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STATE OF INDIANA

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January 18, 2013

Charter School Board
Herron High School, Inc.
110 E. 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, 2011 to June 30, 2012. 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 the Herron High School, Inc., as of June 30, 2012, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the report. Page 36 contains the status of one prior audit finding.

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

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

State Board of Accounts

HERRON HIGH SCHOOL, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
WITH SUPPLEMENTARY AND OTHER INFORMATION

June 30, 2012

HERRON HIGH SCHOOL, INC.

CONTENTS

KATZ SAPPER & MILLER

Independent Auditors' Report

Board of Directors
Herron High School, Inc.

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Herron High School, Inc. (collectively, the School) as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for Audits of State and Local Governments by Authorized Independent Public Accountants*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the School as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2012, on our consideration of the School'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 controls 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* and should be considered in assessing the results of our audit.

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.

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 11 and schedule of actual operating revenues and expenses compared to budget – modified cash basis on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The schedule of expenditures of federal awards on pages 29 and 30 is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
November 29, 2012

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

HERRON HIGH SCHOOL, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year Ended June 30, 2012

Herron High School, Inc. (the School) is a public charter school located in Indianapolis, Indiana providing a 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 accompanying financial statements of the School as of June 30, 2012, and for the fiscal year then ended, conform with accounting principles generally accepted in the United States as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards document these principles.

This section of the School's financial report provides management's discussion and analysis (MD&A) of the financial performance during the year ended June 30, 2012. Please read it in conjunction with the Independent Auditors' Report at the beginning of this report and the financial statements, which follow this section.

This MD&A is an opportunity for management to make information concerning the School meaningful and understandable. In addition to describing the School and its work, this MD&A briefly analyzes, discusses or presents:

- Basic financial statements
- Condensed financial information
- Overall financial position and results of operations
- Significant transactions within individual funds
- Significant capital assets and long-term debt activity
- Currently known facts

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2012 fiscal year include the following:

- Total revenues were $5,314,256 as compared to total expenditures of $5,136,230.

- The total fund balance increased by $178,026 from the prior year's ending balance. This was mainly a result of the School managing expenses while increasing revenue due to growth and operating at full enrollment.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts - Independent Auditors' Report, required supplementary information, which includes the management's discussion and analysis (this section), the schedule of actual operating revenues and expense compared to budget – modified cash basis, other reports and supplementary information, which includes independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards, schedule of expenditures of federal awards, independent auditors' report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133, schedule of finding and questioned costs, summary schedule of prior audit findings, and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are School-wide financial statements that provide both short-term and long-term information about the School's overall financial status.

- The remaining statements are fund financial statements that focus on individual parts of the School, reporting the School's operations in more detail than the School-wide statements.

- The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

HERRON HIGH SCHOOL, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Year Ended June 30, 2011

