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January 6, 2015

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, 2013 to June 30, 2014. 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, 2014, 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.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner



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

Consolidated Financial Statements  
With Supplemental Information

For the Years Ended  
June 30, 2014 and 2013



**HERRON HIGH SCHOOL, INC.**



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## INDEPENDENT AUDITOR'S 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 (an Indiana nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for the Audits of Charter Schools Performed by Private Examiners*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits 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, 2014 and 2013, and the consolidated changes in its net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2014, 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.

*Sikich, LLP*

Sikich LLP

Indianapolis, Indiana  
December 9, 2014

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2014 AND 2013

**ASSETS**

	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,944,495	\$ 1,595,976
Accounts receivable	1,285	-
Grants receivable	129,925	45,592
Current portion of pledges receivable, net allowance for uncollectible accounts of \$12,000 and \$12,000	462,738	107,037
Prepaid expenses	<u>11,213</u>	<u>31,792</u>
 Total Current Assets	 <u>2,549,656</u>	 <u>1,780,397</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Land	614,000	614,000
Buildings	8,859,129	8,105,246
Furniture and equipment	724,275	635,330
Computer and office equipment	764,957	734,446
Books and educational materials	<u>149,826</u>	<u>125,530</u>
	11,112,187	10,214,552
Less: accumulated depreciation	<u>(2,186,013)</u>	<u>(1,674,725)</u>
 Total Property and Equipment, net	 <u>8,926,174</u>	 <u>8,539,827</u>
<b>OTHER ASSETS:</b>		
Net pledges receivable, net of current portion	728,798	98,912
Bond issuance cost, net	<u>93,967</u>	<u>63,334</u>
 Total Other Assets	 <u>822,765</u>	 <u>162,246</u>
	 <u>\$ 12,298,595</u>	 <u>\$ 10,482,470</u>

See accompanying notes to the consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Continued)

JUNE 30, 2014 AND 2013

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**LIABILITIES AND NET ASSETS**

	<u>2014</u>	<u>2013</u>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 122,482	\$ 62,147
Current maturities of long-term debt	208,730	2,480,638
Accrued expenses	<u>447,909</u>	<u>477,376</u>
Total Current Liabilities	<u>779,121</u>	<u>3,020,161</u>
<b>LONG-TERM DEBT</b> , less current maturities	<u>6,210,925</u>	<u>3,987,604</u>
Total Liabilities	<u>6,990,046</u>	<u>7,007,765</u>
<b>NET ASSETS:</b>		
Unrestricted	3,139,410	3,237,579
Temporarily restricted	<u>2,169,139</u>	<u>237,126</u>
Total Net Assets	<u>5,308,549</u>	<u>3,474,705</u>
	<u>\$ 12,298,595</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 ACTIVITIES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2014**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
<b>REVENUES AND SUPPORT:</b>			
School lunch program	\$ 166,604	\$ -	\$ 166,604
Student fees and fundraising	207,024	-	207,024
Contributions and donations	132,142	2,281,728	2,413,870
Federal and state support	5,425,451	-	5,425,451
Other revenue	772	-	772
Net assets released from restrictions by satisfaction of temporary restrictions	<u>349,715</u>	<u>(349,715)</u>	<u>-</u>
 Total Revenues and Support	 <u>6,281,708</u>	 <u>1,932,013</u>	 <u>8,213,721</u>
<b>PROGRAM AND SUPPORTING SERVICE EXPENSES:</b>			
Program services	5,159,265	-	5,159,265
Supporting services:			
General and administrative	1,003,128	-	1,003,128
Fundraising	<u>217,484</u>	<u>-</u>	<u>217,484</u>
 Total Expenses	 <u>6,379,877</u>	 <u>-</u>	 <u>6,379,877</u>
 <b>CHANGE IN NET ASSETS</b>	 (98,169)	 1,932,013	 1,833,844
 <b>NET ASSETS</b> , beginning of year	 <u>3,237,579</u>	 <u>237,126</u>	 <u>3,474,705</u>
 <b>NET ASSETS</b> , end of year	 <u>\$ 3,139,410</u>	 <u>\$ 2,169,139</u>	 <u>\$ 5,308,549</u>

