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January 13, 2014

Charter School Board  
Herron High School, Inc.  
110 E. 16<sup>th</sup> Street  
Indianapolis, IN 46202

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Sikich, LLC, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Herron High School, Inc., as of June 30, 2013, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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

*State Board of Accounts*



**HERRON HIGH SCHOOL INC.  
AND ITS WHOLLY OWNED SUBSIDIARY**

Consolidated Financial Statements  
With Supplemental Information

For the Year Ended  
June 30, 2013



**HERRON HIGH SCHOOL, INC.**



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Herron High School, Inc. and Its Wholly Owned Subsidiary:

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Herron High School, Inc. and Its Wholly Owned Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2013, and the consolidated related statements of activities, and consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Herron High School, Inc. and Its Wholly Owned Subsidiary as of June 30, 2013, and the consolidated changes in its net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2013, on our consideration of Herron High School, Inc. and Its Wholly Owned Subsidiary'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Herron High School, Inc. and Its Wholly Owned Subsidiary's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Sikich, LLP". The signature is written in a cursive, slightly slanted style.

Sikich LLP

Indianapolis, Indiana  
November 11, 2013

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED  
SUBSIDIARY**  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2013

**ASSETS**

**CURRENT ASSETS:**

Cash	\$	1,595,976
Grants receivable		45,592
Pledges Receivable, net allowance for uncollectible accounts of \$12,000		205,949
Prepaid expenses		<u>31,792</u>
 Total Current Assets		 <u>1,879,309</u>

**PROPERTY AND EQUIPMENT:**

Land	614,000
Buildings	8,105,246
Furniture and equipment	635,330
Computer and office equipment	734,446
Books and educational materials	<u>125,530</u>
	10,214,552
Less: accumulated depreciation	<u>(1,674,725)</u>
 Total Property and Equipment, net	 <u>8,539,827</u>

**OTHER ASSETS:**

Bond issuance cost, net	<u>63,334</u>
	<u>\$ 10,482,470</u>

See accompanying notes to the consolidated financial statements.

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED  
SUBSIDIARY**  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(continued)  
JUNE 30, 2013

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Accounts payable	\$ 62,147
Current maturities of long-term debt	2,480,638
Accrued expenses	<u>477,376</u>

Total Current Liabilities 3,020,161

**LONG-TERM DEBT**, less current maturities: 3,987,604

Total Liabilities 7,007,765

**NET ASSETS:**

Unrestricted	3,237,579
Temporary restricted	<u>237,126</u>

Total Net Assets 3,474,705

\$ 10,482,470

See accompanying notes to the consolidated financial statements.

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2013**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
<b>REVENUES AND SUPPORT:</b>			
School lunch program	\$ 165,724	\$ -	\$ 165,724
Student fees and fundraising	247,481	-	247,481
Contributions and donations	50,653	532,862	583,515
Federal and state support	5,266,129	-	5,266,129
In-kind contributions	45,000	34,736	79,736
Other revenue	2,639	-	2,639
Net assets released from restrictions by satisfaction of temporary restrictions	<u>459,655</u>	<u>(459,655)</u>	<u>-</u>
 Total Revenues and Support	 <u>6,237,281</u>	 <u>107,943</u>	 <u>6,345,224</u>
<b>PROGRAM AND SUPPORTING SERVICE EXPENSES:</b>			
Program services	4,483,654	-	4,483,654
Supporting services:			
General and administrative	1,468,611	-	1,468,611
Fundraising	<u>180,238</u>	<u>-</u>	<u>180,238</u>
 Total Expenses	 <u>6,132,503</u>	 <u>-</u>	 <u>6,132,503</u>
<b>NON-OPERATING REVENUE:</b>			
Gain due to changes in legislative funding	<u>569,098</u>	<u>-</u>	<u>569,098</u>
 <b>CHANGE IN NET ASSETS</b>	 673,876	 107,943	 781,819
<b>NET ASSETS</b> , beginning of year	<u>2,563,703</u>	<u>129,183</u>	<u>2,692,886</u>
 <b>NET ASSETS</b> , end of year	 <u>\$ 3,237,579</u>	 <u>\$ 237,126</u>	 <u>\$ 3,474,705</u>

See accompanying notes to the consolidated financial statements.

