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January 13, 2017

Charter School Board
Herron High School
110 East 16th Street
Indianapolis, IN 46202

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Katz, Sapper & Miller LLP, Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. 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, as of June 30, 2016, 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, 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
AND
INDEPENDENT AUDITORS' REPORT

June 30, 2016 and 2015

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

## CONTENTS

KATZ SAPPER & MILLER

Our People: Your Success

*Independent Auditors' Report*

Board of Directors
Herron High School, Inc. and its Wholly-Owned Subsidiary

We have audited the accompanying consolidated financial statements of Herron High School, Inc. (an Indiana not-for-profit organization) and its Wholly-Owned Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the *Guidelines for the Audits of Charter Schools Performed by Private Examiners*, established by the Indiana State Board of Accounts. Those standards and guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



Katz, Sapper & Miller, LLP
Certified Public Accountants
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Indianapolis, IN 46240
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An Affiliate of
KSM Business Services, Inc.

### *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, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
December 27, 2016

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

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
## June 30, 2016 and 2015

### ASSETS

| | 2016 | 2015 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and equivalents | $ 561,723 | $ 1,057,075 |
| Restricted cash | 1,396,831 | 1,047,051 |
| Certificates of deposit | 175,000 | |
| Grants receivable | 83,179 | 319,709 |
| Current portion of pledges receivable, net of allowance for uncollectible accounts of $6,710 in 2016 and $12,000 in 2015 | 564,924 | 333,597 |
| Prepaid expenses | 37,844 | 14,786 |
| Total Current Assets | 2,819,501 | 2,772,218 |
| **PROPERTY AND EQUIPMENT** | | |
| Land | 614,000 | 614,000 |
| Buildings | 9,142,639 | 9,011,546 |
| Furniture and equipment | 796,742 | 779,708 |
| Computer and office equipment | 564,950 | 813,477 |
| Books and educational materials | 122,592 | 170,732 |
| Construction in progress | 153,739 | |
| | 11,394,662 | 11,389,463 |
| Less: Accumulated depreciation | (2,635,628) | (2,682,212) |
| Total Property and Equipment, net | 8,759,034 | 8,707,251 |
| **OTHER ASSETS** | | |
| Long-term certificates of deposit | 100,000 | |
| Restricted certificates of deposit | 829,233 | |
| Net pledges receivable, net of current portion | 495,181 | 571,659 |
| Bond issuance cost, net | 88,328 | 91,148 |
| Total Other Assets | 1,512,742 | 662,807 |
| **TOTAL ASSETS** | $ 13,091,277 | $ 12,142,276 |

### LIABILITIES AND NET ASSETS

| | 2016 | 2015 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 85,852 | $ 76,388 |
| Accrued expenses | 315,364 | 481,177 |
| Current maturities of long-term debt | 233,598 | 221,651 |
| Total Current Liabilities | 634,814 | 779,216 |
| **LONG-TERM DEBT,** less current maturities | 5,753,824 | 5,987,418 |
| Total Liabilities | 6,388,638 | 6,766,634 |
| **NET ASSETS** | | |
| Unrestricted | 3,117,774 | 3,139,197 |
| Temporarily restricted | 3,584,865 | 2,236,445 |
| Total Net Assets | 6,702,639 | 5,375,642 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 13,091,277 | $ 12,142,276 |