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>			
Net 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 STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,833,844	\$ 781,819
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	513,424	469,651
Net gain due to changes in legislation	-	(569,098)
(Increase) decrease in:		
Accounts receivable	(1,285)	-
Grant receivable	(84,333)	(338,014)
Pledge receivable	(985,587)	(37,428)
Prepaid expense	20,579	(9,620)
Increase (decrease) in:		
Accounts payable	60,335	18,230
Accrued interest	-	78,330
Accrued expenses	(29,467)	121,116
Deferred revenue	-	(18,716)
	<u>1,327,510</u>	<u>496,270</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	<u>(930,404)</u>	<u>(1,453,599)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(930,404)</u>	<u>(1,453,599)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Long-term debt borrowings	112,249	317,628
Long-term debt repayments	<u>(160,836)</u>	<u>(225,874)</u>
<b>NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES</b>	<u>(48,587)</u>	<u>91,754</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	348,519	(865,575)
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<u>1,595,976</u>	<u>2,461,551</u>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<u>\$ 1,944,495</u>	<u>\$ 1,595,976</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest Paid	<u>\$ 189,957</u>	<u>\$ 191,643</u>

See accompanying notes to the consolidated financial statements.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

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### 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 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 consolidated 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.

**Net Assets** - The consolidated 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 amounts are those which are restricted by donors for specific purposes or the passage of time. As of June 30, 2014 and 2013, the School had \$2,169,139 and \$237,126 of temporarily restricted net assets, respectively, 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, 2014 and 2013, the School had no permanently restricted net assets.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Cash and Cash Equivalents** - For purposes of the statement of cash flows, the School considers all investments purchased with an original 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, 2014 and 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.

**Pledges Receivable** - Pledges receivable consist of gifts from various individuals payable in future installments. The School recognizes pledges receivable at fair value. An allowance of \$12,000 is estimated for both years.

**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.

Depreciation expense was \$511,287 and \$463,651 for the years ended June 30, 2014 and 2013, respectively.

**Bond Issuance Costs** - The School amortizes its bond issuance costs using the interest method over the varying terms of the bonds issued. Amortization expense was \$2,137 and \$6,000 for the years ended June 30, 2014 and 2013, respectively.

**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 years ended June 30, 2014 and 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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School received \$0 and \$79,736 of in-kind contributions during the years ended June 30, 2014 and 2013, respectively. Of the in-kind contributions in 2013, \$70,000 is related to equipment and software donations and \$9,736 was for services related 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 based on 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 years ended June 30, 2014 and 2013 was \$3,435 and \$7,438, respectively.

**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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School has adopted the provisions of Uncertain Tax Positions Disclosure Topics of FASB ASC, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has not been met. This guidance also addresses de-recognition, classification, interest and penalties, disclosure, and transition. In the normal course of business, the School is subject to examination by taxing authorities. The School's tax returns for years subsequent to fiscal year 2010 are open, by statute, for review by authorities. However, at present there are no ongoing income tax audits or unresolved disputes with the various tax authorities that The School currently files or has filed.

**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 limits the amount of credit exposure to any one financial institution. There was \$1,217,146 and \$941,610 in excess of insured limits at June 30, 2014 and 2013, respectively.

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 65% and 85% of the School's support and revenue in June 30, 2014 and 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.

**Reclassifications** - Certain amounts in the prior-year financial statements have been reclassified in order to be comparable with the current year presentation. Grants receivable has been separated from pledges receivable in the Consolidated Statements of Cash Flows. Additionally, the amount of pledges receivable has been spit into current and noncurrent portions. These reclassifications have no effect on previously reported change in net assets.

## 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.

**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 July 1, 2013, 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 payment 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 is 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 was not 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 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 for the year ended June 30, 2013 as a net 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>
Net Gain due to Changes in Legislation	<u>\$ 569,098</u>

**NOTE 4 – GRANTS RECEIVABLE**

Grants receivable for the years ended June 30, 2014 and 2013 represented amounts due from grants relating to the following sources:

	<u>2014</u>	<u>2013</u>
Technology Grant	\$ -	\$ 4,586
Title I	20,245	22,357
Special Education	19,656	15,167
Title II	7,024	3,482
Per Pupil Charter Facilities Grant	38,000	-
Allen Whitehill Clowes Operations Grant	<u>45,000</u>	<u>-</u>
	<u>\$ 129,925</u>	<u>\$ 45,592</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 accommodate an increase in enrollment from 450 to 740 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.