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2013**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Change in net assets	\$ 781,819
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	469,651
Net gain due to changes in legislation	(569,098)
(Increase) decrease in:	
Pledge & grants receivable	(375,442)
Prepaid expense	(9,620)
Increase (decrease) in:	
Accounts payable	18,230
Accrued interest	78,330
Accrued expenses	121,116
Deferred revenue	<u>(18,716)</u>

**NET CASH PROVIDED BY OPERATING ACTIVITIES** 496,270

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchases of property and equipment	<u>(1,453,599)</u>
-------------------------------------	--------------------

**NET CASH USED BY INVESTING ACTIVITIES** (1,453,599)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Long-term debt borrowings	317,628
Long-term debt repayments	<u>(225,874)</u>

**NET CASH USED BY FINANCING ACTIVITIES** 91,754

**NET DECREASE IN CASH** (865,575)

**CASH AND CASH EQUIVALENTS - beginning of year** 2,461,551

**CASH AND CASH EQUIVALENTS - end of year** \$ 1,595,976

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED  
SUBSIDIARY**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations** - Herron High School, Inc., along with Its Wholly Owned Subsidiary, (the "School") is a public charter school located in Indianapolis, Indiana providing classical liberal arts, college preparatory education. The School is structured around an art history timeline and emphasizes the classical art and literature of many cultures. Through an integrated curriculum and classical methodology, the School believes all students can learn to think logically, express themselves creatively, appreciate aesthetics fully, and approach any subject intelligently.

The consolidated financial statements of the School include the operations of its wholly owned subsidiary, Herron Museum Building, LLC. The School leases the building from the LLC and the related income and expense due to rental payments are eliminated in consolidation.

**Basis of Consolidation** - The accompanying consolidated financial statements include the accounts of the School and its subsidiary. All significant intercompany transactions and balances have been eliminated in consolidation.

**Basis of Accounting** - The financial statements of the School have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses when the obligation is incurred.

**Basis of Presentation** - As required by Financial Statement Presentation Disclosure topic of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the School, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

**Net Assets** - The financial statements report amounts separately by class of net assets:

**Unrestricted net assets** - Unrestricted amounts are those currently available for use in the School's activities.

**Temporarily restricted net assets** - Temporarily restricted expendable amounts are those which are restricted by donors for specific purposes. As of June 30, 2013, the School had \$237,126 of temporarily restricted net assets, which all related to the School's capital campaign.

**Permanently restricted net assets** - Net assets subject to donor-imposed stipulations require that they be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on the related investments for general or specific purposes. As of June 30, 2013, the School had no permanently restricted net assets.

**Cash and Cash Equivalents** - For purposes of the statement of cash flows, the School considers all investments purchased with a maturity of three months or less to be cash equivalents.

**Grants Receivable** - Grants receivable represent the uncollected portion of funds from grants awarded to the School.

Grant receivables are reported net of an allowance for doubtful accounts. There were no allowances, as of June 30, 2013, based on management's estimate of the amount of receivables that will actually be collected. Grant receivables are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of the accounts.

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

During the year the School had total purchases of \$1,453,599 of which \$936,295 of bond proceeds were used for building improvements and \$388,145 were proceeds which consisted of grant funds.

Depreciation expense was \$469,651 for the year ended June 30, 2013.

**Impairment of Long-lived Assets** - The School evaluates long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. Management has determined that no impairment existed for the year ended June 30, 2013.

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

The School received \$79,736 of in-kind contributions during the year ended June 30, 2013. Of the in-kind contributions, \$70,000 is related to equipment and software donations and \$9,736 relates to the execution of the capital campaign.

Volunteers provide program services throughout the year that are not recognized as contributions in the financial statements since they do not meet the recognition criteria under Contributions Disclosure Topic of FASB ASC.