*See accompanying notes.*

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

### CONSOLIDATED STATEMENTS OF ACTIVITIES
### Years Ended June 30, 2016 and 2015

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| **REVENUES AND SUPPORT** | | | | | | |
| School lunch program | $ 247,046 | | $ 247,046 | $ 213,043 | | $ 213,043 |
| Student fees and fundraising | 317,104 | | 317,104 | 245,186 | | 245,186 |
| Contributions and donations | 49,359 | $ 1,846,319 | 1,895,678 | 169,371 | $ 362,151 | 531,522 |
| Federal and state support | 5,884,059 | | 5,884,059 | 5,484,104 | | 5,484,104 |
| Other revenue | 7,630 | 9,101 | 16,731 | 6,390 | | 6,390 |
| Net assets released from restrictions by satisfaction of temporary restrictions | 507,000 | (507,000) | | 294,845 | (294,845) | |
| Total Revenues and Support | 7,012,198 | 1,348,420 | 8,360,618 | 6,412,939 | 67,306 | 6,480,245 |
| **PROGRAM AND SUPPORTING SERVICE EXPENSES** | | | | | | |
| Salaries and benefits | 4,565,462 | | 4,565,462 | 4,160,735 | | 4,160,735 |
| Instructional services | 167,225 | | 167,225 | 137,940 | | 137,940 |
| Information technology | 54,989 | | 54,989 | 70,565 | | 70,565 |
| Accounting services | 101,063 | | 101,063 | 69,417 | | 69,417 |
| Other outside services | 238,023 | | 238,023 | 137,293 | | 137,293 |
| Course materials and supplies | 314,417 | | 314,417 | 262,258 | | 262,258 |
| Nutritional support | 228,245 | | 228,245 | 214,570 | | 214,570 |
| Travel and entertainment | 23,828 | | 23,828 | 19,252 | | 19,252 |
| Vehicle and transportation expense | 41,517 | | 41,517 | 39,434 | | 39,434 |
| Rent and facilities | 638,914 | | 638,914 | 532,131 | | 532,131 |
| Depreciation and amortization | 371,709 | | 371,709 | 499,020 | | 499,020 |
| Interest expense | 146,359 | | 146,359 | 155,523 | | 155,523 |
| Insurance | 73,739 | | 73,739 | 61,422 | | 61,422 |
| Advertising | 4,387 | | 4,387 | 3,299 | | 3,299 |
| Small equipment purchases | 29,472 | | 29,472 | 17,354 | | 17,354 |
| Miscellaneous | 34,272 | | 34,272 | 32,939 | | 32,939 |
| Total Program and Supporting Service Expenses | 7,033,621 | | 7,033,621 | 6,413,152 | | 6,413,152 |
| **INCREASE (DECREASE) IN NET ASSETS** | (21,423) | 1,348,420 | 1,326,997 | (213) | 67,306 | 67,093 |
| **NET ASSETS** | | | | | | |
| Beginning of Year | 3,139,197 | 2,236,445 | 5,375,642 | 3,139,410 | 2,169,139 | 5,308,549 |
| End of Year | $ 3,117,774 | $ 3,584,865 | $ 6,702,639 | $ 3,139,197 | $ 2,236,445 | $ 5,375,642 |

*See accompanying notes.*

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

### CONSOLIDATED STATEMENTS OF CASH FLOWS
### Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Increase in net assets | $ 1,326,997 | $ 67,093 |
| Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 371,709 | 499,020 |
| Realized loss on disposal of property and equipment | 7,910 | |
| Unrealized gain on certificates of deposit | (4,233) | |
| Contribution of property and equipment | | (2,400) |
| Contributions restricted for long-term investment | (1,741,690) | (418,423) |
| (Increase) decrease in certain assets: | | |
| Accounts receivable | | 1,285 |
| Grants receivable | 236,530 | (189,784) |
| Pledges receivable | (25,154) | 286,280 |
| Prepaid expenses | (23,058) | (3,573) |
| Increase (decrease) in certain liabilities: | | |
| Accounts payable | (2,057) | (71,094) |
| Accrued expenses | (165,813) | 33,268 |
| Net Cash Provided (Used) by Operating Activities | (18,859) | 201,672 |
| **INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (417,061) | (249,878) |
| Purchases of certificates of deposit | (1,100,000) | |
| Increase in restricted cash | (349,780) | (220,670) |
| Net Cash Used by Investing Activities | (1,866,841) | (470,548) |
| **FINANCING ACTIVITIES** | | |
| Long-term debt repayments | (221,647) | (210,586) |
| Proceeds from contributions restricted for long-term investment | 1,611,995 | 418,423 |
| Net Cash Provided by Financing Activities | 1,390,348 | 207,837 |
| **NET DECREASE IN CASH AND EQUIVALENTS** | (495,352) | (61,039) |
| **CASH AND EQUIVALENTS** | | |
| Beginning of Year | 1,057,075 | 1,118,114 |
| End of Year | $ 561,723 | $ 1,057,075 |
| **SUPPLEMENTAL DISCLOSURES** | | |
| Cash paid for interest | $ 146,359 | $ 155,523 |
| Noncash investing activities: | | |
| Property and equipment acquired with accounts payable | 11,521 | 25,000 |

*See accompanying notes.*

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***General:*** Herron High School, Inc. (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.