During the years ended June 30, 2014 and 2013, the School recognized \$2,076,325 and \$567,416 of contributions related to the campaign. Pledges receivable related to this campaign at June 30, 2014 and 2013, net of an allowance of \$12,000 in both years, totaled \$1,191,536 and \$205,949, respectively.

Pledges receivable as of the years ended June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Due in one year	\$ 474,738	\$ 119,037
Due in one to three years	<u>777,695</u>	<u>98,912</u>
Future value	1,252,433	217,949
Less allowance	<u>(12,000)</u>	<u>(12,000)</u>
Subtotal	1,240,433	205,949
Less discount to present value at 2.5%	<u>(48,897)</u>	-
Total pledges receivable	<u>\$ 1,191,536</u>	<u>\$ 205,949</u>

## NOTE 6 – OPERATING LEASES

The School has an operating lease with the Harrison Center of the Arts (the Center) that is renewed on an annual basis. The lease allows the School to use the Center's gymnasium. For the years ended June 30, 2014 and 2013, rent expense with the Center totaled \$21,000 and \$19,000, respectively.

The School also has a lease with Hogan Transfer & Storage. For the years ended June 30, 2014 and 2013, the School paid \$297 and \$198 per month, respectively. For the years ended June 30, 2014 and 2013, storage rent was \$3,312 and \$1,880, respectively.

## NOTE 7 - PENSION PLAN

### 403(b) Plan

The School's eligible faculty and administrative staff are participants in a 403(b) tax deferred annuity retirement plan. The School's contribution to the Plan was \$225,264 and \$231,178 for the years ended June 30, 2014 and 2013, respectively.



**NOTE 7 - PENSION PLAN (Continued)**

Indiana Public Retirement System

***Plan Description***

The School elected to become a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), with the merger of the funds being effective as of July 1, 2011.

The Indiana Teachers' Retirement Fund (TRF) is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. Retirement plan expense for TRF was \$44,110 and \$53,184 for the years ended June 30, 2014 and 2013, respectively.

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

Long-term debt included the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Qualified School Construction Bonds (QSCBs), Series 2010A secured by real estate and assignments of leases and rents. The bond bears interest at 6.75% per annum (less a rebate of 5.27% from the U.S. Treasury), payable in quarterly installments of \$91,486 including interest, maturing on July 1, 2025. (a.)	\$ 3,825,661	\$ 3,928,892
Qualified School Construction Bonds (QSCBs), Series 2010B secured by real estate and assignments of leases and rents. The bond bears interest at 7% 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.)	173,151	170,848
Educational Facilities Revenue Bonds, Series 2014. the loan bears interest at 3.17% per annum, payable in quarterly installments of \$41,268 with a maturity date of April 17, 2024.	<u>2,420,843</u>	<u>2,368,502</u>
	6,419,655	6,468,242
Less: current maturities	<u>(208,730)</u>	<u>(2,480,638)</u>
Total Long-term Debt	<u>\$ 6,210,925</u>	<u>\$ 3,987,604</u>

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

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

**NOTE 8 - LONG-TERM DEBT ACTIVITY (Continued)**

At June 30, 2014, the principal payments debt activities are as follows:

<u>Year Ending</u>	<u>Series 2010A Bonds</u>	<u>Series 2010B Bonds</u>	<u>Series 2014 Bonds</u>	<u>Total</u>
June 30,2015	\$ 109,892	\$ 10,518	\$ 88,320	\$ 208,730
June 30,2016	117,500	11,274	90,990	219,764
June 30,2017	125,635	12,084	94,152	231,871
June 30,2018	134,332	12,952	97,215	244,499
June 30,2019- and thereafter	<u>3,338,302</u>	<u>126,323</u>	<u>2,050,166</u>	<u>5,514,791</u>
	<u>\$ 3,825,661</u>	<u>\$ 173,151</u>	<u>\$ 2,420,843</u>	<u>\$ 6,419,655</u>

Total interest paid during the years ended June 30, 2014 and 2013 was \$189,957 and \$191,643, respectively.

The Series 2010A and 2010B bonds 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. The Series 2014 bond was a refinance of a mortgage that was originally borrowed for the renovation, installation and equipping of the charter school facility.