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1
Annual Report Format

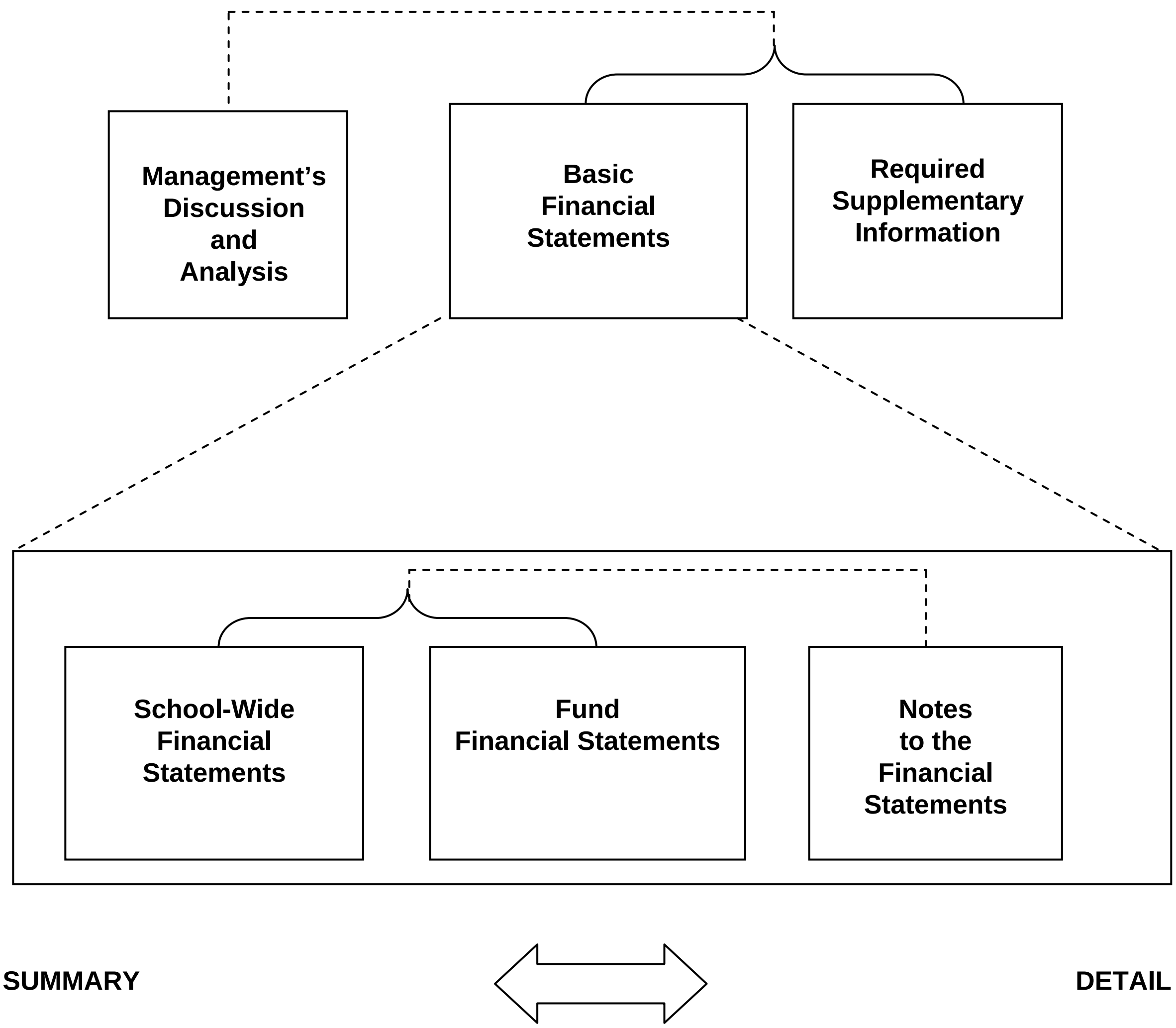


Figure A-2 summarizes the major features of the School's financial statements, including the portion of the School's activities the statements cover and the types of information the statements contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the School-wide and Fund Financial Statements

		Fund Statements	
Type of Statements	**School-wide**	**Government Funds**	**Proprietary Funds**
Scope	Entire School (except fiduciary funds) and the School's component units	The activities of the School that are not proprietary or fiduciary	Activities the School operates similar to private business
Required Financial Statements	Statement of net assets	Balance sheet	Statement of net assets
	Statement of activities	Statement of revenues, expenditures and changes in fund balances	Statement of revenues, expenses and changes in net assets
			Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services, have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

School-Wide Statements

The School-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two School-wide statements report the School's net assets and how they have changed. Net assets, the difference between the School's assets and liabilities, is one way to measure the School's financial health or position.

- Over time, increases or decreases in the School's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the School you need to consider additional non-financial factors such as changes in the School's creditworthiness and the condition of school buildings and other facilities.

In the School-wide financial statements, the activities of the School are shown in two categories:

- Governmental Activities: Most of the School's basic services are included here, such as education and administration. State funding finances most of these activities.

- Business-type Activities: The School also maintains a proprietary fund for the Herron Museum Building, LLC (Museum Building). The School is the Managing Member of this for-profit entity formed for the purpose of acquiring, rehabilitating and leasing the Museum Building.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's funds focusing on its most significant or "major" funds, not the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law and by debt covenants.

- The School may establish other funds to control and manage money for specific purposes.

The School has the following fund types:

- Governmental funds - Most of the School's basic services are included in governmental funds, which generally focus on balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine the financial resources that can be spent in the near future to finance the School's programs. Since this information does not encompass the additional long-term focus of the School-wide statements, additional information at the bottom of the governmental funds statements is provided to explain the relationship (or differences) between the financial reports.

- Proprietary funds report activities for which the School charges rent.

HERRON HIGH SCHOOL, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Year Ended June 30, 2012

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Assets

The following is condensed from the Statement of Net Assets:

	Governmental Activities		Business-type Activities	
	June 30, 2012	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
ASSETS				
Current Assets	$4,249,801	$4,415,358	$ 125,629	$ 58,476
Capital and Noncurrent Assets	4,642,799	3,847,989	3,133,148	3,219,278
Total Assets	$8,892,600	$8,263,347	$3,258,777	$3,277,754
LIABILITIES				
Current Liabilities	$ 491,188	$ 314,924	$2,433,692	$ 48,406
Noncurrent Liabilities	6,533,611	6,260,074		2,402,837
Total Liabilities	$7,024,799	$6,574,998	$2,433,692	$2,451,243
NET ASSETS				
Invested in Capital Assets Net of Related Debt	$1,669,422	$1,542,750	$ 729,190	$ 816,441
Restricted	129,183	19,679		
Unrestricted	69,196	125,920	95,895	10,070
Total Net Assets	$1,867,801	$1,688,349	$ 825,085	$ 826,511

The total net assets at June 30 were as follows:

	2012	**2011**
Assets	$12,151,377	$11,541,101
Liabilities	9,458,491	9,026,241
Net Assets	$ 2,692,886	$ 2,514,860

The School's total net assets were $2,692,886 on June 30, 2012, compared to total net assets of $2,514,860 at June 30, 2011.

The primary change in the assets and liabilities above was due to continued renovation of the main building and using assets and incurring debt for costs of renovations.

