



STATE OF INDIANA
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STATE BOARD OF ACCOUNTS
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January 6, 2015

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

We have reviewed the Supplemental Audit Report prepared by Sikich, LLC, Independent Public Accountants, for the period July 1, 2013 to June 30, 2014. In our opinion, the Supplemental Audit Report was prepared in accordance with the guidelines established by the State Board of Accounts.

We call your attention to the finding in the report. Page 5 contains two audit results and comments. Management's response is on pages 7 through 9.

In addition to the report presented herein, a Financial Statements and Independent Auditors' Report for Herron High School, Inc. was prepared in accordance with the guidelines established by the State Board of Accounts.

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

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



SUPPLEMENTAL AUDIT REPORT
OF
HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED SUBSIDIARY
MARION COUNTY, INDIANA
JULY 1, 2013 TO JUNE 30, 2014

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HERRON HIGH SCHOOL, INC. AND ITS WHOLLY OWNED SUBSIDIARY

SCHOOL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Juli Woodrum	07/01/11 to 6/30/14
Superintendent of Schools	Janet H. McNeal	07/01/11 to 6/30/14
Board Treasurer	Karen Kennelly	07/01/11 to 6/30/14
President of the Charter School Board	Joanna Taft	07/01/11 to 6/30/14



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Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
of Herron High School and its Wholly Owned Subsidiary :

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements of Herron High School and its Wholly Owned Subsidiary as of and for the year ended June 30, 2014, and have issued our report thereon dated December 9, 2014.

In our audit, we noted that Herron High School and its Wholly Owned Subsidiary failed to comply with the cash receipts and daily deposits and payments of interest and penalty fees provisions of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools* as outlined in the *Guidelines for the Audits of Charter Schools Performed by Private Examiners*, issued by the Indiana State Board of Accounts.

Our audit was not directed primarily toward obtaining knowledge as to whether Herron High School and its Wholly Owned Subsidiary failed to comply with the terms of the *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*, issued by the Indiana State Board of Accounts, insofar as they relate to accounting matters. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding noncompliance with the above-referenced *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*, issued by the Indiana State Board of Accounts, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the Board of Directors and management of Herron High School and its Wholly Owned Subsidiary and the Indiana State Board of Accounts, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Sikich, LLP' in a cursive, slightly slanted script.

Sikich LLP

December 9, 2014

Herron High School and its Wholly Owned Subsidiary

AUDIT RESULTS AND COMMENTS

CASH RECEIPTS AND DEPOSITS NOT MADE DAILY

There were four separate instances that the organization did not deposit cash receipts daily. On July 3, 2013 a donation of \$100 was not deposited within one business day. A contribution for the Young Actors Theatre on March 26, 2014 for the amount of \$2,100 was not deposited within one business day. Two cash receipts from June 3, 2014 were not deposited within one business day.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Manual Part 8)

PENALTIES AND INTEREST PAID FOR LATE PAYMENTS

On the December 2013 credit card statement, a late fee of \$39 assessed. Additionally, on the March 2014 credit card statements a late payment of \$39 was assessed.

Employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the charter school.

Additionally, employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the charter school.

Any penalties, interest or other charges paid by the charter school may be the personal obligation of the responsible employee.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Manual Part 10)

Herron High School and Its Wholly Owned Subsidiary
MARION COUNTY

EXIT CONFERENCE

The contents of this report were discussed on October 9, 2014 with Juli Woodrum, Chief Financial Officer, Janet H. McNeal, Superintendent of school, and Karen Kennelly, President of Charter School Board. The officials concurred with our audit findings.



December 1, 2014

Sikich LLP
8555 N, River Rd., Suite 300
Indianapolis, IN 46240

Re: OFFICIAL RESPONSE

To Whom It May Concern:

As an official response to the Auditor's Communication with Those in Charge of Governance that accompanies the audit report of Herron High School for the period July 1, 2013 to June 30, 2014, Herron High School respectively submits the following response to your recommendations:

Eliminate Uninsured Cash Balances

During the prior year the School had a balance of \$339,883 and \$910,193 in bank accounts at Chase Bank and Old National Bank, respectively. Since individual accounts are currently insured for a maximum of \$250,000, we recommend that the School not keep a balance greater than that amount in accounts at any one financial institution. This recommendation is still outstanding. During the current year, the School had a balance of \$1,042,426 and \$674,720 in bank accounts at Horizon Bank and Old National Bank, respectively.