**NOTE 9 – UNAMORTIZED BOND ISSUE COSTS**

Bond issuance costs associated with long-term debt at June 30, 2014 and 2013, were \$112,770 and \$80,000, respectively and include bond acquisition fees, which are amortized using the interest method over the life of the related bond issue. Amortization expense for the years ended June 30, 2014 and 2013 was \$2,137 and \$6,000, respectively.

	<u>2014</u>	<u>2013</u>
Gross amount	\$ 112,770	\$ 80,000
Accumulated amortization	<u>(18,803)</u>	<u>(16,666)</u>
Net amount	<u>\$ 93,967</u>	<u>\$ 63,334</u>

**NOTE 10 - RELATED PARTIES**

As mentioned in Note 1, the School currently leases space from the LLC under a noncancellable operating lease, which is eliminated in consolidation. 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. Related party rent expense totaled \$201,000 and \$243,592 for the years ended

**NOTE 10 - RELATED PARTIES (Continued)**

June 30, 2014 and 2013, respectively. The School also paid Claude McNeal Productions, owned by the Head of School's spouse, for instructional services for the theater program. The related expense was \$29,000 and \$29,583 for the years ended June 30, 2014 and 2013, respectively.

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 the Local Initiatives Support Corporation (LISC) in October 2010, thus repaying LISC and making the School his debtor. The bond bears an interest rate of 7.00% and matures in July 2025. At June 30, 2014 and 2013, the outstanding principal balance on the note was \$173,151 and \$170,848, respectively.

Pledges receivable from members of the board of directors totaled \$1,228,196 and \$159,000 at June 30, 2014 and 2013, respectively.

**NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2014 and 2013 are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Capital Campaign	\$ 2,029,346	\$ 187,126
Community Assistance	4,300	-
Allen Whitehill Clowes Capital Grant	<u>135,493</u>	<u>50,000</u>
	<u>\$ 2,169,139</u>	<u>\$ 237,126</u>

During June 30, 2014 and 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.

	<u>2014</u>	<u>2013</u>
Allen Whitehill Clowes Capital Grant	\$ 164,507	\$ -
CICF Grant	-	12,024
AAE Fund	-	442
Impact 100	-	5,738
Capital Campaign	<u>185,208</u>	<u>441,451</u>
	<u>\$ 349,715</u>	<u>\$ 459,655</u>

**NOTE 12 - SUBSEQUENT EVENT**

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued or are available to be issued. These events and transactions either provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at the date of the statement of financial position but arose after that date (that is non-recognized subsequent events).

The School has evaluated subsequent events through December 9, 2014, which was the date that these financial statements were available for issuance, and determined that there were no significant non-recognized subsequent events through that date.

## **SUPPLEMENTARY INFORMATION**

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED  
SUBSIDIARY**  
SCHEDULE OF CONSOLIDATING STATEMENTS OF FINANCIAL POSITION  
YEAR ENDED JUNE 30, 2014

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**ASSETS**

	<u>Herron High School, Inc.</u>	<u>Herron Museum LLC</u>	<u>Eliminations</u>	<u>Consolidated Statements of Financial Position</u>
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 1,718,020	\$ 226,475	\$ -	\$ 1,944,495
Accounts receivable	27,878	-	(26,593)	1,285
Grants receivable	129,925	-	-	129,925
Current portion of pledges receivable, net allowance for uncollectible accounts of \$12,000	462,738	-	-	462,738
Prepaid expenses	<u>11,213</u>	<u>-</u>	<u>-</u>	<u>11,213</u>
 Total Current Assets	 <u>2,349,774</u>	 <u>226,475</u>	 <u>(26,593)</u>	 <u>2,549,656</u>
<b>PROPERTY AND EQUIPMENT, at cost:</b>				
Land	307,000	307,000	-	614,000
Buildings	5,634,136	3,224,993	-	8,859,129
Furniture and equipment	699,275	25,000	-	724,275
Computer and office equipment	764,957	-	-	764,957
Books and educational materials	<u>149,826</u>	<u>-</u>	<u>-</u>	<u>149,826</u>
	7,555,194	3,556,993	-	11,112,187
Less: accumulated depreciation	<u>(1,595,950)</u>	<u>(590,063)</u>	<u>-</u>	<u>(2,186,013)</u>
 Total Property and Equipment, net	 <u>5,959,244</u>	 <u>2,966,930</u>	 <u>-</u>	 <u>8,926,174</u>
<b>OTHER ASSETS:</b>				
Pledges receivable, net of current portion	728,798	-	-	728,798
Bond issuance cost, net	<u>61,334</u>	<u>32,633</u>	<u>-</u>	<u>93,967</u>
 Total Other Assets	 <u>790,132</u>	 <u>32,633</u>	 <u>-</u>	 <u>822,765</u>
	<u>\$ 9,099,150</u>	<u>\$ 3,226,038</u>	<u>\$ (26,593)</u>	<u>\$ 12,298,595</u>