HERRON HIGH SCHOOL, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Year Ended June 30, 2012

Changes in Net Assets

The following is condensed from the Statement of Activities:

Change in Net Assets
Years Ended June 30,

	Governmental Activities		Business-type Activities	
	2012	**2011**	**2012**	**2011**
Revenues				
Program Revenues				
Charges for Services	$ 193,999	$ 218,992	$223,858	$219,469
Operating Grants and Contributions	85,137	60,313		
General Revenues				
Unrestricted State Funding	3,948,258	3,182,577		
Other	863,004	573,691		
Total Revenues	5,090,398	4,035,573	223,858	219,469
Expenses				
High School Instruction	2,141,396	1,643,106		
School Administration	1,040,574	821,881		
Special Education	123,557	126,146		
Counseling Services	113,350	110,769		
Network Support	102,438	71,753		
Building Maintenance	213,720	165,795		
Rent	257,077	263,318		
Food Purchases	144,717	100,893		
Depreciation	247,017	167,451	86,130	88,473
Interest	132,103	79,503	135,360	133,729
Other	394,997	283,810	3,794	4,155
Total Expenses	4,910,946	3,834,425	225,284	226,357
Change in Net Assets	179,452	201,148	(1,426)	(6,888)
Beginning Net Assets	1,688,349	1,487,201	826,511	833,399
Ending Net Assets	$1,867,801	$1,688,349	$825,085	$826,511

The change in net assets for the years ended June 30 were as follows:

	2012	**2011**
Revenues	$5,314,256	$4,255,042
Expenses	5,136,230	4,060,782
Change in Net Assets	$ 178,026	$ 194,260

Increases in revenues and expenses are mainly due to an increase in the number of students.

HERRON HIGH SCHOOL, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Year Ended June 30, 2012

Sources of revenue and expenses are broken down below.

Figure A-3 Sources of School's Revenue for Fiscal Year 2012

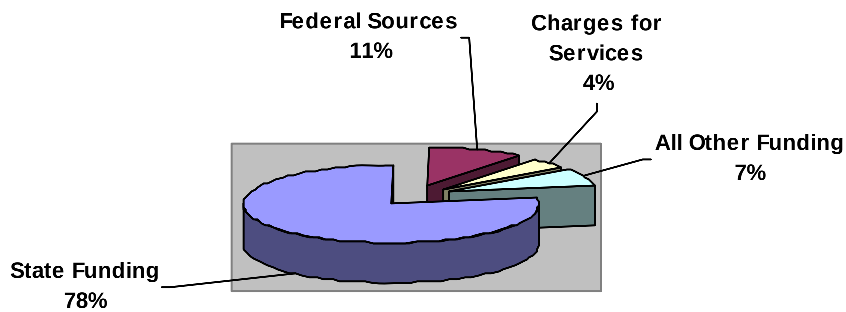
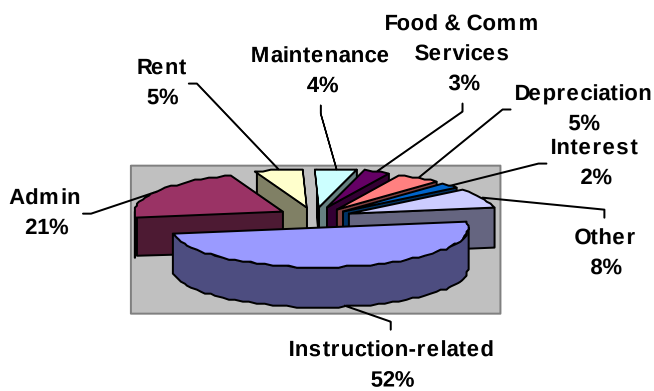


Figure A-3 Sources of School's Expenditures for Fiscal Year 2012



HERRON HIGH SCHOOL, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Year Ended June 30, 2012

CAPITAL ASSETS

By the end of fiscal year 2012, the School had invested $8,760,955 in capital assets. Current year depreciation on these assets was $327,813.

The School's Capital Assets

	2012	2011
Capital assets	$8,760,955	$7,568,650
Less: Accumulated depreciation	(1,210,863)	(883,050)
Total	$7,550,092	$6,685,600

DEBT

Changes in long-term liabilities of governmental activities were as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amount Due After One Year
Accrued Interest	$ 131,655	$117,512	$ -	$ 249,167	$ 11,068
Notes Payable	6,139,988	246,323	-	6,386,311	90,799
	$6,271,643	$363,835	$ -	$6,635,478	$101,867

Changes in long-term liabilities of business-type activities were as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amount Due After One Year
Notes Payable	$2,440,059	$ -	$ (36,101)	$2,403,958	$2,403,958

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the School's finances and to demonstrate the School's accountability for the funding it receives. If you have questions about this report or need additional financial information, contact the Business Office, Herron High School, 110 East 16th Street, Indianapolis, IN 46202.

BASIC FINANCIAL STATEMENTS

HERRON HIGH SCHOOL, INC.