***Principles of Consolidation:*** The accompanying consolidated financial statements include the accounts of the School and Herron Main Building, LLC (the Main Building), a single member LLC. The School is the sole member of the Main Building. The Main Building had no activity for the years ended June 30, 2016 and 2015.

***Basis of Accounting:*** The School prepares its consolidated financial statements using the accrual basis of accounting. Accrual accounting requires the recognition of revenues when they are earned and measurable in the accounting period when services are provided, and the recognition of expenses in the period in which they occur.

***Estimates:*** Management uses estimates and assumptions in preparing 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 and the reported amounts of revenues and expenses. Actual results could vary from those estimates.

***Cash and Equivalents:*** At times, balances in bank accounts may exceed federally insured limits. The School has not experienced any losses from its bank accounts. For purposes of the consolidated statements of cash flows, the School considers all highly liquid investments, if any, purchased with an original maturity of three months or less to be cash equivalents. Cash and equivalents do not include cash restricted by donors for long-term purposes.

***Investment Valuation and Income Recognition:*** Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

Interest income is recorded on the accrual basis, and dividends are recorded on the ex-dividend date. Purchases and sales of investments are recorded on the trade date. Gains and losses on the sale of investments are determined using the specific-identification method. Realized and unrealized gains and losses on investments are included in the consolidated statements of activities.

***Revenue Recognition:*** Revenues primarily come from resources provided under the Indiana Charter Schools Act (the 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 an enrollment estimate provided by the School in May prior to the start of the school year. The official enrollment is submitted in September and any differences from the estimates to the actual are reconciled in monthly payments through December. Enrollment is reported again in February and monthly payments for January to June are reconciled to reflect enrollment in February. Revenue is recognized in the year in which the educational services are rendered.

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

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 incurred. The School reports grants of cash and other assets as restricted support if 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 consolidated 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.

***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, 2016 and 2015, 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*** consist of gifts from various individuals payable in future installments. The School recognizes pledges receivable at fair value. An allowance of $6,710 and $12,000 was recorded at June 30, 2016 and 2015, respectively.

***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 $368,890 and $496,201 for the years ended June 30, 2016 and 2015, respectively.

***Long-lived Assets,*** including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amount to future net undiscounted cash flows expected to be generated by the related asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair market value of the assets. To date, no adjustments to the carrying amount of long-lived assets have been necessary.

***Contributed Materials and Services*** are recognized as contributions 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 consolidated financial statements as in-kind contributions are offset by like amounts included in expense or additions to property and equipment.

The School received $8,153 and $2,400 of in-kind contributions during the years ended June 30, 2016 and 2015, respectively.

Volunteers provide program services throughout the year that are not recognized as contributions in the consolidated financial statements since they do not meet the recognition criteria.

***Net Asset Classification:*** The consolidated financial statements report the changes in each net asset class, based upon donor or grant restrictions, as applicable. Net assets are classified as unrestricted, temporarily restricted, and permanently restricted.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- ***Unrestricted Net Assets*** include general and board designated assets and liabilities of the School. The unrestricted net assets of the School may be used at the discretion of management to support the School's purposes and operations.

- ***Temporarily Restricted Net Assets*** include assets of the School related to gifts with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates.

- ***Permanently Restricted Net Assets*** include assets of the School for which the donor has stipulated that the contribution be maintained in perpetuity. Donor-imposed restrictions limiting the use of the assets or their economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose.

***Functional Expenses:*** The costs of providing the various programs and other activities have been summarized in Note 14. 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 that are indirectly identifiable with other specific functions, but provide for the overall support and direction of the School.

***Income Taxes:*** The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Main Building is a disregarded entity for income tax purposes. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements. In addition, the School has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the years ended June 30, 2016 and 2015.