See accompanying notes to the consolidated financial statements.

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED  
SUBSIDIARY**  
SCHEDULE OF CONSOLIDATING STATEMENTS OF FINANCIAL POSITION  
(Continued)  
YEAR ENDED JUNE 30, 2014

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**LIABILITIES AND NET ASSETS**

	Herron High School, Inc.	Herron Museum LLC	Eliminations	Consolidated Statements of Financial Position
<b>CURRENT LIABILITIES:</b>				
Accounts payable	\$ 122,482	\$ 26,593	\$ (26,593)	\$ 122,482
Current maturities of long-term debt	120,410	88,320	-	208,730
Accrued expenses	<u>447,909</u>	<u>-</u>	<u>-</u>	<u>447,909</u>
Total Current Liabilities	<u>690,801</u>	<u>114,913</u>	<u>(26,593)</u>	<u>779,121</u>
<b>LONG-TERM DEBT</b> , less current maturities:	<u>3,878,402</u>	<u>2,332,523</u>	<u>-</u>	<u>6,210,925</u>
Total Liabilities	<u>4,569,203</u>	<u>2,447,436</u>	<u>(26,593)</u>	<u>6,990,046</u>
<b>Net Assets:</b>				
Unrestricted	2,360,808	778,602	-	3,139,410
Temporarily Restricted	<u>2,169,139</u>	<u>-</u>	<u>-</u>	<u>2,169,139</u>
Total Net Assets	<u>4,529,947</u>	<u>778,602</u>	<u>-</u>	<u>5,308,549</u>
	<u>\$ 9,099,150</u>	<u>\$ 3,226,038</u>	<u>\$ (26,593)</u>	<u>\$ 12,298,595</u>

See accompanying notes to the consolidated financial statements.

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

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**ASSETS**

	<u>Herron High School, Inc.</u>	<u>Herron Museum LLC</u>	<u>Eliminations</u>	<u>Consolidated Statements of Financial Position</u>
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 1,441,910	\$ 154,066	\$ -	\$ 1,595,976
Grants receivable	45,592	-	-	45,592
Current portion of pledges receivable, net allowance for uncollectible accounts of \$12,000	107,037	-	-	107,037
Prepaid expenses	<u>31,792</u>	<u>-</u>	<u>-</u>	<u>31,792</u>
Total Current Assets	<u>1,626,331</u>	<u>154,066</u>	<u>-</u>	<u>1,780,397</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>				
Pledges receivable, net of current portion	98,912	-	-	98,912
Bond issuance cost, net	<u>63,334</u>	<u>-</u>	<u>-</u>	<u>63,334</u>
Total Other Assets	<u>162,246</u>	<u>-</u>	<u>-</u>	<u>162,246</u>
	<u>\$ 7,278,781</u>	<u>\$ 3,203,689</u>	<u>\$ -</u>	<u>\$ 10,482,470</u>

See accompanying notes to the consolidated financial statements.



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

**LIABILITIES AND NET ASSETS**

	Herron High School, Inc.	Herron Museum LLC	Eliminations	Consolidated Statements of Financial Position
<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>477,376</u>
 Total Current Liabilities	 <u>640,803</u>	 <u>2,379,358</u>	 -	 <u>3,020,161</u>
<b>LONG-TERM DEBT</b> , less current maturities:	<u>3,987,604</u>	-	-	<u>3,987,604</u>
 Total Liabilities	 <u>4,628,407</u>	 <u>2,379,358</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>237,126</u>
 Total Net Assets	 <u>2,650,374</u>	 <u>824,331</u>	 -	 <u>3,474,705</u>
	<u>\$ 7,278,781</u>	<u>\$ 3,203,689</u>	<u>\$ -</u>	<u>\$ 10,482,470</u>

See accompanying notes to the consolidated financial statements.