Management Response The large cash balances are due, in part, to the cash proceeds that have been collected from the current capital campaign. Management, along with members of the Fiduciary Committee, is currently evaluating options for the management of this liquidity. The options include using the proceeds to eliminate the debt and investing in various financial instruments available through financial institutions. In addition to evaluating the liquidity management options available for the capital campaign proceeds, we are evaluating options for operating funds as well. As we evaluate these options, we will be considering many factors, including insurance coverage at the financial institutions.

Establish a Fixed Asset Capitalization Policy

We noted that the School does not have a set policy for capitalization of fixed assets. Consequently, the treatment of property additions and repairs and maintenance is not consistent. The School's records reflect a number of clearly immaterial items that have been capitalized in the past. The items require the same amount of recordkeeping by the School regardless of the size of the transaction. We recommend that management establish a policy whereby all property purchases over \$1,000 and having a useful life of one year or more are capitalized. Purchases costing less than the established amount or having a useful life of less than one year should be expensed, since the cost of maintaining depreciation records for such items would exceed the benefits. The School should document the capitalization policy and communicate it to those who code property invoices to ensure the policy is consistently followed.

This recommendation is still outstanding.

Management Response As stated in management's response to this same recommendation from the June 30, 2013 audit. Herron High School established a fixed asset capitalization policy in conjunction with the development of the business office policies & procedures manual implemented for the 2012-2013 fiscal year. This policy indicates that all assets with a useful life exceeding one year will be capitalized. A monetary threshold has not been established as the majority of classroom assets and furniture have a unit price of less than \$100 (i.e. textbooks, student desks & chairs). These purchases are significant and have useful lives of 3 to 7 years. In addition, because replacements are purchased, a total cost threshold has not been established as many times the replacement purchases for any single item do not exceed \$1,000. However, the cumulative annual purchase of these items warrants capitalization.

Bad Debts Policy

During our audit, we noted that the School has a bad debt policy and regularly reviews receivables for collectability. However, there is no formal written policy in the School's Business Office Policies and Procedures. We recommend the School documents their policy on reviewing receivables for collectability.

Management Response When the business office policies & procedures manual were developed, Herron High School did not carry any significant receivable balances that warranted a bad debts policy. As we have now recorded significant pledges receivable as a result of the current capital campaign, it is now necessary to formalize a bad debts policy. While the review of the outstanding pledges occurs periodically by both the advancement office and the business office, we will formalize the policy and present it to the Fiduciary Committee for approval.

We also respectfully submit the following responses to recommendations provided in the Supplemental Audit Report that accompanies the audit report of Herron High School for the period July 1, 2013 to June 30, 2014:

CASH RECEIPTS AND DEPOSITS NOT MADE DAILY

There were four separate instances that the organization did not deposit cash receipts daily. On July 3, 2013 a donation of \$100 was not deposited within one business day. A contribution for the Young Actors Theatre on March 26, 2014 for the amount of \$2,100 was not deposited within one business day. Two cash receipts from June 3, 2014 were not deposited within one business day.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions.



(Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Manual Part 8)

Management Response In April 2014, Herron High School refinanced all outstanding debt with Horizon Bank. With this transaction, Herron High School began the process of transferring all operating and capital campaign funds from Chase and Old National Bank to Horizon. Over the course of the next few months, we implemented remote deposit capabilities. With this functionality, checks can more easily be deposited within the window prescribed by the State Board of Accounts.

PENALTIES AND INTEREST PAID FOR LATE PAYMENTS

On the December 2013 credit card statement, a late fee of \$39 assessed. Additionally, on the March 2014 credit card statements a late payment of \$39 was assessed.

Employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the charter school. Additionally, employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the charter school. Any penalties, interest or other charges paid by the charter school may be the personal obligation of the responsible employee.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Manual Part 10)

Management Response Currently the credit card payments are made by check. With our current process of submitting voucher requests to Bookkeeping Plus to issue a check, the payment can sometimes reach the credit card company after the due date, especially during school breaks. With the transition to Horizon Bank, we are working to establish online payment processing for credit cards. This will eliminate the delay in payment as we will be able to process payment at our location.

We appreciate the recommendations provided by your team. If you require further information or clarification, please do not hesitate to contact me directly at jwoodrum@herronhighschool.org or 317.231.0010 x1109.

Respectfully,

Juli Woodrum
Chief Financial Officer