The School files U.S. federal and Indiana information tax returns. The School is no longer subject to U.S. federal and state income tax examinations by tax authorities for fiscal years before 2013.

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

The School places its temporary cash investments with financial institutions. There was $1,707,479 and $1,785,690 in excess of insured limits at June 30, 2016 and 2015, respectively. The School has not experienced any losses in these accounts.

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 consolidated financial statements and have been within management's expectations.

Operating funds from the Indiana Department of Education amounted to 70% and 85% of the School's revenues and support for the years ended June 30, 2016 and 2015, respectively. A state funding formula is used to determine the amount of revenue a charter school receives. The formula is based on the number of students enrolled in the School during the year.

***Risks and Uncertainties:*** The School provides education instruction services to students residing in Marion and surrounding counties in Indiana, and is subject to risks of economic and competitive forces at work within this geographic region.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, non-compliance in regards to federal and state standards and regulations could result in a reduction of funding or repayment of disallowed costs.

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

***Advertising Costs*** are expensed as incurred. Advertising expenses amounted to $4,387 and $3,299 for the years ended June 30, 2016 and 2015, respectively.

***Reclassifications:*** Certain amounts in the 2015 financial statements have been reclassified to conform to the presentation of the 2016 financial statements.

***Subsequent Events:*** Management has evaluated the consolidated financial statements for subsequent events occurring through December 27, 2016, the date the consolidated financial statements were available to be issued.

## 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 - FAIR VALUE MEASUREMENTS

The School has categorized its assets and liabilities that are measured at fair value into a three-level fair value hierarchy. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy are described as follows:

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

***Level 2*** – Inputs to the valuation methodology may include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and/or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

***Level 3*** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. In situations where there is little or no market activity for the asset or liability, the School makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk. Also included in Level 3 are assets measured using a practical expedient that can never be redeemed at the practical expedient.

Following is a description of the valuation methodology used by the School for assets that are measured at fair value on a recurring basis. There have been no changes in the methodology used at June 30, 2016 and 2015.

***Certificates of Deposit:*** Determined by discounting the related cash flows on current yields of similar investments with comparable durations considering the credit-worthiness of the issuer.

**NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)**

For those assets measured at fair value, management determines the fair value measurement policies and procedures in consultation with the School's Board of Directors. Those policies and procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on current market conditions and other third-party information.

The preceding method may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the School's management believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain assets could result in a different fair value measurement at the reporting date.

Following is a summary, by major nature and risks class within each level of the fair value hierarchy, of the School's assets that are measured at fair value on a recurring basis as of June 30, 2016:

| **2016** | **Level 2** | **Total** |
|---|---|---|
| **Assets** | | |
| Certificates of Deposit | $1,104,233 | $1,104,233 |
| Total Assets at Fair Value | $1,104,233 | $1,104,233 |

At June 30, 2016 and 2015, the School had no other assets and no liabilities that are measured at fair value on a recurring basis.

**NOTE 4 - INVESTMENTS**

Investments, including assets temporarily restricted, consisted of the following at June 30, 2016:

| | **2016** | |
|---|---|---|
| | **Cost** | **Fair Value** |
| Certificates of Deposit | $1,100,000 | $1,104,233 |
| Total Investments | $1,100,000 | $1,104,233 |

Investments are included in the consolidated statements of financial position at June 30, 2016 and 2015 as follows:

| | **2016** |
|---|---|
| Certificates of deposit | $ 175,000 |
| Long-term certificates of deposit | 100,000 |
| Restricted certificates of deposit | 829,233 |
| Total Investments | $1,104,233 |

The School's investment income, included in other income on the consolidated statement of activities, consisted of $4,233 of unrealized gains for 2016. There was no investment income in 2015.

