENT AND REAL PROPERTY MANAGEMENT

(Repeat Finding of 2021-002)

Significant Deficiency

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

Criteria

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

Condition

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

Cause and Effect

As described in 2022-001, the Organization has not established a formal process related to federal awards to identify all key compliance requirements and changes in compliance requirements, evaluate risks of noncompliance with these requirements, and respond to such risks of noncompliance through establishing or changing processes and internal controls. Additionally, certain individuals, within a department, responsible for the use of federal funds or maintenance and safeguard of assets acquired with federal funds lacked knowledge of the compliance requirements pertaining to the use of the funds or the maintenance and safeguard of the acquired assets. As a result, adequate documentation was not maintained for equipment acquired with federal funds or to support the performance of a physical inventory occurring within the required time period.

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

The Organization's Corrective Action Plan is included on pages 38 and 39.

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022**

III. Federal Award Findings and Questioned Costs, Continued

FINDING 2022-003 – PROCUREMENT AND SUSPENSION AND DEBARMENT
(Repeat Finding of 2021-003)
Significant Deficiency

Federal Programs: Charter Schools – AL 84.282

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

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

Cause and Effect

As described in 2022-001, the Organization has not established a formal process related to federal awards to identify all key compliance requirements and changes in compliance requirements, evaluate risks of noncompliance with these requirements, and respond to such risks of noncompliance through establishing or changing processes and internal controls. Additionally, certain individuals, within a department, responsible for the use of federal funds lacked knowledge of the compliance requirements pertaining to the use of the funds. As a result, they did not comply with requirements for proper procurement or in relation to suspension and debarment.

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

The Organization's Corrective Action Plan is included on pages 38 and 39.



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

CORRECTIVE ACTION PLAN Year Ended June 30, 2022

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, 2022.

Name and address of independent public accounting firm:

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

Audit period: Year ended June 30, 2022

The findings from the schedule of findings and questioned costs for the year ended June 30, 2022, 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

2022-001 Risk Assessment Process Related to Compliance Requirements (Repeat Finding 2021-001)
Material Weakness

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

Planned Corrective Action: As the organization has grown, compliance of federal programs has become decentralized. We agree that additional resources need to be added to ensure compliance with all state and federal awards. The Organization is adding additional capacity to the Business Office to centralize the compliance and reporting responsibilities. The Organization has recently had the opportunity to redesign the job description of the Controller. To allow the Controller more capacity for compliance and reporting responsibilities, an accounts payable position will be added by the end of Fiscal Year 2023. The Controller will attend appropriate trainings to ensure a full understanding of all requirements. This should be fully implemented by mid-2023.

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

2022-002 Equipment and Real Property Management (Repeat Finding 2021-002)
Significant Deficiency

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

Planned Corrective Action: The Organization has implemented a location software for student devices that tracks the majority of the required information for devices that are live on the network. The Organization concurs that additional internal controls are necessary to ensure all compliance requirements are met. These controls will include exports from the location software for a periodic inventory as well as additional procedures for tracking defective devices. Further controls will be implemented to ensure that the inventory records are easily traced to the invoices retained in the financial records. Similar controls will be implemented to ensure proper tracking and inventory of all assets purchased with federal funds. The reorganization of the Business Office described above in 2022-001 will allow the Controller oversee the implementation of these controls and periodic internal audits to ensure adherence to all compliance requirements.

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

Charter Schools – AL #84.282

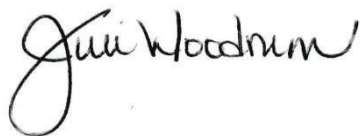
2021-003 Noncompliance – Procurement and Suspension and Debarment (Repeat Finding 2021-003)
Significant Deficiency

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

Planned Corrective Action: While procurement requirements are followed, management concurs that the documentation of procurement activities does not always occur. The reorganization of the Business Office described above in 2021-002 will allow the Controller to oversee procurement of purchases with federal funds and to ensure all compliance requirements are followed and appropriately documented.

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

**HERRON HIGH SCHOOL, INC. d/b/a HERRON CLASSICAL SCHOOLS
AND ITS WHOLLY-OWNED SUBSIDIARIES
OTHER REPORT
For the Year Ended June 30, 2022**

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

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

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.