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED SUBSIDIARY**  
**SCHEDULE OF CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2014**

	Herron High School, Inc.			Herron Museum, LLC			Eliminations	Consolidated Statement of Activities
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total		
<b>REVENUES AND SUPPORT:</b>								
School lunch program	\$ 166,604	\$ -	\$ 166,604	\$ -	\$ -	\$ -	\$ -	\$ 166,604
Student fees and fundraising	207,024	-	207,024	-	-	-	-	207,024
Contributions and donations	132,142	2,281,728	2,413,870	-	-	-	-	2,413,870
Federal and state support	5,425,451	-	5,425,451	-	-	-	-	5,425,451
Rent Income	-	-	-	180,000	-	180,000	(180,000)	-
Other revenue	772	-	772	-	-	-	-	772
Net assets released from restrictions by satisfaction of temporary restrictions	349,715	(349,715)	-	-	-	-	-	-
<b>Total Revenues and Support</b>	<b>6,281,708</b>	<b>1,932,013</b>	<b>8,213,721</b>	<b>180,000</b>	<b>-</b>	<b>180,000</b>	<b>(180,000)</b>	<b>8,213,721</b>
<b>PROGRAM AND SUPPORTING SERVICE EXPENSES:</b>								
Program services	5,134,890	-	5,134,890	169,270	-	169,270	(144,895)	5,159,265
Supporting services								
General and administrative	977,344	-	977,344	51,889	-	51,889	(26,105)	1,003,128
Fundraising	221,914	-	221,914	4,570	-	4,570	(9,000)	217,484
<b>Total Expenses</b>	<b>6,334,148</b>	<b>-</b>	<b>6,334,148</b>	<b>225,729</b>	<b>-</b>	<b>225,729</b>	<b>(180,000)</b>	<b>6,379,877</b>
<b>CHANGE IN NET ASSETS</b>	<b>(52,440)</b>	<b>1,932,013</b>	<b>1,879,573</b>	<b>(45,729)</b>	<b>-</b>	<b>(45,729)</b>	<b>-</b>	<b>1,833,844</b>
<b>NET ASSETS, beginning 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>
<b>NET ASSETS, end of year</b>	<b>\$ 2,360,808</b>	<b>\$ 2,169,139</b>	<b>\$ 4,529,947</b>	<b>\$ 778,602</b>	<b>\$ -</b>	<b>\$ 778,602</b>	<b>\$ -</b>	<b>\$ 5,308,549</b>

See accompanying notes to the consolidated financial statements.

**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	Consolidated Statement of Activities
	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>								
Net 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>

See accompanying notes to the consolidated financial statements.

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED SUBSIDIARY**  
**SCHEDULE OF CONSOLIDATING STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2014**

	Herron High School, Inc.	Herron Museum LLC	Eliminations	Consolidated Statements of Cash Flows
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Change in net assets	\$ 1,879,573	\$ (45,729)	\$ -	\$ 1,833,844
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization	430,595	82,829	-	513,424
(Increase) decrease in:				
Accounts receivable	(27,878)	-	26,593	(1,285)
Grants receivable	(84,333)	-	-	(84,333)
Pledges receivable	(985,587)	-	-	(985,587)
Prepaid expense	20,579	-	-	20,579
Increase (decrease) in:				
Accounts payable	60,335	26,593	(26,593)	60,335
Accrued expenses	(18,611)	(10,856)	-	(29,467)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>1,274,673</u>	<u>52,837</u>	<u>-</u>	<u>1,327,510</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchases of property and equipment	(897,635)	(32,769)	-	(930,404)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(897,635)</u>	<u>(32,769)</u>	<u>-</u>	<u>(930,404)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Long-term debt borrowings	12,120	100,129	-	112,249
Long-term debt repayments	(113,048)	(47,788)	-	(160,836)
<b>NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES</b>	<u>(100,928)</u>	<u>52,341</u>	<u>-</u>	<u>(48,587)</u>
<b>NET DECREASE IN CASH</b>	276,110	72,409	-	348,519
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<u>1,441,910</u>	<u>154,066</u>	<u>-</u>	<u>1,595,976</u>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<u>\$ 1,718,020</u>	<u>\$ 226,475</u>	<u>\$ -</u>	<u>\$ 1,944,495</u>

See accompanying notes to the consolidated financial statements.