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

## NOTE 5 - GRANTS RECEIVABLE

Grants receivable at June 30, 2016 and 2015 represented amounts due relating to the following sources and are all due within one year:

| | 2016 | 2015 |
|---|---|---|
| Walton Family Foundation | | $250,000 |
| Title I | $25,446 | 13,655 |
| Special education | 17,689 | 8,698 |
| Title II | 5,044 | 2,356 |
| Allen Whitehill Clowes Operations Grant | | 45,000 |
| Indiana Secured School Safety Grant | 35,000 | |
| Total Grants Receivable | $83,179 | $319,709 |

## NOTE 6 - PLEDGES RECEIVABLE

Pledges receivable were as follows at June 30, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Temporarily Restricted: | | |
| Capital campaign | $ 614,217 | $905,256 |
| Replication at Heslar Naval Armory (see Note 16) | 445,888 | |
| Total Temporarily Restricted | 1,060,105 | 905,256 |
| Total Pledges Receivable, Net | $1,060,105 | $905,256 |
| Expected to be collected in: | | |
| Less than one year | $ 571,634 | $345,597 |
| One to five years | 525,275 | 605,519 |
| | 1,096,909 | 951,116 |
| Unamortized discounts | (30,094) | (33,860) |
| Allowances for uncollectible amounts | (6,710) | (12,000) |
| Total Pledges Receivable, Net | $1,060,105 | $905,256 |

Pledges receivable are discounted at 2.5% at June 30, 2016 and 2015.

Pledges receivable are included in the consolidated statements of financial position at June 30, 2016 and 2015 as follows:

| | 2016 | 2015 |
|---|---|---|
| Current portion of pledges receivable, net | $ 564,924 | $333,597 |
| Long-term pledges receivable, net of current portion | 495,181 | 571,659 |
| Total Pledges Receivable, Net | $1,060,105 | $905,256 |

**NOTE 7 - OPERATING LEASES**

The School has an operating lease with the Harrison Center of the Arts (the Center) that is renewed on an annual basis. The lease allows the School to use the Center's gymnasium. For the years ended June 30, 2016 and 2015, rent expense with the Center totaled $21,790 and $20,000, respectively. See Note 13.

**NOTE 8 - LONG TERM DEBT**

Long-term debt included the following at June 30, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| 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) | $3,597,081 | $3,715,195 |
| Qualified School Construction Bonds (QSCBs) Series 2010B secured by real estate and assignments of leases and rents. The bond bears interest at 7.00% per annum (less a rebate of 5.17% from the U.S. Treasury), payable in quarterly installments of $5,592, including interest, maturing on July 1, 2025. (B) | 151,361 | 162,634 |
| Educational Facilities Revenue Bond, Series 2014. The loan bears interest at 3.17% per annum, payable in quarterly installments of $41,268, maturing on April 17, 2024. | 2,238,980 | 2,331,240 |
| | 5,987,422 | 6,209,069 |
| Less: Current maturities | (233,598) | (221,651) |
| Total Long-term Debt | $5,753,824 | $5,987,418 |

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

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

At June 30, 2016, the principal maturities of long-term debt are as follows:

| Year Ending | Series 2010A Bonds | Series 2010B Bonds | Series 2014 Bonds | Total |
|---|---|---|---|---|
| June 30, 2017 | $ 126,294 | $ 12,084 | $ 95,220 | $ 233,598 |
| June 30, 2018 | 135,037 | 12,952 | 98,274 | 246,263 |
| June 30, 2019 | 144,386 | 13,883 | 101,427 | 259,696 |
| June 30, 2020 | 154,381 | 14,881 | 104,680 | 273,942 |
| June 30, 2021 | 165,069 | 15,950 | 108,038 | 289,057 |
| Thereafter | 2,871,917 | 81,611 | 1,731,338 | 4,684,866 |
| | $3,597,084 | $151,361 | $2,238,977 | $5,987,422 |

Total interest expense was $146,359 and $155,523 for the years ended June 30, 2016 and 2015, respectively.

## NOTE 8 - LONG TERM DEBT (CONTINUED)

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 - BOND ISSUANCE COST

Bond issuance cost associated with long-term debt is amortized using the interest method over the life of the related bond issue, and consisted of the following at June 30, 2016 and 2015:

| | **2016** | **2015** |
|---|---|---|
| Gross amounts | $112,770 | $112,770 |
| Accumulated amortization | (24,442) | (21,622) |
| | $ 88,328 | $ 91,148 |

Amortization expense for the years ended June 30, 2016 and 2015 was $2,819.

## NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of June 30, 2016 and 2015:

| | **2016** | **2015** |
|---|---|---|
| Capital campaign | $1,898,165 | $1,934,255 |
| Replication at Heslar Naval Armory | 1,392,449 | |
| Community assistance | | 4,300 |
| Walton Family Foundation | 228,953 | 250,000 |
| College visits | 5,000 | 5,000 |
| CICF-Masonry | 50,000 | |
| Allen Whitehill Clowes Capital Grant | 10,298 | 42,890 |
| Total Temporarily Restricted Net Assets | $3,584,865 | $2,236,445 |

The Walton Family Foundation grant is restricted for expense associated with the opening of a second campus. The School applied for and was approved for an additional charter from the Office of the Mayor of Indianapolis. The School plans to open the second campus for the 2017-2018 school year. See Note 16.

## NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

For the years ended June 30, 2016 and 2015, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors were as follows:

| | **2016** | **2015** |
|---|---|---|
| Capital campaign | $139,413 | $202,242 |
| Replication at Heslar Naval Academy | 309,647 | |
| Community assistance | 4,300 | |
| Walton Family Foundation | 21,047 | |
| Allen Whitehill Clowes Capital Grant | 32,593 | 92,603 |
| Total Net Assets Released from Restrictions | $507,000 | $294,845 |

## NOTE 12 - PENSION PLAN

403(b) Plan

The School's eligible faculty and administrative staff are participants in a 403(b) tax deferred annuity retirement plan. Quarterly discretionary contributions are made to the Plan. The School's contribution to the Plan, net of forfeitures, was $220,014 and $204,297 for the years ended June 30, 2016 and 2015, respectively.

Indiana Public Retirement System

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

The Indiana Teachers' Retirement Fund (TRF) is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The plan is recorded as a multiemployer plan, which was established by the State of Indiana. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate. State statute (IC 5-10.2) governs, through the INPRS Board, most requirements of the system, and give the School authority to contribute to the plan. The retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus interest credited to the member's account. The School's required contribution rate is 7.5%. The School may elect to make additional contributions on behalf of the member. Retirement plan contributions for TRF was $27,964 and $29,194 for the years ended June 30, 2016 and 2015, respectively. The plan is not governed by ERISA and is not required to file a Form 5500. There were no surcharges imposed and there is no expiration date of the plan included in state statutes. Upon withdrawing from TRF, the School would be obligated for its proportionate share of the plan's unfunded vested benefits. The School has no intention of withdrawing from the plan.

## NOTE 13 - RELATED PARTIES

The School 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 Center and incurs additional expenses related to productions and programs held during the year. One board member from the School is the Executive Director of the Center. Related party rent expense totaled $21,790 and $20,000 for the years ended June 30, 2016 and 2015, 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 $36,028 and $35,355 for the years ended June 30, 2016 and 2015, respectively.

During May 2013, a member of the School's board of directors prepaid $100,000 of the construction bond debt. Another board member then purchased the construction bond which was originally purchased by the Local Initiatives Support Corporation (LISC) in October 2010, thus repaying LISC and making the School his debtor. The bond bears an interest rate of 7.00% and matures in July 2025. At June 30, 2016 and 2015, the outstanding principal balance on the note was $151,361 and $162,634, respectively.

Gross pledges receivable from members of the board of directors totaled $1,086,242 and $934,559 at June 30, 2016 and 2015, respectively.

**NOTE 14 - FUNCTIONAL EXPENSES**

Expenses by functional classifications for the years ended June 30, 2016 and 2015, were as follows:

| | **2016** | **2015** |
|---|---|---|
| Program services | $5,402,568 | $4,832,758 |
| General and administrative | 1,263,080 | 1,338,001 |
| Fundraising | 367,973 | 242,393 |
| Total Expenses | $7,033,621 | $6,413,152 |

**NOTE 15 - CONCENTRATIONS**

Contributions from two donors represented 78% and 58% of total contributions and donations during the years ended June 30, 2016 and 2015, respectively.