**Revenue Recognition** - Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by public schools. Funding from the State of Indiana is based on enrollment, and paid in equal monthly installments in January through December following the start of the academic school year. Revenue is recognized in the year in which the educational services are rendered. See Note 3 regarding legislative funding changes affecting revenue recognition.

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

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

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

**Estimates** - Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could vary from the estimates that were used.

**Advertising** - The School expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2013 was \$7,438.

**Income Taxes** - The School is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The School is not considered to be a private foundation. Accordingly, no provision for income taxes has been reflected in the School's financial statements.

The School has evaluated its tax positions for all open tax years. Currently, the tax years open and subject to examination by the Internal Revenue Service are the 2009, 2010 and 2011 tax years. However, the School is not currently under audit nor has the School been contacted by any jurisdiction. Based on the evaluation of the School's tax positions, management believes all tax positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the year ended June 30, 2013.

**Concentration of Credit Risk** - Financial instruments that potentially subject the School to concentrations of credit risk consist principally of temporary cash investments and grants receivable.

The School places its temporary cash investments with financial institutions and does not limit its credit exposure to any one financial institution. There were two accounts over the FDIC insured limits at June 30, 2013.

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

Operating Funds from the Indiana Department of Education amounted to 85% of the School's support and revenue in June 30, 2013. A state funding formula is used to determine the amount of revenue a charter school receives. The formula is based on the number of students enrolled in the school during the year.

**Risks and Uncertainties** - The School provides education instruction services to families residing in Marion and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work 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 could significantly affect the School. Additionally, non-compliance in regards to federal and state standards and regulations could result in reduction of funding or repayment of disallowed costs.

## **NOTE 2 - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES**

**Education** - The academic program of the School is designed to challenge every student to achieve on or above grade level performance in all academic subjects. While students may enter the school below grade level in many areas, the school is prepared for the challenge of equipping students with the knowledge, skills, and habits necessary for success in an academically rigorous college preparatory high school. The school's curriculum is based upon the Indiana Academic Standards and is taught rigorously to ensure that students are prepared for a college upon completion of high school.

## **NOTE 3 – LEGISLATIVE FUNDING CHANGES**

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered.

Effective July 1, 2013, school funding will be paid following the State of Indiana fiscal year of July to June, which aligns with the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 will not be received by the School.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School has applied for the received repayments of its indebtedness under these obligations as of June 30, 2013.

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a gain due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans	\$ 2,413,780
Repayment of Common School Fund accrued interest	<u>327,444</u>
	2,741,224
Elimination of School Receivable	
Related to Common School Loan Forgiveness	<u>(2,172,126)</u>
	<u><u>\$ 569,098</u></u>

#### **NOTE 4 – GRANTS RECEIVABLE**

Accounts receivable for the year ended June 30, 2013 represented amounts due from the department of education grants relating to the following sources:

Technology Grant	\$ 4,586
Title I	22,357
Special Education	15,167
Title II	<u>3,482</u>
	<u><u>\$ 45,592</u></u>

#### **NOTE 5 – PLEDGES RECEIVABLE**

During 2011, the School launched a capital campaign to purchase and restore the two vacant buildings on its campus. By adding these two buildings, the School is able to increase enrollment from 450 to 700 students. This restoration and renovation also allows the School to add an additional science wing as well as classrooms dedicated to the fine arts. Common areas added include a cafeteria and the Lyceum. The School has hopes of turning the Lyceum into a state-of-the-art digital learning environment in the future.

The campaign goal is \$5,300,000, of which \$1,278,123 had been raised during the silent phase of the campaign. An additional \$2,000,000 gift was pledged subsequent to June 30, 2013. With over 60% of the campaign goal raised, the School took the campaign public in late 2013.

During the 2012-2013 fiscal year, the School recognized \$567,598 of contributions related to the campaign. As of June 30, 2013, pledges receivable related to this campaign total \$217,949 with an allowance for doubtful accounts of \$12,000. Pledges receivable from members of the board of directors total \$159,000 at June 30, 2013.