STATEMENT OF NET ASSETS
June 30, 2012

ASSETS

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Activities
CURRENT ASSETS			
Cash	$ 799,447	$ 125,629	$ 925,076
Cash - restricted bond proceeds	1,536,478		1,536,478
Accounts receivable	1,860,237		1,860,237
Grants receivable	31,467		31,467
Other assets	22,172		22,172
Total Current Assets	4,249,801	125,629	4,375,430
NONCURRENT ASSETS			
Unamortized bond issuance costs, net	69,334		69,334
Pledges receivable	156,521		156,521
Capital assets, net	4,416,944	3,133,148	7,550,092
Total Noncurrent Assets	4,642,799	3,133,148	7,775,947
TOTAL ASSETS	$ 8,892,600	$ 3,258,777	$ 12,151,377

LIABILITIES AND NET ASSETS

	Governmental Activities	Business-Type Activities	Total Activities
CURRENT LIABILITIES			
Accounts payable	$ 43,917		$ 43,917
Accrued expenses	345,404		345,404
Notes payable - current	90,799	$ 2,403,958	2,494,757
Deferred revenue		18,716	18,716
Accrued interest	11,068	11,018	22,086
Total Current Liabilities	491,188	2,433,692	2,924,880
NONCURRENT LIABILITIES			
Accrued interest	238,099		238,099
Notes payable	6,295,512		6,295,512
Total Noncurrent Liabilities	6,533,611		6,533,611
Total Liabilities	7,024,799	2,433,692	9,458,491
NET ASSETS			
Invested in capital assets, net of related debt	1,669,422	729,190	2,398,612
Restricted	129,183		129,183
Unrestricted	69,196	95,895	165,091
Total Net Assets	1,867,801	825,085	2,692,886
TOTAL LIABILITIES AND NET ASSETS	$ 8,892,600	$ 3,258,777	$ 12,151,377

See accompanying notes.

HERRON HIGH SCHOOL, INC.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
PRIMARY GOVERNMENT						
GOVERNMENTAL ACTIVITIES						
High school instruction	$ 2,141,396	$ 102,035	$ 26,848	$ (2,012,513)		$ (2,012,513)
School administration	1,040,574		51,172	(989,402)		(989,402)
Special education	123,557			(123,557)		(123,557)
Counseling services	113,350			(113,350)		(113,350)
Network support	102,438			(102,438)		(102,438)
Building Maintenance	213,720		7,117	(206,603)		(206,603)
Rent, unallocated	257,077			(257,077)		(257,077)
Food purchases	144,717	73,152		(71,565)		(71,565)
Depreciation and amortization, unallocated	247,017			(247,017)		(247,017)
Interest, unallocated	132,103			(132,103)		(132,103)
Other	394,997	18,812		(376,185)		(376,185)
Total Governmental Activities	4,910,946	193,999	85,137	(4,631,810)		(4,631,810)
BUSINESS-TYPE ACTIVITIES						
Museum building	225,284	223,858			$ (1,426)	(1,426)
Total Business-Type Activities	225,284	223,858			(1,426)	(1,426)
TOTAL PRIMARY GOVERNMENT	$ 5,136,230	$ 417,857	$ 85,137	$ (4,631,810)	$ (1,426)	$ (4,633,236)
	GENERAL REVENUES					
	Investment earnings			$ 5,710		$ 5,710
	State funding			3,948,258		3,948,258
	Federal sources			537,019		537,019
	Contributions			253,345		253,345
	Other funding			66,930		66,930
	Total General Revenues			4,811,262		4,811,262
	CHANGE IN NET ASSETS			179,452	$ (1,426)	178,026
	NET ASSETS - BEGINNING OF YEAR			1,688,349	826,511	2,514,860
	NET ASSETS - END OF YEAR			$ 1,867,801	$ 825,085	$ 2,692,886

See accompanying notes.

HERRON HIGH SCHOOL, INC.

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

ASSETS

	General	Other Governmental Funds	Totals
ASSETS			
Cash	$ 781,244	$ 18,203	$ 799,447
Cash - restricted bond proceeds	1,536,478		1,536,478
Accounts receivable	1,860,237		1,860,237
Grants receivable	31,467		31,467
Other assets	22,172		22,172
TOTAL ASSETS	$ 4,231,598	$ 18,203	$ 4,249,801

LIABILITIES AND FUND BALANCES

	General	Other Governmental Funds	Totals
LIABILITIES			
Accounts payable	$ 43,917		$ 43,917
Accrued expenses	345,404		345,404
Accrued interest	11,068		11,068
Notes payable - current	90,799		90,799
Total Liabilities	491,188		491,188
FUND BALANCES			
Nonspendable			
Other assets	22,172		22,172
Restricted			
Bond proceeds - construction	1,536,478		1,536,478
Other		$ 18,203	18,203
Unassigned	2,181,760		2,181,760
Total Fund Balances	3,740,410	18,203	3,758,613
TOTAL LIABILITIES AND FUND BALANCES	$ 4,231,598	$ 18,203	$ 4,249,801

Total Fund Balances of Governmental Funds	$ 3,758,613
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,416,944
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	225,855
Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and, therefore, are not reported in the funds.	(6,533,611)
Net Assets of Governmental Activities	$ 1,867,801

See accompanying notes.