**NOTE 16 - RIVERSIDE HIGH SCHOOL**

In early 2014, the Board of Directors of the School formed a Replication Task Force to research potential facilities to open a second campus. As the result of these due diligence efforts, an application for a second campus was submitted to and approved by the Office of Mayor of Indianapolis. The second campus, called Riverside High School, will be located in the Heslar Naval Armory and is scheduled to open in August 2017. The School, in partnership with Indiana Landmarks, will renovate it to accommodate 600 students, grades 9-12. The School is pursuing a structured financing strategy involving New Market Tax Credit, Historic Preservation Tax Credits, Tax Incentives Funds, and philanthropic giving. As of June 30, 2016, the School has raised $1,972,968 from individuals and foundations for Riverside High School. Pledges receivable, net of discounts and allowance, from this campaign at June 30, 2016 are $445,888.

**NOTE 17 - COMMITMENTS**

The School has a 5-year service contract requiring monthly payments of $4,250 for connectivity and supporting services. The contract expires in June 2018. The Schools and Libraries program, also known as the E-rate program, makes telecommunications and information services more affordable for schools and libraries in America. Mandated by Congress in 1996 and implemented by the FCC in 1997, the E-rate provides discounted telecommunications, Internet access, and internal connections to eligible schools and libraries, funded by the Universal Service Fund. For the fiscal year ended June 30, 2016, the School received a 50% discount for internet connectivity. The discount increased to 60% for FY2017.

# SUPPLEMENTARY INFORMATION

*Independent Auditors' Report*
*on Supplementary Information*

Board of Directors
Herron High School, Inc. and its Wholly-Owned Subsidiary

We have audited the consolidated financial statements of Herron High School, Inc. and its Wholly-Owned Subsidiary as of and for the year ended June 30, 2016, and our report thereon dated December 27, 2016, which contained an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of financial position information by location and consolidated schedule of activities information by location is presented for the 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 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.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
December 27, 2016



Katz, Sapper & Miller, LLP
Certified Public Accountants

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KSM Business Services, Inc.

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

### CONSOLIDATED SCHEDULE OF FINANCIAL POSITION INFORMATION BY LOCATION
### June 30, 2016 and 2015

#### ASSETS

| | Herron | Riverside | Total |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and equivalents | $ 315,348 | $ 246,375 | $ 561,723 |
| Restricted cash | 448,947 | 947,884 | 1,396,831 |
| Certificates of deposit | 175,000 | | 175,000 |
| Grants receivable | 83,179 | | 83,179 |
| Current portion of pledges receivable, net of allowance for uncollectible accounts of $6,710 in 2016 | 432,080 | 132,844 | 564,924 |
| Prepaid expenses | 37,844 | | 37,844 |
| Total Current Assets | 1,492,398 | 1,327,103 | 2,819,501 |
| **PROPERTY AND EQUIPMENT** | | | |
| Land | 614,000 | | 614,000 |
| Buildings | 9,142,639 | | 9,142,639 |
| Furniture and equipment | 794,242 | 2,500 | 796,742 |
| Computer and office equipment | 564,950 | | 564,950 |
| Books and educational materials | 122,592 | | 122,592 |
| Construction in progress | | 153,739 | 153,739 |
| | 11,238,423 | 156,239 | 11,394,662 |
| Less: Accumulated depreciation | (2,635,628) | | (2,635,628) |
| Total Property and Equipment, net | 8,602,795 | 156,239 | 8,759,034 |
| **OTHER ASSETS** | | | |
| Long-term certificates of deposit | 100,000 | | 100,000 |
| Restricted certificates of deposit | 829,233 | | 829,233 |
| Net pledges receivable, net of current portion | 182,137 | 313,044 | 495,181 |
| Bond issuance cost, net | 88,328 | | 88,328 |
| Total Other Assets | 1,199,698 | 313,044 | 1,512,742 |
| **TOTAL ASSETS** | $ 11,294,891 | $ 1,796,386 | $ 13,091,277 |