At June 30, 2013 all pledges are due in one to three years. The carrying value approximates fair value for pledges receivable. The future aging of pledge receivables is as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 119,037
2015	61,242
2016	37,670
	<u>\$ 217,949</u>

#### **NOTE 6 – OPERATING LEASES**

The School currently leases space from the LLC under a noncancellable operating lease, which is eliminated in consolidation. Rent expense totaled \$244,592 for the year ended June 30, 2013. The school also has an annual lease for the gym at Harrison Center of the Arts. The related expense for the year ended June 30, 2013 was \$19,000.

The future minimum rental payments required under the operating leases for the year subsequent to June 30, 2013 are as follows:

<u>Year</u>	<u>Amount</u>
2014	<u>\$ 180,000</u>

#### **NOTE 7 - PENSION PLAN**

##### 403(b) Plan

The School's faculty and certain administrative employees are participants in a 403(b) tax deferred annuity retirement plan. All participants may contribute to the Plan. The School's contribution to the Plan was \$231,178 for the year ended June 30, 2013.

## Indiana Public Retirement System

### ***Plan Description***

The School elected to become a participating employer in the Indiana Public Retirement System (INPRS). The School contributes to INPRS, an agent multiple-employer retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. INPRS is governed by state statutes I.C.S. 5-10.2 and 5-10.3. As such, it is INPRS's responsibility to administer the law in accordance with the expressed intent of the Indiana General Assembly. INPRS is a qualified plan under Internal Revenue Code Section 401(a) and is tax exempt.

INPRS is a contributory defined benefit plan that covers substantially all School employees. INPRS retirement benefits vest after 10 years of service. Senate Bill 74 enabled INPRS participants to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. A participant may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the participant's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions is met, a participant may retire with 100% of the pension benefit at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years and months of INPRS-covered employment. The average annual salary used for calculating the pension benefit is an average of the participant's highest five years of employment earning within the 10 years preceding retirement. The School's contribution to the Teachers' Retirement Fund was \$53,184 for the year ended June 30, 2013.

Participants who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit that is reduced by various percentages according to the participant's age.

Participants have two choices regarding their annuity savings account. They may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or, they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described in the paragraph above.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

### ***Funding Policy and Annual Pension Cost***

The School contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

**NOTE 8 - LONG-TERM DEBT ACTIVITY**

Long-term debt included the following at June 30, 2013:

Qualified School Construction Bonds, Series 2010 secured by real estate and assignments of leases and rents. The bond bears interest at 6.75% per annum, payable in quarterly installments of \$91,486 including interest, maturing on July 1, 2025. (a.)	\$ 3,928,892
Qualified School Construction Bonds, Series 2010B secured by real estate and assignments of leases and rents. The bond bears interest at 7% per annum, payable in quarterly installments of \$5,155 including interest, maturing on July 1, 2025. (b.)	170,848
Mortgage note collateralized by the related property. The loan bears interest at 5.5% per annum, payable in monthly installments and matures in February, 2014.	<u>2,368,502</u>
	<u>6,468,242</u>
Less: current maturities	<u>(2,480,638)</u>
Total Long-term Debt	<u>\$ 3,987,604</u>

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

At June 30, 2013, the principal payments debt activities are as follows:

<u>Year Ending</u>	<u>Series 2010 Bonds</u>	<u>Series 2010B Bonds</u>	<u>Mortgage Note</u>	<u>Total</u>
June 30,2014	\$ 8,891	\$ 103,235	\$ 2,368,502	\$ 2,480,628
June 30,2015	9,530	109,892	-	119,422
June 30,2016	10,215	117,501	-	127,716
June 30,2017	10,949	125,633	-	136,582
June 30,2018- and thereafter	<u>131,263</u>	<u>3,472,631</u>	<u>-</u>	<u>3,603,894</u>
	<u>\$ 170,848</u>	<u>\$ 3,928,892</u>	<u>\$ 2,368,502</u>	<u>\$ 6,468,242</u>

Total interest paid during the year ended June 30, 2013 was \$191,643.