HERRON HIGH SCHOOL, INC.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	General	Other Governmental Funds	Totals
REVENUES			
State funding	$ 3,720,627	$ 227,631	$ 3,948,258
Federal sources		537,019	537,019
Student fees	77,514	116,485	193,999
Contributions	24,708	157,253	181,961
Interest income	5,710		5,710
Other funding	36,830	30,100	66,930
Total Revenues	3,865,389	1,068,488	4,933,877
EXPENDITURES			
Current:			
High school instruction	1,850,911	290,485	2,141,396
School administration	771,559	269,015	1,040,574
Special education	61,422	62,135	123,557
Counseling services	109,753	3,597	113,350
Network support	92,862	9,576	102,438
Building Maintenance	213,720		213,720
Rent	112,617	144,460	257,077
Food purchases		144,717	144,717
Other	249,018	145,979	394,997
Debt service:			
Principal	90,799		90,799
Interest	38,026		38,026
Capital outlay:			
Capital outlay	879,502		879,502
Total Expenditures	4,470,189	1,069,964	5,540,153
Excess of Expenditures over Revenues	(604,800)	(1,476)	(606,276)
OTHER FINANCING SOURCES			
Debt financing obtained	264,455		264,455
Total Other Financing Sources	264,455		264,455
NET CHANGE IN FUND BALANCES	(340,345)	(1,476)	(341,821)
FUND BALANCES - BEGINNING OF YEAR	4,080,755	19,679	4,100,434
FUND BALANCES - END OF YEAR	$ 3,740,410	$ 18,203	$ 3,758,613

Net Change in Fund Balances of Governmental Funds	$ (341,821)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	637,818
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	156,521
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	(161,289)
Government funds report interest payment as expenditures. However, in the statement of activities the interest is expensed as incurred.	(106,444)
Governmental funds report the effect of issuance costs and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of these items.	(5,333)
Change in Net Assets of Governmental Activities	$ 179,452

See accompanying notes.

HERRON HIGH SCHOOL, INC.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Museum Building
ASSETS	
Current Assets	
Cash	$ 125,629
Total Current Assets	125,629
Noncurrent Assets	
Capital assets, net of accumulated depreciation	3,133,148
Total Noncurrent Assets	3,133,148
TOTAL ASSETS	$ 3,258,777
LIABILITIES	
Current Liabilities	
Notes payable - current	$ 2,403,958
Accrued interest	11,018
Deferred revenue	18,716
Total Current Liabilities	2,433,692
Total Liabilities	2,433,692
NET ASSETS	
Invested in capital assets, net of related debt	729,190
Unrestricted	95,895
Total Net Assets	825,085
TOTAL LIABILITIES AND NET ASSETS	$ 3,258,777

See accompanying notes.

HERRON HIGH SCHOOL, INC.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	Museum Building
OPERATING REVENUES	
Lease rental income	$ 223,858
Total Operating Revenue	223,858
OPERATING EXPENSES	
Interest expense	135,360
Depreciation	86,130
Other expense	3,794
Total Operating Expenses	225,284
CHANGE IN NET ASSETS	(1,426)
NET ASSETS - BEGINNING OF YEAR	826,511
NET ASSETS - END OF YEAR	$ 825,085

See accompanying notes.

HERRON HIGH SCHOOL, INC.

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2012

	Museum Building
CASH FLOWS FROM OPERATING ACTIVITIES	
Lease receipts	$ 260,923
Other operating expenses	(3,794)
Net Cash Provided by Operating Activities	257,129
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Principal repayments of loans	(36,101)
Interest paid on debt	(135,526)
Net Cash Used by Capital Financing Activities	(171,627)
NET INCREASE IN CASH	85,502
CASH	
Beginning of Year	40,127
End of Year	$ 125,629
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating loss	$ (1,426)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Interest expense	135,360
Depreciation	86,130
Changes in certain assets and liabilities:	
Accounts receivable	18,349
Deferred revenue	18,716
	$ 257,129

See accompanying notes.

HERRON HIGH SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Herron High School, Inc. (the School) is a public charter school located in Indianapolis, Indiana providing a 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 accompanying financial statements of the School conform with accounting principles generally accepted in the United States as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards document these principles. The School's significant accounting policies are as follows:

Reporting Entity: The financial reporting entity consists of the School and organizations for which the School is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. In addition, any legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization's governing body and is able to impose its will on the organization, or if the organization provided benefits to, or imposes financial burdens on the School.

The School includes the Herron Museum Building, LLC (the Museum Building) which is a for-profit entity formed for the purpose of acquiring, rehabilitating and leasing the Museum building located adjacent to the School in Indianapolis, Indiana. The Museum has entered into a lease agreement for the facility to be used as a high school.

The School also includes the Herron Main Building, LLC (the Main Building), a single member LLC that holds title to the School's building. The School is the sole member of the Main Building.

School-Wide Financial Statements: The school-wide financial statements (i.e., the Statement of Net Assets and Statement of Activities) report information on all activities of the School. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from Business-type activities, which rely to a significant extent on fees and charges for support.

Fund Financial Statements: Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The School reports one major governmental fund for the general fund, which is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The School reports one proprietary fund for the Museum Building operations.

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting: The school-wide financial statements and the proprietary fund financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Government-mandated non-exchange revenues and voluntary non-exchange revenues and certain grants and entitlements are recognized in the period when all applicable eligibility requirements have been met.

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. The governmental funds recognize expenditures for these liabilities to the extent they will be matured or liquidated with expendable financial resources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The School has elected not to follow subsequent private-sector guidance.