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

	Herron High School, Inc.	Herron Museum LLC	Eliminations	Consolidated Statements of Cash Flows
<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 and amortization	386,126	83,525	-	469,651
Net gain due to changes in legislation	(569,098)	-	-	(569,098)
(Increase) decrease in:				
Grant receivable	(338,014)	-	-	(338,014)
Pledges receivable	(37,428)	-	-	(37,428)
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>

See accompanying notes to the consolidated financial statements.

**HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2014**

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	<u>Program</u> <u>Services</u>	<u>Supporting Services</u>		<u>Total</u> <u>Expenses</u>
		<u>Management</u> <u>and</u> <u>General</u>	<u>Fundraising</u>	
Salaries and benefits	\$ 3,407,852	\$ 516,495	\$ 160,692	\$ 4,085,039
Instructional services	147,995	-	-	147,995
Information technology	63,299	11,402	3,932	78,633
Accounting services	-	70,696	-	70,696
Other outside services	40,620	119,489	-	160,109
Course materials/supplies	194,099	58,832	-	252,931
Nutritional support	183,012	-	-	183,012
Travel and entertainment	18,930	626	-	19,556
Vehicle/transportation expense	39,196	-	-	39,196
Rent and facilities	421,571	75,935	26,185	523,691
Depreciation and amortization	413,306	74,447	25,671	513,424
Interest expense	168,690	25,401	-	194,091
Insurance	37,499	9,084	-	46,583
Advertising Expenses	150	3,285	-	3,435
Small equipment purchases	16,161	2,911	1,004	20,076
Miscellaneous	6,885	34,525	-	41,410
	<u>\$ 5,159,265</u>	<u>\$ 1,003,128</u>	<u>\$ 217,484</u>	<u>\$ 6,379,877</u>

See accompanying notes to the consolidated financial statements.

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

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	Program <u>Services</u>	<u>Supporting Services</u>		Total <u>Expenses</u>
		Management and <u>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>\$ 4,483,654</u>	<u>\$ 1,468,611</u>	<u>\$ 180,238</u>	<u>\$ 6,132,503</u>

See accompanying notes to the consolidated financial statements.

## **OTHER REPORTS**





**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 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, 2014, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 9, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated 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 consolidated 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 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 consolidated 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  
December 9, 2014

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

<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 2013-2014	\$ 75,863
School Breakfast Program	10.553	FY 2013-2014	5,412
Summer Food Service Program for Children	10.559	FY 2013-2014	<u>18,229</u>
Total for Child Nutrition Cluster			<u>99,504</u>
Total for U.S. Department of Agriculture			<u>99,504</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 2013-2014	<u>182,636</u>
Special Education Cluster (IDEA)			
Special Education Grants to States	84.027	FY 2012-2013	1,786
		FY 2013-2014	<u>91,036</u>
Total for Special Education Cluster (IDEA)	84.027		<u>92,822</u>
Charter Schools	84.282*	FY 2012-2013	<u>272,000</u>
Improving Teacher Quality State Grants	84.367	FY 2010-2011	3,152
		FY 2011-2012	<u>26,809</u>
Total for Improving Teacher Quality State Grants	84.367		<u>29,961</u>
Total U.S. Department of Education			<u>577,419</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 676,923</u></b>

\*Denotes a major program

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

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

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**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 consolidated 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.

**NOTE 2 – OTHER**

There were no amounts provided to sub-recipients; there was no non-cash assistance; there was no federal insurance in effect; and there were no loans or loan guarantees with continuing compliance requirements.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
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, 2014. 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, 2014.

### **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  
December 9, 2014

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

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

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### SECTION I – SUMMARY OF AUDITORS’ RESULTS

**Financial Statements:**

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

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

Compliance with requirements applicable to each major program:

- Identification of major programs: **84.282 Charter Schools**
- Dollar threshold used to distinguish between type A type B programs: **\$ 300,000**
- Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ 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, 2014

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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  
as required by the Indiana State Board of Accounts