The Series 2010 & 2010B bonds and mortgage note were issued for the acquisition of land, renovation, installation and equipping of charter school facility, together with the purchase of equipment to be utilized therein.

**NOTE 9 – UNAMORTIZED BOND ISSUE COSTS**

Bond issuance costs associated with long-term debt at June 30, 2013, were \$80,000 and include bond acquisition fees, which are amortized using the interest method over the life of the related bond issue. Amortization expense for the year ended June 30, 2013 was \$6,000

Gross amount	\$ 80,000
Accumulated amortization	<u>(16,666)</u>
Net amount	<u>\$ 63,334</u>

**NOTE 10 - RELATED PARTIES**

During May of 2013, a member of the School’s board of directors prepaid \$100,000 of the construction bond debt. Another board member then purchased the construction bond which was originally purchased by LISC in October 2010, thus repaying LISC and making the School his debtor. The bond bears an interest rate of 7.00% and matures in July 2025. At June 30, 2013, the outstanding principal balance on the note was \$170,848.

The School also recorded related party transactions with other organizations, in which one or more of the board members have an interest. The school leases space from the Harrison Center for the Arts and incurs additional expense related to productions and programs held during the year. One board member from the School is the executive director of the center and another serves as a board member for both organizations. The School also pays Claude McNeal Productions for instructional services for the theater program. A staff at the school was noted to have potential conflict of interests, which were addressed by the board.

**NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2013 are available for the following purposes:

Capital Campaign	\$ 187,126
Clowes Grant	<u>50,000</u>
	<u>\$ 237,126</u>

During June 30, 2013, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

CICF Grant	\$ 12,024
AAE Fund	442
Impact 100	5,738
Capital Campaign	<u>441,451</u>
	<u>\$ 459,655</u>

## **NOTE 12 - SUBSEQUENT EVENT**

In preparing these financial statements, the School has evaluated subsequent events and transactions for potential recognition or disclosure through November 11, 2013, the date the financial statements were available to be issued.

During October 2013, the School received a lead gift commitment from Steve and Livia Russell, members of the board of directors, allowing the School to take the current capital campaign public. This commitment totals \$2,000,000 and is payable over 5 years. The capital campaign allows the School to purchase and restore the two vacant buildings on the historic campus. With the addition of these two buildings the school is able to increase enrollment by over 55%.

In addition, BMO Harris, as the investing member of Herron Museum Building, LLC, executed a put option and sold their share of the LLC to the School for \$100. The School now owns 100% of Herron Museum Building LLC. Effective July 1, 2013, the School pays rent of \$15,000 per month to Herron Museum Building LLC.

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED  
SUBSIDIARY**  
SCHEDULE OF CONSOLIDATING STATEMENTS OF FINANCIAL POSITION  
YEAR ENDED JUNE 30, 2013

**ASSETS**

	<u>Herron High School, Inc.</u>	<u>Herron Museum LLC</u>	<u>Eliminations</u>	<u>Combined Balance Sheets</u>
<b>CURRENT ASSETS:</b>				
Cash	\$ 1,441,910	\$ 154,066	\$ -	\$ 1,595,976
Grants receivable	45,592	-	-	45,592
Pledges Receivable, net allowance for uncollectible accounts of \$12,000	205,949	-	-	205,949
Prepaid expenses	<u>31,792</u>	<u>-</u>	<u>-</u>	<u>31,792</u>
Total Current Assets	<u>1,725,243</u>	<u>154,066</u>	<u>-</u>	<u>1,879,309</u>
<b>PROPERTY AND EQUIPMENT, at cost:</b>				
Land	307,000	307,000	-	614,000
Buildings	4,880,253	3,224,993	-	8,105,246
Furniture and equipment	610,330	25,000	-	635,330
Computer and office equipment	734,446	-	-	734,446
Books and educational materials	<u>125,530</u>	<u>-</u>	<u>-</u>	<u>125,530</u>
	6,657,559	3,556,993	-	10,214,552
Less: accumulated depreciation	<u>(1,167,355)</u>	<u>(507,370)</u>	<u>-</u>	<u>(1,674,725)</u>
Total Property and Equipment, net	<u>5,490,204</u>	<u>3,049,623</u>	<u>-</u>	<u>8,539,827</u>
<b>OTHER ASSETS:</b>				
Bond issuance cost, net	<u>63,334</u>	<u>-</u>	<u>-</u>	<u>63,334</u>
	<u>\$ 7,278,781</u>	<u>\$ 3,203,689</u>	<u>\$ -</u>	<u>\$ 10,482,470</u>