Interfund activity is reported as either services provided or transfers. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. All other interfund transactions are treated as transfers. Transfers between governmental or between proprietary funds are netted as part of the reconciliation to the school-wide financial statements.

Estimates: Management uses estimates and assumptions in preparing financial statements in conformity with accounting principles generally accepted in the United States. 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 the estimates that were used.

Net Assets and Fund Balances: Net assets are displayed in three components:

- The Invested in Capital Assets component consists of property or infrastructure that the School acquired, net of the related debt.

- The Restricted Net Assets component represents net assets with constraints placed on their use that are either (i) externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or (ii) imposed by law through constitutional provisions or enabling legislation, as defined in GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*.

- The Unrestricted Net Assets component consists of net assets that do not meet the definition of the preceding two components.

Governmental Funds: Fund balances can be displayed in five components:

- Non-spendable fund balance includes amounts not in spendable form.

- Amounts listed in restricted fund balance are subject to constraints imposed by external organizations. For purposes of determining the ending fund balance, restricted funds are considered to be spent first when an expenditure occurs for which both restricted and unrestricted amounts are available.

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Committed fund balance is amounts that are designated by the School's Board resolution to be used for a specific purpose. If expenditure occurs for which committed, assigned or unassigned amounts are available, committed amounts are considered to be spent first, followed by assigned and then unassigned funds.

- Assigned fund balance amounts are available for commitment by the School's Board resolution, to projects.

- Unassigned fund balance is the residual classification for the general fund.

When both restricted and unrestricted resources are available for use, the School's policy is to use restricted resources first, then unrestricted resources as they are needed.

Cash includes deposits in financial institutions.

Restricted Cash represents bond proceeds received for construction and renovation costs.

Accounts Receivable: Accounts receivable balances consist of amounts billed or billable for services provided, net of an allowance for doubtful accounts. Accounts receivable are recorded at net realizable value when earned.

An allowance for uncollectible accounts is determined by management based upon historical losses, specific circumstances, and general economic conditions. Periodically, management reviews accounts receivable and considers the need for an allowance based on current circumstances. Management has estimated that no allowance was necessary at June 30, 2012.

Capital Assets: Capital assets are recorded at historical cost. Cost includes interest expense, net of interest income, incurred during construction until the asset is placed in service. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The School provides for depreciation on the straight-line method at rates designed to depreciate the cost of assets over estimated useful lives as follows:

Buildings and improvements	39-40 years
Furniture and equipment	3-5 years

Bond Issuance Costs are amortized using the interest method over the varying terms of the bonds issued.

Compensated Absences: All full-time employees receive compensation for vacations, holidays, illness and certain other qualifying absences. All compensated leave benefits are nonvesting and have not been accrued.

Tax Status: Herron High School, Inc. 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, but there is no income or expenses related to this entity. Therefore, no provision or liability for income taxes has been included in the financial statements. In addition, Herron High School, Inc. 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 in fiscal year 2012.

The Museum Building is a limited liability company, whose income, losses, credits, etc. are recognized by its individual members for income tax reporting purposes. Accordingly, no provision for federal or state income taxes has been recognized in the accompanying financial statements. Certain specific deductions and credits flow through the Museum Building to its members.

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The School and the Museum Building file U.S. federal and state of Indiana tax returns. The School and the Museum Building are no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2008.

Subsequent Events: The School has evaluated the financial statements for subsequent events occurring through November 29, 2012, the date the financial statements were available to be issued.

NOTE 2 - BUDGETS

The operating budget is initially prepared and approved by the Board of Directors of the School.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the School to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

NOTE 4 - PLEDGES RECEIVABLE

During the 2011 - 2012 school year, the School began a capital campaign to restore and preserve the School's campus. The campaign raised cash and pledges of $212,692 during the year ended June 30, 2012. At June 30, 2012 all pledges are due in one to five years. Carrying value approximates fair value for pledges receivable.

Approximately $147,000 of the pledges receivable balance at June 30, 2012 are pledges due from board members.

NOTE 5 - CAPITAL ASSETS

Capital assets used in governmental activities for the year ended June 30, 2012, were as follows:

	Balance at July 1, 2011	Additions	Retirements	Balance at June 30, 2012
Capital assets not being depreciated				
Land	$ 307,000			$ 307,000
Depreciable capital assets:				
Furniture and equipment	755,136	$274,374		1,029,510
Buildings and improvements	3,256,521	610,931		3,867,452
Total depreciable capital assets	4,011,657	885,305		4,896,962
Less: Accumulated depreciation	545,335	241,683		787,018
Net depreciable capital assets	3,466,322	643,622		4,109,944
Total Capital Assets, net	$3,773,322	$643,622	$	$4,416,944

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Capital assets used in business-type activities for the year ended June 30, 2012, were as follows:

	Balance at July 1, 2011	Additions	Retirements	Balance at June 30, 2012
Capital assets not being depreciated				
Land	$ 307,000			$ 307,000
Depreciable capital assets:				
Furniture and equipment	25,000			25,000
Buildings and improvements	3,224,993			3,224,993
Total depreciable capital assets	3,249,993			3,249,993
Less: Accumulated depreciation	337,715	$86,130		423,845
Net depreciable capital assets	2,912,278	86,130		2,826,148
Total Capital Assets, net	$3,219,278	$86,130	$	$3,133,148