#### LIABILITIES AND NET ASSETS

| | Herron | Riverside | Total |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Accounts payable | $ 74,107 | $ 11,745 | $ 85,852 |
| Accrued expenses | 315,364 | | 315,364 |
| Current maturities of long-term debt | 233,598 | | 233,598 |
| Total Current Liabilities | 623,069 | 11,745 | 634,814 |
| **LONG-TERM DEBT,** less current maturities | 5,753,824 | | 5,753,824 |
| Total Liabilities | 6,376,893 | 11,745 | 6,388,638 |
| **NET ASSETS** | | | |
| Unrestricted | 2,954,535 | 163,239 | 3,117,774 |
| Temporarily restricted | 1,963,463 | 1,621,402 | 3,584,865 |
| Total Net Assets | 4,917,998 | 1,784,641 | 6,702,639 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 11,294,891 | $ 1,796,386 | $ 13,091,277 |

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

### CONSOLIDATED SCHEDULE OF ACTIVITIES INFORMATION BY LOCATION
### Year Ended June 30, 2016

| | Herron | | | Riverside | | | |
|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total | Total |
| **REVENUES AND SUPPORT** | | | | | | | |
| School lunch program | $ 247,046 | | $ 247,046 | | | | $ 247,046 |
| Student fees and fundraising | 317,104 | | 317,104 | | | | 317,104 |
| Contributions and donations | 49,359 | $ 144,223 | 193,582 | | $ 1,702,096 | $ 1,702,096 | 1,895,678 |
| Federal and state support | 5,884,059 | | 5,884,059 | | | | 5,884,059 |
| Other revenue | 7,630 | 9,101 | 16,731 | | | | 16,731 |
| Net assets released from restrictions by satisfaction of temporary restrictions | 176,306 | (176,306) | - | $ 330,694 | (330,694) | | - |
| Total Revenues and Support | 6,681,504 | (22,982) | 6,658,522 | 330,694 | 1,371,402 | 1,702,096 | 8,360,618 |
| **PROGRAM AND SUPPORTING SERVICE EXPENSES** | | | | | | | |
| Salaries and benefits | 4,544,470 | | 4,544,470 | 20,992 | | 20,992 | 4,565,462 |
| Instructional services | 167,225 | | 167,225 | | | | 167,225 |
| Information technology | 54,989 | | 54,989 | | | | 54,989 |
| Accounting services | 101,063 | | 101,063 | | | | 101,063 |
| Other outside services | 148,639 | | 148,639 | 89,384 | | 89,384 | 238,023 |
| Course materials and supplies | 311,881 | | 311,881 | 2,536 | | 2,536 | 314,417 |
| Nutritional support | 228,245 | | 228,245 | | | | 228,245 |
| Travel and entertainment | 23,828 | | 23,828 | | | | 23,828 |
| Vehicle and transportation expense | 41,517 | | 41,517 | | | | 41,517 |
| Rent and facilities | 584,802 | | 584,802 | 54,112 | | 54,112 | 638,914 |
| Depreciation and amortization | 371,709 | | 371,709 | | | | 371,709 |
| Interest expense | 146,359 | | 146,359 | | | | 146,359 |
| Insurance | 73,739 | | 73,739 | | | | 73,739 |
| Advertising | 4,387 | | 4,387 | | | | 4,387 |
| Small equipment purchases | 29,472 | | 29,472 | | | | 29,472 |
| Miscellaneous | 33,841 | | 33,841 | 431 | | 431 | 34,272 |
| Total Program and Supporting Service Expenses | 6,866,166 | | 6,866,166 | 167,455 | | 167,455 | 7,033,621 |
| **INCREASE (DECREASE) IN NET ASSETS** | (184,662) | (22,982) | (207,644) | 163,239 | 1,371,402 | 1,534,641 | 1,326,997 |
| **NET ASSETS** | | | | | | | |
| Beginning of Year | 3,139,197 | 1,986,445 | 5,125,642 | | 250,000 | 250,000 | 5,375,642 |
| End of Year | $ 2,954,535 | $ 1,963,463 | $ 4,917,998 | $ 163,239 | $ 1,621,402 | $ 1,784,641 | $ 6,702,639 |

# OTHER REPORTS

# HERRON HIGH SCHOOL, INC.

## OTHER REPORTS

The report presented herein was prepared in addition to other official reports prepared for the school as listed below:

Supplemental Audit Report of Herron High School, Inc.

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