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED  
SUBSIDIARY**  
SCHEDULE OF CONSOLIDATING STATEMENTS OF FINANCIAL POSITION  
YEAR ENDED JUNE 30, 2013

**LIABILITIES AND NET ASSETS**

	Herron High School, Inc.	Herron Museum LLC	Eliminations	Combined Balance Sheets
<b>CURRENT LIABILITIES:</b>				
Accounts payable	\$ 62,147	\$ -	\$ -	\$ 62,147
Current maturities of long-term debt	112,136	2,368,502	-	2,480,638
Accrued expenses	<u>466,520</u>	<u>10,856</u>	<u>-</u>	<u>477,376</u>
Total Current Liabilities	<u>640,803</u>	<u>2,379,358</u>	<u>-</u>	<u>3,020,161</u>
<b>LONG-TERM DEBT</b> , less current maturities:	<u>3,987,604</u>	<u>-</u>	<u>-</u>	<u>3,987,604</u>
Total Liabilities	<u>4,628,407</u>	<u>2,379,358</u>	<u>-</u>	<u>7,007,765</u>
<b>Net Assets:</b>				
Unrestricted	2,413,248	824,331	-	3,237,579
Temporarily Restricted	<u>237,126</u>	<u>-</u>	<u>-</u>	<u>237,126</u>
Total Net Assets	<u>2,650,374</u>	<u>824,331</u>	<u>-</u>	<u>3,474,705</u>
	<u>\$ 7,278,781</u>	<u>\$ 3,203,689</u>	<u>\$ -</u>	<u>\$ 10,482,470</u>

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED SUBSIDIARY**  
**SCHEDULE OF CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2013**

	Herron High School, Inc.			Herron Museum, LLC			Eliminations	Combined Income Statement
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total		
<b>REVENUES AND SUPPORT:</b>								
School lunch program	\$ 165,724	\$ -	\$ 165,724	\$ -	\$ -	\$ -	\$ -	\$ 165,724
Student fees and fundraising	247,481	-	247,481	-	-	-	-	247,481
Contributions and donations	50,653	532,862	583,515	-	-	-	-	583,515
Federal and state support	5,266,129	-	5,266,129	-	-	-	-	5,266,129
In-kind contributions	45,000	34,736	79,736	-	-	-	-	79,736
Rent Income	-	-	-	224,592	-	224,592	(224,592)	-
Other revenue	2,639	-	2,639	-	-	-	-	2,639
Net assets released from restrictions by satisfaction of temporary restrictions	459,655	(459,655)	-	-	-	-	-	-
<b>Total Revenues and Support</b>	<b>6,237,281</b>	<b>107,943</b>	<b>6,345,224</b>	<b>224,592</b>	<b>-</b>	<b>224,592</b>	<b>(224,592)</b>	<b>6,345,224</b>
<b>PROGRAM AND SUPPORTING SERVICE EXPENSES:</b>								
Program services	4,483,654	-	4,483,654	-	-	-	-	4,483,654
Supporting services								
General and administrative	1,467,858	-	1,467,858	225,345	-	225,345	(224,592)	1,468,611
Fundraising	180,238	-	180,238	-	-	-	-	180,238
<b>Total Expenses</b>	<b>6,131,750</b>	<b>-</b>	<b>6,131,750</b>	<b>225,345</b>	<b>-</b>	<b>225,345</b>	<b>(224,592)</b>	<b>6,132,503</b>
<b>NON-OPERATING REVENUE:</b>								
Gain due to changes in legislative funding	569,098	-	569,098	-	-	-	-	569,098
<b>CHANGE IN NET ASSETS</b>	<b>674,629</b>	<b>107,943</b>	<b>782,572</b>	<b>(753)</b>	<b>-</b>	<b>(753)</b>	<b>-</b>	<b>781,819</b>
<b>NET ASSETS, beginning of year</b>	<b>1,738,619</b>	<b>129,183</b>	<b>1,867,802</b>	<b>825,084</b>	<b>-</b>	<b>825,084</b>	<b>-</b>	<b>2,692,886</b>
<b>NET ASSETS, end of year</b>	<b>\$ 2,413,248</b>	<b>\$ 237,126</b>	<b>\$ 2,650,374</b>	<b>\$ 824,331</b>	<b>\$ -</b>	<b>\$ 824,331</b>	<b>\$ -</b>	<b>\$ 3,474,705</b>