NOTE 6 - LONG-TERM DEBT ACTIVITY

Long-term debt of governmental activities included the following at June 30, 2012:

Notes payable to State of Indiana in semi-annual installments ranging from $3,704 to $13,904, plus interest computed at 4% beginning January 1, 2013, maturing from January 1, 2031 to January 1, 2033, at which time all remaining principal and interest are due. Secured by tuition support to be received from the State of Indiana.	$2,102,311
Bonds payable in quarterly installments ranging from $58,322 to $84,601, including interest computed at 6.75% beginning September 15, 2012, maturing on July 1, 2025, at which time all remaining principal and interest are due. Secured by real estate, pledges receivable and assignments of leases and rents.	4,000,000
Note payable in monthly interest only payments at a rate of 7% until July 2012, at which time monthly installments of $2,552 will be due, including interest computed at 7%, maturing on July 1, 2025, at which time all remaining principal and interest are due. Secured by real estate and assignments of leases and rents.	284,000
	6,386,311
Less: Current maturities	90,799
Total Governmental Activities Long-term Debt	$6,295,512

Long-term debt of business-type activities included the following at June 30, 2012:

Note payable to financial institution in monthly installments of $14,301, including interest computed at 5.5%, maturing on March 2013, at which time all remaining principal and interest are due. Secured by related property.	$2,403,958
Less: Current maturities	2,403,958
Total Business-Type Activities Long-term Debt	$ -

NOTE 6 - LONG-TERM DEBT ACTIVITY (CONTINUED)

At June 30, 2012, the debt service requirements of notes and bonds payable for governmental activities were as follows:

Year Ending	Total Principal	Total Interest	Total Debt Service
June 30, 2013	$ 90,799	$ 272,529	$ 363,328
June 30, 2014	231,612	639,242	870,854
June 30, 2015	246,933	350,445	597,378
June 30, 2016	256,569	336,484	593,053
June 30, 2017	266,836	321,852	588,688
June 30, 2018 – June 30, 2022	1,515,347	1,362,953	2,878,300
June 30, 2023 – June 30, 2027	3,191,493	650,029	3,841,522
June 30, 2028 – June 30, 2032	532,291	68,480	600,771
June 30, 2033 – June 30, 2037	54,431	1,304	55,735
	$6,386,311	$4,003,318	$10,389,629

At June 30, 2012, the debt service requirements of notes payable for business-type activities were as follows:

Year Ending	Total Principal	Total Interest	Total Debt Service
June 30, 2013	$2,403,958	$130,881	$2,534,839
	$2,403,958	$130,881	$2,534,839

Changes in long-term liabilities of governmental activities for the year ended June 30, 2012, were as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amount Due After One Year
Accrued interest	$ 131,655	$117,512	$ -	$ 249,167	$ 11,068
Notes payable	6,139,988	246,323	-	6,386,311	90,799
	$6,271,643	$363,835	$ -	$6,635,478	$101,867

Changes in long-term liabilities of business-type activities for the year ended June 30, 2012, were as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amount Due After One Year
Notes payable	$2,440,059	$ -	$ (36,101)	$2,403,958	$2,403,958

NOTE 7 - UNAMORTIZED BOND ISSUE COSTS

Bond issuance costs associated with long-term debt at June 30, 2012, were $80,000 and include the following activities:

Governmental Activities:

Bond Debt – Amounts include bond acquisition fees, which are amortized using the interest method over the life of the related bond issue.

Gross amount	$ 80,000
Accumulated amortization	(10,666)
Net amount	$ 69,334

NOTE 8 - INTERFUND SERVICES

The School currently leases space from the Museum Building under a long-term noncancellable operating lease. Rent expense totaled $257,077 for the year ended June 30, 2012.

At June 30, 2012, the future minimum rental payments required from the School to the Museum by the long-term noncancellable operating lease are as follows: $37,432 payable in 2013.

NOTE 9 - PENSION PLANS

The School's faculty and certain administrative employees are participants in a 403(b) tax deferred annuity retirement plan. The Plan states that the employer match is discretionary for any level of participant contributions. The School's contribution to the Plan was $217,540 in fiscal year 2012. Additionally, all participants may contribute to the Plan.

The School is also 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 School contributes to a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. 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 gives 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 the interest credited to the member's account. The School may elect to make the contributions on behalf of the member. Contributions to this plan were $36,294 in fiscal year 2012.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
Teachers' Retirement Fund
150 West Market Street Indianapolis, IN 46204
Ph. (317) 232-3860

REQUIRED SUPPLEMENTARY INFORMATION

HERRON HIGH SCHOOL, INC.
SCHEDULE OF ACTUAL OPERATING REVENUES AND EXPENSES
COMPARED TO BUDGET – MODIFIED CASH BASIS (UNAUDITED)
Year Ended June 30, 2012

Budget Basis of Accounting: The School's budget process is based on a modified cash basis and accounts for certain transactions on a basis other than GAAP. The most significant differences between the modified cash basis and the GAAP basis are the manner in which revenues and expenses are recorded.

The following table shows budget and actual financial results reported under the modified cash basis of accounting and does not include the Museum Building activity as there is not a budget prepared for the Museum Building.

	Original Budget Total	Actual Total	Difference
Revenue			
State funding	$3,463,392	$3,948,258	$ 484,866
Federal sources	455,808	537,019	81,211
Student fees	173,550	193,999	20,449
Contributions	33,434	338,482	305,048
Interest income	5,700	5,710	10
Other funding		66,930	66,930
Total Revenues	4,131,884	5,090,398	958,514
Expenses			
High school Instruction	1,941,132	2,141,396	(200,264)
School administration	960,572	1,040,574	(80,002)
Special education	128,067	123,557	4,510
Counseling services	224,881	113,350	111,531
Network support	113,000	102,438	10,562
Building maintenance	248,632	213,720	34,912
Rent	235,858	257,077	(21,219)
Food purchases	125,551	144,717	(19,166)
Other	302,408	394,997	(92,589)
Total Expenses	4,280,101	4,531,826	(251,725)
Net Revenues Over Expenses	$ (148,217)	$ 558,572	$ 706,789

The modified cash basis, as presented above, does not include depreciation expense of $247,017 and interest expense of $132,103 which are not budgeted items.

OTHER REPORTS AND SUPPLEMENTARY INFORMATION

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Year Ended June 30, 2012

Board of Directors
Herron High School, Inc.

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Herron High School, Inc. (the School) as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements, and have issued our report thereon dated November 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Herron High School, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Herron High School, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Herron High School, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Herron High School, Inc.'s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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Compliance and Other Matters

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

We noted certain matters that we reported to management of Herron High School, Inc. in a separate letter dated November 29, 2012.

This report is intended solely for the information and use of Herron High School, Inc.'s Board of Directors, management, others within the School, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
November 29, 2012

HERRON HIGH SCHOOL, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

Federal Grantor	Federal CFDA Number	Pass-through Entity (or Other) Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the Indiana Department of Education:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	FY 2011-2012	$ 54,755
Summer Food Service Program for Children	10.559	FY 2011-2012	11,982
Total for Child Nutrition Cluster			66,737
U.S. DEPARTMENT OF EDUCATION			
Passed through the Indiana Department of Education:			
Title I Grants to Local Education Agencies	84.010	9650	133,931
Special Education Grants to States	84.027	FY 2011-2012	62,413
Charter Schools	84.282	FY 2011-2012	144,460
Improve Teacher Quality State Grants	84.367	FY 2011-2012	20,181
ARRA - Education Jobs Fund*	84.410	FY 2011-2012	109,297
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 537,019

* *Grant relates to the American Recovery and Reinvestment Act of 2009*

See accompanying note to schedule of expenditures of federal awards.

HERRON HIGH SCHOOL, INC.

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

NOTE 1 - BASIS OF PRESENTATION

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

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.

Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Year Ended June 30, 2012

Board of Directors
Herron High School, Inc.

Compliance

We have audited Herron High School, Inc.'s compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Herron High School, Inc.'s major federal programs for the year ended June 30, 2012. Herron High School, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Herron High School, Inc.'s management. Our responsibility is to express an opinion on Herron High School, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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.'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. Our audit does not provide a legal determination of Herron High School, Inc.'s compliance with those requirements.

In our opinion, Herron High School, Inc. complied, in all material respects, with the 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, 2012.

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Internal Control Over Compliance

Management of Herron High School, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Herron High School, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.'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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of Herron High School, Inc.'s management and Board of Directors, others within Herron High School, Inc., and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
November 29, 2012

HERRON HIGH SCHOOL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Summary of Auditors' Results

Financial Statements

Type of auditor's report issued [*unqualified, qualified, adverse, or disclaimer*]:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	_______ yes ✓ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_______ yes ✓ none reported
• Noncompliance material to financial statements noted?	_______ yes ✓ no

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	_______ yes ✓ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_______ yes ✓ none reported
Type of auditor's report issued on compliance for major programs [unqualified, qualified, adverse, or disclaimer]:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	_______ yes ✓ no

Identification of major programs:

CFDA Numbers	Name of Federal Program
84.010	Title I Grants to Local Education Agencies
84.282	Charter Schools
84.410	ARRA - Education Jobs Fund

Dollar threshold used to distinguish between type A and type B programs:	$300,000
Auditee qualified as low-risk auditee?	_______ yes ✓ no

HERRON HIGH SCHOOL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2012

Financial Statement Findings

None

Federal Award Findings and Questioned Costs

None

HERRON HIGH SCHOOL, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2012

U.S. Department of Education

2011-1 Title I, Grants to Local Educational Agencies Part A Cluster – CFDA 84.010 & 84.389
Internal Controls over Cash Management

Condition and Context: For the school year 2010-2011, the cash balance of Title I grant funds and ARRA-Title I grant funds exceeded the allowable cash balance based on estimated future requirements during the audit period.

Recommendations: It was recommended that the School Corporation individuals develop and implement procedures and controls to ensure that the time between the receipt and disbursement of federal funds is minimized according to the grant requirements.

Status: The School has implemented the recommendations.