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED SUBSIDIARY**  
**SCHEDULE OF CONSOLIDATING STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2013**

	Herron <u>High School, Inc.</u>	Herron <u>Museum LLC</u>	<u>Eliminations</u>	Combined Statements of <u>Cash Flows</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Change in net assets	\$ 782,572	\$ (753)	\$ -	\$ 781,819
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	386,126	83,525	-	469,651
Net gain due to changes in legislation	(569,098)	-	-	(569,098)
(Increase) decrease in:				
Pledges & grants receivable	(375,442)	-	-	(375,442)
Prepaid expense	(9,620)	-	-	(9,620)
Increase (decrease) in:				
Accounts payable	18,230	-	-	18,230
Accrued interest	78,493	(163)	-	78,330
Accrued expenses	121,116	-	-	121,116
Deferred revenue	-	(18,716)	-	(18,716)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>432,377</u>	<u>63,893</u>	<u>-</u>	<u>496,270</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchases of property and equipment	<u>(1,453,599)</u>	<u>-</u>	<u>-</u>	<u>(1,453,599)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(1,453,599)</u>	<u>-</u>	<u>-</u>	<u>(1,453,599)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Long-term debt borrowings	317,628	-	-	317,628
Long-term debt repayments	<u>(190,418)</u>	<u>(35,456)</u>	<u>-</u>	<u>(225,874)</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>127,210</u>	<u>(35,456)</u>	<u>-</u>	<u>91,754</u>
<b>NET DECREASE IN CASH</b>	(894,012)	28,437	-	(865,575)
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<u>2,335,922</u>	<u>125,629</u>	<u>-</u>	<u>2,461,551</u>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<u>\$ 1,441,910</u>	<u>\$ 154,066</u>	<u>\$ -</u>	<u>\$ 1,595,976</u>

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED SUBSIDIARY**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2013**

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total Expenses</u>
		<u>Management and General</u>	<u>Fundraising</u>	
Salaries and benefits	\$ 2,773,198	\$ 908,314	\$ 140,800	\$ 3,822,312
Instructional services	117,250	-	-	117,250
Information technology	22,772	34,158	-	56,930
Accounting services	-	87,092	-	87,092
Other outside services	45,393	125,411	-	170,804
Course materials/supplies	136,804	64,947	11,811	213,562
Nutritional support	174,849	-	-	174,849
Travel and entertainment	48,494	2,814	-	51,308
Vehicle/transportation expense	43,172	-	-	43,172
Rent and facilities	334,633	90,801	20,311	445,745
Depreciation and amortization	378,069	91,582	-	469,651
Interest expense	280,986	-	-	280,986
Insurance	39,389	7,095	2,447	48,931
Advertising expenses	-	7,438	-	7,438
Small equipment purchases	78,392	14,120	4,869	97,381
Miscellaneous	10,253	34,839	-	45,092
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total direct program expenses	<u>\$ 4,483,654</u>	<u>\$ 1,468,611</u>	<u>\$ 180,238</u>	<u>\$ 6,132,503</u>



**INDEPENDENT AUDITOR'S 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**

To the Board of Directors  
of Herron High School, Inc. and Its Wholly Owned Subsidiary:

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. and Its Wholly Owned Subsidiary, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 11, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Herron High School, Inc. and Its Wholly Owned Subsidiary internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Herron High School, Inc. and Its Wholly Owned Subsidiary's internal control. *Accordingly, we do not express an opinion on the effectiveness of the School's internal control.*

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Herron High School, Inc. and Its Wholly Owned Subsidiary's 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.

A handwritten signature in black ink that reads "Sikich, LLP". The signature is written in a cursive, slightly slanted style.

Sikich LLP

Indianapolis, Indiana  
November 11, 2013

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED  
SUBSIDIARY**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Total Federal Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through the Indiana Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	FY 2012-2013	\$ 83,968
School Breakfast Program	10.553	FY 2012-2013	4,935
Summer Food Service Program for Children	10.559	FY 2012-2013	<u>2,121</u>
Total for Child Nutrition Cluster			<u>91,024</u>
Total for U.S. Department of Agriculture			<u>91,024</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through the Indiana Department of Education			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	FY 2012-2013	144,892
		FY 2011-2012	<u>13,737</u>
Total for program			<u>158,629</u>
Total for Title I, Part A Cluster			<u>158,629</u>
Special Education Cluster (IDEA)			
Special Education Grants to States	84.027	FY 2011-2012	78,301
		FY 2010-2011	<u>6,090</u>
			<u>84,391</u>
Charter Schools	84.282	FY 2012-2013	<u>180,608</u>
Improving Teacher Quality State Grants	84.367	FY 2010-2011	23,718
		FY 2009-2010	<u>9,129</u>
Total for program			<u>32,847</u>
Total U.S. Department of Education			<u>456,475</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 547,499</u></u>

See accompanying Independent Auditors' Report  
See accompanying notes to the financial statements.

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED  
SUBSIDIARY**

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedules of expenditures of federal awards include the federal grant activity of Herron High School, Inc. and Its Wholly Owned Subsidiary and are presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER  
COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors  
of Herron High School, Inc. and Its Wholly Owned Subsidiary:

**Report on Compliance for Each Major Federal Program**

We have audited Herron High School, Inc. and Its Wholly Owned Subsidiary's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Herron High School, Inc. and Its Wholly Owned Subsidiary's major federal programs for the year ended June 30, 2013. Herron High School, Inc. and Its Wholly Owned Subsidiary's major federal programs are identified in the summary of auditor's 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.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Herron High School, Inc. and Its Wholly Owned Subsidiary'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Herron High School, Inc. and Its Wholly Owned Subsidiary's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Herron High School, Inc. and Its Wholly Owned Subsidiary's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Herron High School, Inc. and Its Wholly Owned Subsidiary 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, 2013.

### **Report on Internal Control Over Compliance**

Management of Herron High School, Inc. and Its Wholly Owned Subsidiary 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 Herron High School, Inc. and Its Wholly Owned Subsidiary's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Herron High School, Inc. and Its Wholly Owned Subsidiary's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Sikich LLP

Indianapolis, Indiana  
November 11, 2013

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED  
SUBSIDIARY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

***Financial Statements:***

- Type of auditors’ report issued: **unmodified**

***Government Auditing Statements:***

*Internal control over financial reporting:*

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   No

*Compliance:*

- Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

***OMB Circular A-133:***

*Internal control over major programs:*

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   No

*Compliance with requirements applicable to each major program:*

- Identification of major programs: **Title I, Part A Cluster  
Child Nutrition Cluster  
Special Education Cluster**
- Dollar threshold used to distinguish between type A type B programs: **\$ 300,000**
- Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes   X   No
- Type of auditors’ report issued on compliance for major programs: **unmodified**
- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

- *None*

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

- *None*

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED  
SUBSIDIARY**  
OTHER REPORT  
FOR THE YEAR ENDED JUNE 30, 2013

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

Supplemental Audit Report of Herron High School, Inc. and Its Wholly Owned Subsidiary